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January 28, 1981

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 indicate that the economy maintained considerable momentum through the end of 1980. Real GNP rose at a 5 percent annual rate in the fourth quarter, with gains in production and employment widespread in December. Nevertheless, as the year ended there was some evidence that the pace of activity was beginning to moderate, with weakness most apparent in the automobile industry. Inflation rates remained high throughout the quarter as cost pressures persisted, and energy prices picked up again.

Industrial production continued to rise at a brisk pace in December, but the increase--at 1.0 percent--was smaller than the gains posted in previous months as automobile manufacturers curtailed production schedules in the face of continued sluggish demand. Outside of this troubled sector advances in output were widespread. Preliminary indications for January suggest another sharp cutback in auto assemblies and some weakness in steel production.

Total payroll employment advanced another 200,000 in December, reflecting a fifth consecutive gain in construction jobs and further increases in the service-producing sector. Hiring in the manufacturing sector, however, slowed to about half the recent average monthly increase. The unemployment rate--at 7.4 percent--remained near the level that has prevailed since last May.

Final sales in the fourth quarter were bolstered by increases in consumer spending which, nevertheless, showed signs of weakening at year-end. Total auto sales in December continued at the relatively sluggish 9 million unit pace that generally has prevailed since mid-1980.

Excluding autos, retail sales declined in real terms, after changing little in November; this weakness was concentrated at general merchandise outlets. Moreover, consumer confidence plunged in December, as respondents expressed greater pessimism about current and future economic conditions and reported expectations of higher interest rates and more rapid inflation.

Business investment, which has trended downward since early last year, fell further in the fourth quarter. Construction outlays in particular continued to be depressed, and purchases of heavy-weight trucks by the end of the year had fallen back to the exceptionally low level of last spring. Indicators of future capital outlays have been mixed; at best they suggest that real spending in 1981 is unlikely to be significantly above the 1980 level. Orders for nondefense capital goods continued to show highly erratic monthly movements, but in real terms they were little changed in the fourth quarter. The latest Commerce Department reading on capital spending plans provides confirming indications that business firms expect no increase in their real expenditures for plant and equipment in 1981.

Activity in housing markets held up amazingly well in late 1980 in the face of continued steady increases in mortgage interest rates. The development of innovative financing techniques apparently has helped to alleviate the effects of high mortgage rates on near-term monthly carrying costs. Although some of these schemes reportedly have pushed home prices up, sales at the end of the year remained well above the trough of last spring. Building activity has been relatively firm, with new starts in December holding steady at the 1-1/2 million unit

pace that prevailed in the preceding three months. Permits, however, dropped more than 20 percent over this period.

The inventory imbalances that developed during last spring's recession were corrected quickly over the summer, and in subsequent months business firms generally have kept a tight rein on stocks. Total manufacturing and trade stocks in constant dollars fell at a \$5-1/2 billion annual rate in November; in real terms firms in these sectors had liquidated inventories in five of the six preceding months. The November decline was concentrated at retail trade establishments, while factory stocks were about unchanged after a sizable runoff that began in May.

Recent wage and price data provide little evidence of relief in inflation despite the slack that has prevailed in product and labor markets since last spring. The average hourly earnings index--a measure of basic wage rates--was 9-1/2 percent higher in the fourth quarter of 1980 than one year earlier; this represented a 1-1/2 percentage point acceleration from the preceding year. During the last two months of 1980, consumer prices continued to increase at more than a 12 percent annual rate, and, excluding food, producer prices were up at a 10 percent clip. Consumer prices for items other than food and energy continued to advance late in the year, with particularly large increases registered for homeownership and used cars. In addition, a new round of energy price hikes has begun to show up both in producer markets and at the retail level, and underlying cost pressures are still evident in the food sector despite a recent slowdown of food price increases in producer markets. Freezing weather in Florida, which damaged fruit and

vegetable crops, will likely add somewhat to food price pressures in the first quarter.

Outlook. Although some signs of weakness have emerged recently, the buoyancy of economic activity witnessed in the final months of 1980 is expected to carry over into early 1981; consequently, real GNP now is projected to advance at about a 1-1/4 percent annual rate in the current quarter. Most major components of aggregate demand appear to be stronger than previously anticipated. Recent increases in real disposable income are expected to help maintain personal consumption expenditures, and the sustained level of housing starts through the end of 1980 will support more residential construction outlays than projected in the December Greenbook. Nevertheless, housing starts are expected to decline during the first quarter.

The financial assumptions underlying the staff projections for 1981 and 1982 have changed little since the last meeting. M-1A still is assumed to grow 4-1/4 percent over 1981 and 3-3/4 percent during 1982, after adjustment for the depressing impact of ATS and nationwide NOW accounts. However, with total demand stronger in early 1981 than previously projected, interest rates are expected to be higher in the near-term. Some further increases in interest rates are anticipated during the remainder of the forecast period, reflecting the projected growth in nominal GNP and the assumed path for the monetary aggregates.

Other policy assumptions have been altered somewhat. The projection now reflects the immediate decontrol of domestically produced oil. The staff continues to project a 10 percent cut in personal income tax liabilities and a liberalization of depreciation allowances for

capital goods in 1981. However, the timing of the personal tax cut has been shifted to July 1, while the business tax reduction continues to be retroactive to the beginning of the year. Even with anticipated expenditure cuts by the new administration, spending for the current fiscal year is expected to be \$656 billion, and the deficit \$57 billion. In FY 1982 the projected deficit widens to \$81 billion even without a further tax cut, due mainly to the revenue effects of sluggish economic growth. On a high employment basis, the federal budget moves toward a surplus in 1981 and remains about unchanged in 1982.

Given the persistence of inflation, the generally restrictive policies are expected to constrain real economic activity during 1981. Following the small rise in the current quarter, real GNP is projected to contract moderately before resuming slow growth during the second half of the year. On balance, output is expected to be about unchanged over the four quarters of 1981 for the second year in a row.

The weakening in activity projected for the spring of this year reflects cutbacks in residential construction and business investment, as well as a moderate decline in consumption expenditures. Housing starts, which so far have held up better than anticipated, are projected to decline to a 1.3 million unit rate by the spring, reflecting the expected continuation of tight conditions in financial markets. Although capital spending demands will be bolstered by defense and energy needs, substantial unused capacity and the high cost of credit are expected to limit overall business fixed investment. In addition, a moderate correction in inventories is likely to occur as businesses liquidate the excess stocks expected to accumulate early in the year.

Over the four quarters of 1982, real GNP is projected to grow about 3/4 percent as fiscal and monetary policies continue to exert a restraining influence. Nevertheless, underlying demands for housing are likely to remain strong, and markets are expected to adapt somewhat to higher credit costs. Thus, despite continued very high mortgage rates, real expenditures for housing are projected to turn up moderately in the second half of the year

The projected path of the unemployment rate over the forecast horizon mirrors the contour of economic activity. Cutbacks in production and employment in early 1981 are expected to push the jobless rate past 8 percent by midyear. Thereafter, job creation will be limited by the sluggish recovery in output. Thus, although labor force growth also is expected to be slow, the unemployment rate is projected to continue drifting up, reaching 9 percent by the second half of 1982.

Wage and price pressures are expected to remain relatively intense during 1981 before abating somewhat in 1982. Despite recent and prospective slack in labor markets, compensation per hour is projected to increase more than 9-1/2 percent in 1981, reflecting the recent hike in payroll taxes and workers' efforts to recover losses in real income. With productivity stagnant, unit labor costs also are expected to rise about 9-1/2 percent this year. In addition, further large price increases are anticipated in food and energy markets, and the projected advance in gross business product (GBP) prices--at 10 percent--is little different than the 1980 increase. By 1982, however, the extended period of slow economic growth is expected to ease wage and price pressures noticeably.

For that year the projected increases in hourly compensation and GBP prices are about 8 and 7-3/4 percent, respectively.

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)		
				Total		Excluding food and energy				
12/12/80	1/28/81	12/12/80	1/28/81	12/12/80	1/28/81	12/12/80	1/28/81	12/12/80	1/28/81	
Annual changes:										
1979	<u>1/</u> 11.3	12.0	2.3	3.2	9.5	9.6	8.1	8.1	5.8	5.8
1980	<u>1/</u> 8.9	8.9	-6	-1	10.2	9.7	8.5	8.1	7.2	7.1
1981	<u>1/</u> 9.9	10.7	-6	.6	10.4	10.1	9.0	8.6	8.4	8.1
1982	<u>1/</u> 8.9	8.7	.4	.4	8.4	8.3	7.7	7.7	9.2	8.9
Quarterly changes:										
1980-Q1	<u>1/</u> 10.8	12.6	1.2	3.1	11.2	10.2	8.5	7.7	6.1	6.2
1980-Q2	<u>1/</u> .1	-1.1	-9.6	-9.9	10.4	9.5	9.7	9.3	7.5	7.3
1980-Q3	<u>1/</u> 10.8	11.8	.9	2.4	10.2	9.8	10.2	9.3	7.6	7.5
1980-Q4	<u>1/</u> 17.9	16.7	4.5	5.0	10.4	9.6	9.8	8.5	7.6	7.5
1981-Q1	<u>1/</u> 8.0	13.2	-2.7	1.3	11.5	12.9	8.6	8.3	7.9	7.5
1981-Q2	<u>1/</u> 7.4	6.3	-2.0	-2.2	10.4	9.9	8.3	8.1	8.4	8.0
1981-Q3	<u>1/</u> 9.7	9.3	.4	.6	9.6	8.9	8.2	8.0	8.6	8.3
1981-Q4	<u>1/</u> 10.6	9.9	1.2	.7	8.7	8.0	8.0	7.8	8.8	8.5
1982-Q1	<u>1/</u> 9.0	8.8	.7	.7	8.0	8.1	7.6	7.7	9.0	8.7
1982-Q2	<u>1/</u> 7.9	7.9	.0	.3	7.8	7.9	7.4	7.4	9.2	8.8
1982-Q3	<u>1/</u> 8.0	8.1	.2	.6	7.7	7.8	7.3	7.3	9.2	8.9
1982-Q4	<u>1/</u> 8.7	9.2	.4	1.0	7.5	7.5	7.1	7.1	9.3	9.0
Two-quarter changes:										
1980-Q2	<u>2/</u> 5.3	5.6	-4.4	-3.6	10.9	9.8	9.1	8.5	1.6	1.4
1980-Q4	<u>2/</u> 14.3	14.3	2.6	3.7	10.3	9.7	10.0	8.9	.1	.2
1981-Q2	<u>2/</u> 7.7	9.7	-2.3	-5	10.9	11.4	8.5	8.2	.8	.5
1981-Q4	<u>2/</u> 10.2	9.6	.8	.6	9.1	8.5	8.1	7.9	.4	.5
1982-Q2	<u>2/</u> 8.5	8.3	.4	.5	7.9	8.0	7.5	7.5	.4	.3
1982-Q4	<u>2/</u> 8.3	8.6	.3	.8	7.6	7.7	7.2	7.2	.1	.2
Four-quarter changes:										
1979-Q4	<u>3/</u> 9.9	9.9	1.0	1.7	9.7	9.4	7.5	7.2	.1	.1
1980-Q4	<u>3/</u> 9.7	9.8	-.9	.0	10.6	9.8	9.6	8.7	1.7	1.6
1981-Q4	<u>3/</u> 8.9	9.6	-.8	.1	10.0	10.0	8.3	8.0	1.2	1.0
1982-Q4	<u>3/</u> 8.4	8.5	.3	.7	7.7	7.8	7.4	7.4	.5	.5

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

January 28, 1981

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.)

	1979				1980			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2340.6	2374.6	2444.1	2496.3	2571.7	2564.8	2637.3	2741.4
Final purchases	2316.2	2341.5	2430.8	2497.1	2569.1	2557.4	2653.4	2747.1
Private	1858.0	1876.4	1955.4	2000.7	2052.3	2027.4	2119.9	2188.3
Excluding net exports	1838.1	1868.2	1937.5	1993.1	2044.1	2010.3	2075.4	2153.8
Personal consumption expenditures	1454.1	1478.0	1529.1	1582.3	1631.0	1626.8	1682.2	1744.4
Goods	784.3	793.8	824.8	855.3	882.0	858.4	883.0	919.9
Services	669.9	684.2	704.3	727.0	749.0	768.4	799.2	824.5
Gross private domestic investment	408.3	423.2	421.7	410.0	415.6	390.9	377.1	403.7
Residential construction	116.7	117.2	119.8	120.6	115.2	93.6	99.2	112.2
Business fixed investment	267.3	272.9	288.5	290.2	297.8	289.8	294.0	297.3
Change in business inventories	24.3	33.1	13.3	-8	2.5	7.4	-16.0	-5.7
Nonfarm	20.8	29.2	7.8	-4.4	1.5	6.1	-12.3	-2.0
Net exports of goods and services ^{1/}	19.9	8.2	17.9	7.6	8.2	17.1	44.5	34.5
Exports	259.1	266.8	293.1	306.3	337.3	333.3	342.4	349.2
Imports	239.2	258.6	275.2	298.7	329.1	316.2	297.9	314.7
Gov't. purchases of goods and services	458.2	465.1	475.4	496.4	516.8	530.0	533.5	558.8
Federal ^{2/}	164.8	163.6	165.1	178.1	190.0	198.7	194.9	213.3
State and local	293.4	301.6	310.4	318.3	326.8	331.3	338.6	345.5
Gross national product in constant (1972) dollar	1479.9	1473.4	1488.2	1490.6	1501.9	1463.3	1471.9	1490.1
Personal income	1864.6	1906.3	1972.3	2032.0	2088.2	2114.5	2182.1	2559.1
Wage and salary disbursements	1194.8	1218.6	1248.6	1282.2	1314.7	1320.4	1341.8	1398.3
Disposable personal income	1580.2	1612.8	1663.8	1710.1	1765.1	1784.1	1840.6	1899.1
Saving rate (percent)	5.3	5.6	5.4	4.7	4.9	6.2	6.1	5.6
Corporate profits with I.V.A. and C.C. Adj	201.9	196.6	199.5	189.4	200.2	169.3	177.9	181.2
Corporate profits before tax	253.1	250.9	262.0	255.4	277.1	217.9	237.6	238.2
Federal government surplus or deficit (-) (N.I.A. basis)	-11.5	-8.1	-15.2	-24.5	-36.3	-66.5	-74.2	-69.7
High employment surplus or deficit (-)	-4.9	-5.3	-2.2	-7.1	-17.4	-25.3	-22.1	-17.7
State and local government surplus or deficit (-) (N.I.A. basis)	29.5	21.9	26.5	28.9	26.6	23.9	28.6	33.7
Excluding social insurance funds	7.1	-1.7	2.1	4.0	1.3	-1.7	.9	4.8
Civilian labor force (millions)	102.3	102.4	103.2	103.7	104.2	104.7	105.0	105.2
Unemployment rate (percent)	5.8	5.7	5.8	5.9	6.2	7.3	7.5	7.5
Nonfarm payroll employment (millions)	89.1	89.7	90.2	90.6	91.1	90.5	90.1	90.9
Manufacturing	21.1	21.1	21.1	21.0	21.0	20.3	19.9	20.3
Industrial production (1967=100)	152.7	152.3	152.6	152.5	152.5	144.6	142.1	148.9
Capacity utilization: all mfg. (percent)	86.9	85.9	85.3	84.4	83.4	77.9	75.7	79.1
Materials (percent)	88.4	87.5	87.2	86.3	85.5	78.7	74.9	79.9
Housing starts, private (million units, A.R.)	1.67	1.82	1.81	1.59	1.26	1.05	1.41	1.56
New autos sales, (millions, A.R.)	11.56	10.65	10.79	9.80	10.65	7.68	8.80	9.04
Domestic models	9.30	8.16	8.63	7.43	7.87	5.53	6.51	6.57
Foreign models	2.25	2.49	2.16	2.37	2.77	2.14	2.29	2.47

^{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.

January 28, 1981

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

	1979				1980			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	3.9	-1.7	4.1	.6	3.1	-9.9	2.4	5.0
Final purchases	2.5	-2.5	7.2	2.9	3.1	-10.4	4.1	3.7
Private	3.0	-3.0	8.7	2.2	2.2	-13.3	6.5	3.9
Excluding net exports	1.1	-1.6	5.5	1.9	-.4	-14.4	4.6	5.8
Personal consumption expenditures	.9	-1.2	4.7	3.6	.8	-9.8	5.1	5.3
Goods	-2.7	-4.6	6.0	4.2	-.3	-17.7	4.0	7.0
Services	5.5	3.0	3.1	2.8	2.1	.0	6.4	3.6
Gross private domestic investment	10.6	1.7	-9.9	-17.8	-5.6	-28.9	-10.0	18.9
Residential structures	-6.5	-10.8	-3.6	-3.1	-24.2	-60.2	16.0	54.1
Business fixed investment	5.2	-.4	13.4	-5.4	2.2	-19.9	-1.5	-3.0
Gov't. purchases of goods and services	.7	-.5	1.2	6.1	6.9	2.5	-5.0	2.9
Federal	8.0	-7.9	-3.6	13.1	18.9	11.9	-13.1	6.8
State and local	-3.3	4.0	3.9	2.4	.6	-2.8	.3	.6
Disposable personal income	3.1	.5	3.5	.8	1.3	-4.9	4.1	3.2
<u>Current dollars</u>								
Gross national product	12.7	5.9	12.2	8.8	12.6	-1.1	11.8	16.7
Final purchases	11.5	4.4	16.1	11.4	12.0	-1.8	15.9	14.9
Private	12.8	4.0	17.9	9.6	10.7	-4.8	19.5	13.5
Excluding net exports	10.8	6.7	15.7	12.0	10.6	-6.5	13.6	16.0
Personal consumption expenditures	11.0	6.7	14.6	14.7	12.9	-1.0	14.3	15.6
Goods	8.5	4.9	16.6	15.6	13.1	-10.3	12.0	17.8
Services	14.2	8.8	12.1	13.5	12.7	10.8	17.0	13.3
Gross private domestic investment	17.0	15.4	-1.5	-10.6	5.6	-21.8	-13.3	31.3
Residential structures	1.8	1.8	9.1	2.8	-16.7	-56.4	25.7	63.8
Business fixed investment	13.9	8.6	25.0	2.3	11.0	-10.4	6.0	4.5
Gov't. purchases of goods and services	6.3	6.2	9.2	18.8	17.5	10.6	2.6	20.4
Federal	10.7	-2.9	3.7	35.4	29.5	19.8	-7.5	43.6
State and local	3.9	11.6	12.2	10.6	11.2	5.6	9.1	8.4
Disposable personal income	13.5	8.5	13.3	11.6	13.5	4.4	13.3	13.3
Personal income	12.8	9.3	14.6	12.7	11.5	5.1	13.4	14.9
Wage and salary disbursements	13.5	8.2	10.2	11.2	10.5	1.8	6.6	17.9
Corporate profits with IVA & C.C. Adj.	-1.6	-10.1	6.0	-18.8	24.8	-48.9	21.9	60.4
Corporate profits before tax	8.3	-3.4	18.9	-9.7	38.6	-61.8	41.4	38.7
Nonfarm payroll employment	4.3	2.4	2.3	1.7	2.5	-2.7	-1.6	3.5
Manufacturing	4.6	.6	-.6	-1.7	-.8	-11.7	-7.2	6.7
Nonfarm business sector								
Output per hour	-.9	-1.9	-1.4	-.3	.0	-3.0	3.7	-.7
Compensation per hour	10.9	10.0	8.1	9.6	9.9	11.2	9.2	10.5
Unit labor costs	11.9	12.1	9.7	9.9	9.9	14.6	5.3	11.2
GNP implicit deflator ^{1/}	8.4	7.8	7.8	8.1	9.3	9.8	9.2	11.2
Gross domestic business product								
fixed-weighted price index ^{2/}	9.5	9.2	9.5	9.3	10.2	9.5	9.8	9.6
Excluding food and energy	7.5	7.2	6.8	7.4	7.7	9.3	9.3	8.5
Consumer price index (all urban)	11.1	13.6	12.9	13.2	16.9	13.6	7.2	12.2
Industrial production	5.4	-1.0	.8	-.3	.0	-19.2	-6.7	20.6

^{1/} Excluding Federal pay increases, rates of change were: 1979-Q1, 8.3 percent; 1979-Q4, 7.5 percent; 1980-Q1, 9.2 percent; 1980-Q4, 10.5 percent.^{2/} Uses expenditures in 1972 as weights.

January 28, 1981

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.)

	1981				1982			
	Q1	Q2	Q3	Projected Q4	Q1	Q2	Q3	Q4
Gross national product	2827.7	2871.5	2935.8	3005.7	3069.5	3128.1	3189.8	3260.5
Final purchases	2819.7	2869.5	2941.8	3009.7	3068.4	3127.2	3188.7	3259.6
Private	2250.6	2289.5	2351.1	2402.2	2448.7	2495.6	2544.7	2597.3
Excluding net exports	2214.3	2253.0	2308.2	2351.0	2397.0	2445.3	2494.4	2544.4
Personal consumption expenditures	1799.7	1839.9	1890.6	1928.2	1968.2	2009.3	2049.9	2089.7
Goods	950.4	968.3	993.7	1012.7	1032.4	1052.6	1073.0	1092.6
Services	849.3	871.6	896.9	915.5	935.8	956.7	976.9	997.1
Gross private domestic investment	422.6	415.1	411.6	418.8	429.9	436.9	445.6	455.6
Residential construction	113.2	107.2	107.7	109.7	111.7	113.7	116.2	119.7
Business fixed investment	301.4	305.9	309.9	313.1	317.1	322.3	328.3	335.0
Change in business inventories	8.0	2.0	-6.0	-4.0	1.1	.9	1.1	.9
Nonfarm	8.0	2.0	-6.0	-4.0	1.1	.9	1.1	.9
Net exports of goods and services ^{1/}	36.3	36.5	42.9	51.2	51.7	50.3	50.3	52.9
Exports	377.0	389.1	397.3	406.4	415.3	422.4	430.1	440.0
Imports	340.7	352.6	354.4	355.2	363.6	372.1	379.8	387.1
Gov't. purchases of goods and services	569.1	580.0	590.7	607.5	619.7	631.6	644.0	662.3
Federal ^{2/}	217.0	221.4	225.7	236.1	242.1	248.0	254.6	267.1
State and local	352.1	358.6	365.0	371.4	377.6	383.6	389.4	395.2
Gross national product in constant (1972) dollars	1494.9	1486.7	1488.8	1491.4	1494.1	1495.2	1497.4	1501.3
Personal income	2314.0	2362.3	2424.8	2476.6	2524.4	2577.5	2638.5	2693.2
Wage and salary disbursements	1430.2	1449.9	1473.1	1502.9	1530.1	1555.6	1581.6	1614.3
Disposable personal income	1939.0	1975.9	2056.8	2096.6	2134.2	2176.3	2226.3	2268.4
Saving rate (percent)	4.7	4.4	5.6	5.5	5.3	5.2	5.4	5.4
Corporate profits with I.V.A. and C.C. Adj.	177.3	168.7	177.2	184.7	185.5	183.8	188.5	196.1
Corporate profits before tax	231.8	222.7	230.7	237.7	239.4	238.4	243.4	251.5
Federal government surplus or deficit (-) (N.I.A. basis)	-41.6	-50.8	-96.4	-97.0	-90.5	-92.9	-105.7	-107.8
High employment surplus or deficit (-) ^{3/}	17.5	19.2	-22.3	-14.5	-.9	4.4	-1.0	4.2
State and local government surplus or deficit (-) (N.I.A. basis)	32.0	32.7	34.7	34.1	33.5	33.0	33.0	33.3
Excluding social insurance funds	2.5	2.6	4.0	2.8	1.4	.2	-6	-1.1
Civilian labor force (millions)	105.5	105.8	106.1	106.4	106.7	107.0	107.2	107.5
Unemployment rate (percent)	7.5	8.0	8.3	8.5	8.7	8.8	8.9	9.0
Nonfarm payroll employment (millions)	91.4	91.1	91.0	91.0	91.0	91.1	91.2	91.4
Manufacturing	20.5	20.3	20.2	20.1	20.1	20.1	20.1	20.2
Industrial production (1967=100)	150.8	149.0	149.0	150.0	149.0	149.5	150.0	152.0
Capacity utilization: all mfg. (percent)	80.0	78.5	78.2	78.0	77.9	77.7	77.9	78.1
Materials (percent)	81.2	78.3	77.8	77.8	78.1	77.9	78.2	78.6
Housing starts, private (million units, A.R.)	1.35	1.30	1.30	1.30	1.35	1.35	1.35	1.35
New autos sales, (millions, A.R.)	8.90	8.80	9.00	8.80	8.70	8.60	8.50	8.40
Domestic models	6.50	6.40	6.60	6.40	6.40	6.30	6.20	6.10
Foreign models	2.40	2.40	2.40	2.40	2.30	2.30	2.30	2.30

^{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.

^{3/} Estimates in table are evaluated at a 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$41.2 billion in 1980-Q4 and a deficit of \$39.6 billion in 1981-Q4, and a deficit of \$23.1 billion in 1982-Q4.

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

	1981				1982			
	Q1	Q2	Q3	Projected Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.3	-2.2	.6	.7	.7	.3	.6	1.0
Final purchases	.2	-1.4	1.7	.4	.0	.3	.6	1.1
Private	.2	-1.8	2.0	.4	-.1	.2	.5	1.1
Excluding net exports	-.4	-2.2	1.4	-.2	.1	.5	.6	.9
Personal consumption expenditures	.0	-1.0	2.2	.3	.4	.6	.5	.6
Goods	-2.4	-2.8	1.8	.7	.2	.6	.5	.5
Services	2.6	1.0	2.7	-.0	.5	.7	.4	.9
Gross private domestic investment	6.1	-12.8	-10.2	-.2	4.0	-.3	1.1	2.0
Residential structures	-4.4	-25.9	-5.8	-.5	-.7	-.8	.8	4.1
Business fixed investment	-1.6	-1.1	-1.6	-2.7	-1.4	.1	1.0	1.7
Gov't. purchases of goods and services	.2	.1	.4	.7	.8	.8	1.0	1.1
Federal	1.2	1.5	2.5	3.3	3.8	4.1	5.0	5.1
State and local	-.5	-.7	-.8	-.8	-1.0	-1.2	-1.4	-1.5
Disposable personal income	-3.8	-2.3	7.7	.1	-.7	.2	1.6	.4
<u>Current dollars</u>								
Gross national product	13.2	6.3	9.3	9.9	8.8	7.9	8.1	9.2
Final purchases	11.0	7.3	10.5	9.6	8.0	7.9	8.1	9.2
Private	11.9	7.1	11.2	9.0	8.0	7.9	8.1	8.5
Excluding net exports	11.7	7.2	10.2	7.6	8.1	8.3	8.3	8.3
Personal consumption expenditures	13.3	9.2	11.5	8.2	8.6	8.6	8.3	8.0
Goods	13.9	7.7	10.9	7.9	8.0	8.1	8.0	7.5
Services	12.6	10.9	12.1	8.6	9.2	9.2	8.7	8.5
Gross private domestic investment	20.0	-6.9	-3.3	7.2	11.0	6.7	8.2	9.3
Residential structures	3.8	-19.6	1.9	7.6	7.5	7.4	9.1	12.6
Business fixed investment	5.7	6.1	5.3	4.2	5.2	6.7	7.7	8.4
Gov't. purchases of goods and services	7.6	7.9	7.6	11.9	8.3	7.9	8.1	11.9
Federal	7.1	8.4	8.0	19.7	10.6	10.1	11.1	21.1
State and local	7.9	7.6	7.3	7.2	6.8	6.5	6.2	6.1
Disposable personal income	9.0	7.8	17.4	8.0	7.4	8.1	9.5	7.8
Personal income	10.1	8.6	11.0	8.8	7.9	8.7	9.8	8.6
Wage and salary disbursements	9.4	5.6	6.6	8.3	7.4	6.8	6.9	8.5
Corporate profits with IVA & C.C. Adj.	-8.3	-18.0	21.7	18.0	1.7	-3.6	10.6	17.1
Corporate profits before tax	-10.3	-14.8	15.2	12.7	2.8	-1.6	8.8	13.8
Nonfarm payroll employment	2.2	-1.5	-.1	-.3	.0	.5	.6	.7
Manufacturing	4.3	-3.1	-2.8	-1.5	-.8	.6	.8	.8
Nonfarm business sector								
Output per hour	-.2	-1.3	1.3	.8	.8	.3	.5	.6
Compensation per hour	12.1	9.1	8.8	8.4	9.2	7.9	7.7	7.7
Unit labor costs	12.3	10.5	7.4	7.5	8.3	7.6	7.2	7.1
GNP implicit deflator 1/	11.7	8.7	8.6	9.1	8.0	7.6	7.5	8.1
Gross domestic business product								
fixed-weighted price index 2/	12.9	9.9	8.9	8.0	8.1	7.9	7.8	7.5
Excluding food and energy	8.3	8.1	8.0	7.8	7.7	7.4	7.3	7.1
Consumer price index (all urban)	16.5	13.2	11.5	8.6	8.2	8.0	8.0	8.0
Industrial production	5.2	-4.7	.0	2.7	-2.6	1.3	1.3	5.4

1/ Excluding Federal pay increases, the rates of change are: 1981-Q1, 11.7 percent; 1981-Q4, 8.5 percent; 1982-Q1, 8.0 percent; 1982-Q4, 8.1 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.)

	1975	1976	1977	1978	1979	1980	Projected	
							1981	1982
Gross national product	1549.2	1718.0	1918.0	2156.1	2413.9	2628.8	2910.2	3162.0
Final purchases	1556.1	1706.2	1897.0	2133.9	2396.4	2631.8	2910.2	3161.0
Private	1216.2	1344.1	1502.5	1701.3	1922.6	2097.0	2323.3	2521.6
Excluding net exports	1189.4	1330.4	1506.7	1701.9	1909.2	2070.9	2281.6	2470.3
Personal consumption expenditures	976.4	1084.3	1205.5	1348.7	1510.9	1671.1	1864.6	2029.3
Goods	539.5	598.5	657.8	729.1	814.5	885.9	981.3	1062.6
Services	437.0	485.7	547.7	619.6	696.3	785.3	883.3	966.6
Gross private domestic investment	206.1	257.9	322.3	375.3	415.8	396.8	417.0	442.0
Residential construction	55.3	72.0	95.8	111.3	118.6	105.1	109.4	115.3
Business fixed investment	157.7	174.1	205.5	242.0	279.7	294.7	307.6	325.7
Change in business inventories	-6.9	11.8	21.0	22.2	17.5	-3.0	.0	1.0
Nonfarm	-10.5	13.9	20.2	21.8	13.4	-1.7	.0	1.0
Net exports of goods and services <u>1/</u>	26.8	13.7	-4.2	-.6	13.4	26.1	41.7	51.3
Exports	154.9	170.9	183.3	219.8	281.3	340.6	392.4	426.9
Imports	128.1	157.1	187.5	220.4	267.9	314.5	350.7	375.6
Gov't. purchases of goods and services	339.9	362.1	394.5	432.6	473.8	534.8	586.8	639.4
Federal <u>2/</u>	122.7	129.2	143.9	153.4	167.9	199.2	225.0	252.9
State and local	217.2	232.9	250.6	279.2	305.9	335.6	361.8	386.4
Gross national product in constant (1972) dollars	1233.9	1300.4	1371.7	1436.9	1483.0	1481.8	1490.4	1497.0
Personal income	1265.0	1391.2	1538.0	1721.8	1943.8	2161.0	2394.4	2608.4
Wage and salary disbursements	806.4	889.9	983.8	1105.2	1236.1	1343.8	1464.0	1570.4
Disposable personal income	1096.1	1194.4	1311.5	1462.9	1641.7	1822.2	2017.1	2201.3
Saving rate (percent)	8.6	6.9	5.6	5.2	5.2	5.7	5.1	5.3
Corporate profits with I.V.A. and C.C. Adj.	110.5	138.1	164.7	185.5	196.8	182.1	177.0	188.5
Corporate profits before tax	132.1	166.3	192.6	223.3	255.4	242.7	230.7	243.2
Federal government surplus or deficit (N.I.A. basis)	-69.3	-53.1	-46.4	-29.2	-14.8	-61.6	-71.4	-99.2
High employment surplus or deficit (-)	-29.1	-20.1	-23.0	-15.7	-2.2	-20.6	-.3	1.7
State and local government surplus or deficit (-) (N.I.A. basis)	5.5	16.6	28.1	29.0	26.7	28.2	33.4	33.2
Excluding social insurance funds	-7.6	.9	10.1	9.0	2.9	1.3	3.0	.0
Civilian labor force (millions)	92.6	94.8	97.4	100.4	102.9	104.8	106.0	107.1
Unemployment rate (percent)	8.5	7.7	7.0	6.0	5.8	7.1	8.1	8.9
Nonfarm payroll employment (millions)	77.0	79.4	82.5	86.7	89.9	90.7	91.1	91.2
Manufacturing	18.3	19.0	19.7	20.5	21.1	20.4	20.3	20.1
Industrial production (1967=100)	117.8	130.5	138.1	146.1	152.5	147.0	149.7	150.1
Capacity utilization: all manufacturing (percent)	72.9	79.5	81.9	84.4	85.6	79.0	78.7	77.9
Materials (percent)	73.4	81.1	82.7	85.6	87.4	79.8	78.8	78.2
Housing starts, private (million units, A.R.)	1.16	1.54	1.99	2.02	1.75	1.29	1.31	1.35
New auto sales, (millions, A.R.)	8.66	10.12	11.13	11.28	10.70	9.04	8.87	8.55
Domestic models	7.08	8.63	9.07	9.29	8.38	6.62	6.47	6.25
Foreign models	1.58	1.50	2.06	1.99	2.32	2.42	2.40	2.30

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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AND RELATED ITEMS

	1975	1976	1977	1978	1979	1980	Projected	
							1981	1982
<u>Constant (1972) dollars</u>								
Gross national product	-1.1	5.4	5.5	4.8	3.2	-.1	.6	.4
Final purchases	.3	4.2	5.2	4.7	3.5	.7	.5	.4
Private	-.1	5.3	6.0	15.4	4.0	.2	.6	.3
Excluding net exports	-.6	6.2	6.5	5.2	2.9	-1.2	.3	.2
Personal consumption expenditures	2.2	5.6	4.9	4.7	2.9	.4	1.0	.6
Goods	1.3	6.7	5.2	4.2	1.9	-1.6	-.3	.4
Services	3.3	4.3	4.5	5.4	4.1	2.6	2.6	.7
Gross private domestic investment	-20.8	19.2	15.7	7.6	1.3	-12.1	-2.7	-1.1
Residential structures	-12.5	21.3	18.5	2.9	-5.2	-18.9	-3.6	-2.7
Business fixed investment	-12.1	5.3	11.9	9.1	6.5	-3.4	-3.1	-.9
Gov't. purchases of goods and services	2.1	.0	2.1	2.0	1.5	2.9	.2	.7
Federal	.8	-.7	4.1	-.9	1.9	6.6	1.3	3.7
State and local	2.9	.5	.9	3.7	1.2	.9	-.4	-1.0
Disposable personal income	2.0	3.6	3.6	4.4	3.1	.7	.2	.9
<u>Current dollars</u>								
Gross national product	8.0	10.9	11.6	12.4	12.0	8.9	10.7	8.7
Final purchases	9.6	9.6	11.2	12.5	12.3	9.8	10.6	8.6
Private	9.0	10.5	11.8	13.2	13.0	9.1	10.8	8.5
Excluding net exports	7.9	11.8	13.3	12.9	12.2	8.5	10.2	8.3
Personal consumption expenditures	9.9	11.1	11.2	11.9	12.0	10.6	11.6	8.8
Goods	9.0	10.9	9.9	10.8	11.7	8.8	10.8	8.3
Services	11.1	11.2	12.7	13.1	12.4	12.8	12.5	9.4
Gross private domestic investment	-9.9	25.1	25.0	16.5	10.8	-4.6	5.1	6.0
Residential structures	-4.7	30.2	33.1	16.1	6.6	-11.4	4.1	5.4
Business fixed investment	.8	10.3	18.1	17.7	15.6	5.4	4.4	5.9
Gov't. purchases of goods and services	11.8	6.5	8.9	9.7	9.5	12.9	9.7	9.0
Federal	10.6	5.3	11.4	6.6	9.5	18.7	13.0	12.4
State and local	12.5	7.3	7.6	11.4	9.6	91.7	7.8	6.8
Disposable personal income	9.8	9.0	9.8	11.5	12.2	11.0	10.7	9.1
Personal income	8.2	10.0	10.6	12.0	12.9	11.2	10.8	8.9
Wage and salary disbursements	5.3	10.4	10.6	12.3	11.8	8.7	8.9	7.3
Corporate profits with IVA & C.C. Adj.	16.5	25.0	19.3	12.6	6.1	-6.3	-7.5	6.5
Corporate profits before tax	-3.3	25.9	15.8	15.9	14.4	-4.9	-4.9	5.4
Nonfarm payroll employment	-1.7	3.2	3.9	5.1	3.7	.9	.5	.1
Manufacturing	-8.8	3.7	3.6	4.2	2.8	-3.3	-.5	-.8
Nonfarm business sector								
Output per hour	2.0	3.5	1.8	-.2	-.8	-1.1	-.8	.6
Compensation per hour	10.0	8.3	7.9	8.5	9.6	9.8	10.1	8.5
Unit labor costs	7.9	4.7	6.3	8.7	10.4	11.1	9.2	7.8
GNP implicit deflator	9.6	5.2	5.8	7.3	8.5	9.0	10.1	8.2
Gross domestic business product								
fixed-weighted price index ^{1/}	9.0	5.4	6.3	7.8	9.6	9.7	10.1	8.3
Excluding food and energy	9.5	5.8	6.3	7.2	8.1	8.1	8.6	7.7
Consumer price index (all urban)	9.1	5.8	6.5	7.7	11.3	13.4	12.6	8.9
Industrial production	-8.9	10.8	5.8	5.8	4.4	-3.6	1.8	.3

^{1/} Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

January 28, 1981

	Fiscal Year 1980*	FY 1981 e/		FY 1982 e/		CY 1980*	CY81e/ F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data						1982		
								1980			1981			I	II	III
Unified budget receipts	520.0	607.5	599.5	711.8	645.0	533.0	613.0	135.2	127.0	140.1	180.7	151.8	140.4	144.9	192.5	167.2
Unified budget outlays	579.6	662.7	656.2	739.3	726.0	601.1	683.0	150.5	160.6	164.2	165.5	165.9	187.4	170.6	182.4	185.6
Surplus(+)/deficit(-), unified budget	-59.6	-55.2	-56.7	-27.5	-81.0	-68.1	-70.0	-15.4	-33.6	-24.1	15.2	-14.1	-47.0	-25.7	10.1	-18.4
Surplus(+)/deficit(-), off-budget agencies 2/	-14.2	-23.2	-22.7	-18.3	-18.3	-15.3	-22.0	-4.9	-2.2	-6.4	-7.2	-7.0	-1.4	-4.9	-5.7	-6.3
Combined deficit to be financed	-73.8	-78.4	-79.4	-45.8	-99.3	-83.4	-92.0	-20.3	-35.8	-30.5	8.0	-21.1	-48.4	-30.6	4.4	-24.7
Means of financing combined deficits:																
Net borrowing from public	70.5	72.0	70.2	45.0	97.3	79.3	83.4	27.1	27.7	22.9	-2.0	21.6	40.9	29.6	1.6	25.2
Decrease in cash operating balance	3.2	6.0	6.0	0.0	0.0	3.6	0.3	-6.9	8.7	4.3	-4.0	-3.0	3.0	4.0	-4.0	-3.0
Other 3/	0.1	0.4	3.2	0.8	2.0	0.5	8.3	0.1	-0.6	3.3	-2.0	2.5	4.5	-3.0	-2.0	2.5
Cash operating balance, end of period	21.0	15.0	15.0	15.0	15.0	12.3	12.0	21.0	12.3	8.0	12.0	15.0	12.0	8.0	12.0	15.0
Memo: Sponsored agency borrowing 4/	21.4	18.2	26.1	24.9	20.0	24.3	22.3	2.2	9.1	5.5	5.9	5.6	5.3	5.0	5.0	5.0
NIA Budget								Seasonally adjusted annual rates								
Receipts	527.3	614.4	601.4	728.2	639.8	539.6	613.8	540.8	568.5	613.5	620.4	603.4	617.9	635.2	646.6	659.5
Expenditures	578.2	671.0	666.1	746.3	736.3	601.3	685.3	615.0	638.2	655.1	671.2	699.8	714.9	725.7	739.5	765.1
Purchases (total)	190.2	218.5	219.4	248.7	245.2	199.2	225.1	194.9	213.3	217.0	221.4	225.7	236.1	242.1	248.0	254.6
Defense	126.1	148.0	148.8	167.5	169.6	132.0	153.8	131.4	142.7	146.5	150.9	154.9	163.0	167.2	171.8	176.5
Nondefense	64.1	70.5	70.6	81.2	75.6	67.2	71.2	63.5	70.6	70.5	70.5	70.8	73.1	74.9	76.2	78.1
All other expenditures	388.0	452.5	441.7	497.6	491.1	402.1	460.2	420.3	424.9	438.1	449.8	474.1	478.8	483.6	491.5	510.5
Surplus(+)/deficit(-)	-50.9	-56.6	-64.7	-18.1	-96.5	-61.7	-71.5	-74.2	-69.7	-41.6	-50.8	-96.4	-97.0	-90.5	-92.9	-105.6
High employment (H.E.) surplus(+)/deficit(-) evaluated at H.E. unemployment rate of: 5/																
5.1 percent	-18.0	n.a.	-0.6	n.a.	-3.0	-20.6	0.3	-22.1	-17.7	17.5	19.2	-21.3	-14.5	-0.9	4.4	-1.0
6.1 percent	-40.3	n.a.	-25.2	n.a.	-28.8	-43.5	-24.8	-45.3	-41.2	-7.3	-6.3	-45.9	-39.6	-26.6	-21.7	-27.6

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- *--actual e--estimated n.a.--not available
1. The Budget of the United States Government, Fiscal Year 1982, January 1981. In its report on the Second Concurrent Resolution, the Congress recommended receipts of \$605.0 billion and outlays of \$632.4 billion.
 2. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank.
 3. Checks issued less checks paid, accrued items and other transactions.
 4. 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.
 5. These estimates differ from those in preceding Greenbooks due primarily to benchmark revisions in the NIPA and the associated change in potential GNP; and to a lesser extent, to a re-estimation of some of the equations used to calculate the high employment budget.

Summary. Market interest rates continued to decline following the December FOMC meeting and reached lows for the inter-meeting period in the first week of January. Since then, interest rates generally have backed up in response to published data indicating that the economy had retained a good deal of upward momentum in December and that growth of the monetary aggregates was rebounding in January. On balance Treasury bill rates have declined about 1-1/4 to 2 percentage points, yields on private short-term instruments more than 3 percentage points, and bank prime rates 1-1/2 percentage points from their December highs. Yields on Treasury, corporate, and municipal bonds are currently 3/4 to 1-1/4 percentage points below their December highs, while primary mortgage rates have remained near their peak levels.

Total external financing by nonfinancial business appears to have changed little in December and January, but there have been shifts in its composition. The flow of short-term funds to these firms in December was slightly below the relatively strong rate in the previous month. A decline in the rate of bank loan growth was partly offset by the first increase in commercial paper outstanding since July. With rates on commercial paper declining more sharply than bank prime rates, firms have continued to raise funds in the commercial paper market in January, and business borrowing at banks appears to be dropping further. At the same time, public offerings of bonds, after edging a bit higher in December, have risen to around \$3.3 billion in January, above the monthly average of offerings in the fourth quarter though still well below monthly totals recorded over

the spring and early summer. Sales of corporate equities declined in December but are very large in January.

In the household sector, growth of home mortgage credit strengthened in the fourth quarter as a whole but appears to have weakened in December, judging from fragmentary information on developments at depository institutions. With interest rates on standard mortgages still near record levels, an increasing volume of flexible rate loans apparently is being arranged; lenders are promoting the use of such contracts because of the protection they provide against interest rate risk, while borrowers are attracted by the lower initial interest rates generally set on them. In November, consumer installment credit increased at about a 3 percent annual rate, and preliminary estimates suggest some further growth in December.

The U.S. Treasury remained a heavy borrower over the inter-meeting period, raising a bit more than \$10 billion of new money. Offerings of municipal bonds ballooned in December as states and localities issued a large volume of housing revenue bonds in advance of restrictive federal regulations which became effective on January 1. The volume of offerings dropped back sharply in January, reflecting a substantial decline in housing revenue bonds.

The nationwide introduction of NOW accounts has elicited a stronger than expected public response, and it is estimated that such accounts will increase about \$16 billion in January. A substantial portion of these funds appears to have come out of demand deposits--roughly 80 percent of the total expansion according to staff estimates based on a survey conducted by the Federal Reserve Banks--thus causing M-1A to decline sharply. M-1B, buoyed by the increase in NOW accounts, appears to be advancing at

nearly a 20 percent annual rate. After allowance for shifts of funds into NOW accounts, M-1A and M-1B both appear to be increasing at annual rates around 10 percent, which about offsets the declines in these aggregates in December.

M-2 and M-3 growth also appears to have accelerated in January from the reduced December pace. Growth of M-2 in January has been enhanced by a substantial rise in money market mutual fund shares--as rates of return offered on these accounts have moved above market rates--and continued strong expansion of small time deposits. M-3 growth has also been bolstered by a further sharp increase in large CDs.

Commercial bank credit increased at about a 13 percent annual rate in December, somewhat slower than the average pace in the fourth quarter. Reduced acquisitions of securities and a slowing of business loan growth more than offset a slight strengthening in the rate of expansion of real estate and consumer loans. Weekly reporting data for the first two weeks of January suggest that bank credit growth is moderating further.

Outlook. With nominal GNP expected to expand at about a 12 percent annual rate over the first quarter, it appears likely that demands for money and credit will be strong enough to keep interest rates near current levels. Rates may tend to edge down toward the end of the quarter, however, if economic activity slows as expected.

The Treasury will continue to be a heavy borrower in coming months as its combined unified and off-budget agency deficit in the first quarter is expected to be about \$35 billion. The Treasury already has raised about \$8 billion of this total and will likely cover another \$4 billion by running down its cash balance. The remainder will be raised through

market borrowing with the first sizable amount to be obtained in the February mid-quarter refunding. Borrowing by municipalities is expected to continue running well below the volume recorded in the latter part of last year, reflecting the marked drop-off in issuance of housing revenue bonds.

Business needs for external funds in coming months are expected to about match the fourth quarter's. The composition of business borrowing appears likely to change, however, as firms have been showing a greater willingness to issue long-term debt at current rate levels. In addition, if interest rates fluctuate in a fairly narrow range near current levels, the more normal relationship between commercial paper rates and bank prime rates will likely remain which will induce further issuance of commercial paper. Growth in business loans at banks, therefore, is likely to slow considerably from the pace set in the fourth quarter.

Growth in consumer installment borrowing may increase only slightly further in coming months along with consumer spending on durables. At the same time, growth in mortgage loans will be held down by a drop-off in funds made available through the issuance of housing revenue bonds and by the reluctance of households to take on new loans at current rate levels.

INTERNATIONAL DEVELOPMENTS

Summary. Over the past six weeks, the weighted average value of the dollar has fluctuated within a 4 percent range, and by the end of the period the value of the dollar had appreciated slightly. A rise in the value of the dollar by 2-1/2 percent against the German mark and by slightly smaller amounts against other Continental currencies was about offset by a decline of about 4 percent against both the British pound and the yen. Movements of the dollar exchange rate against Continental currencies partially reflected market reactions to relative interest-rate developments. Over the period, dollar interest rates have declined somewhat relative to rates abroad. The considerable strengthening of the dollar over the past week was associated with a firming of relative interest rates in the United States, reaffirmations of the U.S. monetary policy stance, and downward pressure on the mark within the EMS.

. The persistent pressure on the krona reflects market focus on Sweden's widening current-account deficit over the past two years, expectations of another large deficit this year, and high inflation.

. But the intensification of selling pressure on the krona in

recent weeks led Swedish authorities

to announce a number of policy measures, including a 2 percentage point increase in the discount rate to a record 12 percent.

Over the past six weeks, but mostly since mid-January, the Desk has purchased a net of about \$1 billion equivalent of foreign currencies, primarily German marks.

Weakness in economic activity appears to have continued in most foreign industrial countries in the final quarter of last year. In Canada and Italy economic activity has recovered somewhat in recent months from earlier declines. Inflation rates moderated somewhat further abroad in the fourth quarter. Latest data for Germany, however, show a pick up of inflation.

The October-November 1980 U.S. trade deficit averaged nearly \$19 billion at an annual rate, more than the third-quarter rate but substantially less than the rate for the first half of the year. (Trade data for December will be released on January 28 and will be summarized in the Greenbook Supplement.) Both oil and non-oil imports increased somewhat in October-November from the third-quarter levels, reflecting the upturn of U.S. economic activity. The value of exports in October-November remained about unchanged from the third-quarter level, with a decline in the value of agricultural exports offset by a rise in non-agricultural commodities.

In international financial transactions net private capital flows in November were small. An outflow of about \$1 billion through banking offices was offset by net purchases of equities of U.S. corporations. Partial data through mid-January indicate a continuation of the moderate outflow through banking offices.

Foreign official accounts in the United States increased by \$5.8 billion in November, mainly reflecting a \$5.5 billion increase in reserve holdings of G-10 countries and Switzerland. The bulk of the Swiss increase resulted from swaps by the Swiss National Bank with Swiss commercial banks that were designed to increase liquidity of the Swiss banking system. German dollar holdings rose because of large Bundesbank purchases of dollars from Saudi Arabia to facilitate the latter's acquisition of mark and SDR-denominated assets. Preliminary data for December indicate a further \$0.5 billion increase in foreign official accounts in the United States. OPEC official holdings in the United States increased by \$1 billion in November. For the first 11 months of 1980, such holdings by OPEC increased by \$12 billion. U.S. reserve assets increased by \$3 billion in the final two months of 1980, resulting in a record \$8 billion increase of U.S. reserve assets for the full year.

Gross medium- and long-term borrowing in international capital markets -- Eurocredits, foreign bond issues and Eurobond issues -- picked up considerably in the final quarter of 1980, following a reduced rate of such borrowing in the early part of the year. Gross borrowing for 1980 as a whole was \$118 billion, some \$5 billion below the year-earlier pace. Industrial countries as a group increased their borrowing last year from 1979, while OPEC countries, non-OPEC developing countries, and Communist countries reduced their gross publicized borrowing.

Outlook. The staff projection for the U.S. current account for 1981 and 1982 shows lower surpluses than were projected earlier. The staff's projections of current-account surpluses of \$12 billion and \$18 billion, respectively, for the next two years reflect the staff's expectation of slightly stronger U.S. economic activity and slightly weaker foreign activity than had been projected earlier. These changes in relative economic growth projections and the emergence of unfavorable relative prices for U.S. goods are expected to lead to a stronger demand for non-petroleum imports and somewhat weaker exports of non-agricultural goods, resulting in U.S. trade deficits in the next two years that are expected to exceed \$20 billion.

In view of the projected surpluses in the U.S. current account over the projection period, at a time when most other foreign economies are expected to continue to record deficits, and the maintenance of high relative U.S. interest rates, the staff continues to expect a further appreciation of the weighted average exchange value of the dollar on balance over the projection period. However, the dollar is likely to decline somewhat in the near term as dollar interest rates recede from recent highs.

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CLASS II FOMC

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

	1980 ANN.	1981 ANN.	1982 ANN.	1981 Q I	1981 Q II	1981 Q III	1981 Q IV	1982 Q I	1982 Q II	1982 Q III	1982 Q IV
1. GNP NET EXPORTS											
CURRENT \$, NET	26.1	41.7	51.3	36.3	36.5	42.9	51.1	51.7	50.3	50.4	52.9
EXPORTS OF G&S	340.5	392.4	427.0	377.0	389.1	397.3	406.4	415.3	422.4	430.2	440.0
IMPORTS OF G&S	314.5	350.7	375.6	340.7	352.6	354.4	355.2	363.6	372.1	379.8	387.1
CONSTANT 72 \$, NET	53.1	56.8	57.8	54.7	55.7	57.6	59.1	58.4	57.6	57.4	58.0
EXPORTS OF G&S	161.6	169.1	171.2	167.2	168.9	169.6	170.6	171.0	171.0	171.1	171.7
IMPORTS OF G&S	108.5	112.3	113.4	112.5	113.2	112.1	111.4	112.7	113.4	113.7	113.7
TERMS OF TRADE (1972=100) 1/	72.7	74.3	75.2	74.4	73.9	74.0	74.7	75.2	75.3	75.2	75.2
2. U.S. MERCHANDISE TRADE BALANCE 2/											
EXPORTS (EXCL. MILITARY)	222.5	247.4	264.0	238.9	245.3	250.5	255.1	259.5	261.9	265.0	269.4
AGRICULTURAL	41.7	49.2	53.9	47.8	49.4	49.5	49.9	51.7	53.0	54.7	56.4
NONAGRICULTURAL	180.8	198.3	210.0	191.0	195.9	201.0	205.2	207.9	208.8	210.3	213.0
IMPORTS	248.5	269.6	286.2	263.1	272.1	272.3	270.9	277.2	283.6	289.3	294.8
PETROLEUM AND PRODUCTS	78.9	92.1	94.7	88.1	93.8	94.2	92.4	94.3	94.9	94.9	94.7
NONPETROLEUM	169.6	177.5	191.5	175.0	178.3	178.2	178.5	182.9	188.7	194.4	200.1
3. U.S. CURRENT ACCOUNT BALANCE											
OF WHICH: NET INVESTMENT INCOME	3.2	11.5	18.3	7.1	6.7	12.9	19.4	18.9	17.9	17.5	19.0
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	1.7	.3	1.8	.1	.6	1.3	1.6	2.0	2.1	2.3	2.6
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	11.4	8.1	7.0	8.3	8.0	7.1	6.9	7.3	6.7	6.5	6.4

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

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- PERCENT 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.