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November 10, 1981

# **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee

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

## DOMESTIC NONFINANCIAL DEVELOPMENTS

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Summary. Recent evidence indicates that the current economic downturn is intensifying and becoming more widespread. Disappointing sales in October triggered larger cutbacks in auto production, and housing market activity has declined further. In addition, weakness has spread to other sectors of the economy, as indicated by the broad October drop in manufacturing employment. Rising inventories and slowing income growth seem likely to generate further production adjustments in the next few months.

Consumers are currently providing very little support for overall economic activity. Domestic auto sales in October were 5.1 million units a year; since the middle of September sales have been dismal despite the continuation of some rebates and concessionary financing programs. Sales of foreign autos are also down (to 2.0 million units a year in both September and October), but most of this reduction seems related to import quotas on Japanese cars. Other discretionary spending has been weak, with sales at general merchandise, apparel, and furniture stores off 1.2 percent in September. Overall, real retail sales were lower than they were at the beginning of the year.

Housing activity, already depressed in August, continued to decline in September. Housing starts dropped to an annual rate of 920,000 units, making the third-quarter average the second lowest since World War II. Sales of new single-family homes were only 312,000 units per year in September, a new recorded low. House prices are also showing the effect of high interest rates: the average price of existing houses sold in

September was only 5-1/2 percent above a year earlier, and prices of new houses were only 3 percent higher. If these figures could be adjusted for quality differences and financing concessions, they probably would be no higher than a year earlier.

Business fixed investment has continued the slow slide that began last spring. Shipments of nondefense capital goods in nominal terms increased only 0.6 percent in September, while new orders fell 8 percent. Spending on nonresidential structures, which has been holding up better than expenditures for producers' durable equipment apparently has weakened a little; construction put-in-place was down 0.6 percent in September.

Industrial production in September apparently fell more than the 0.8 percent originally estimated; preliminary indications are that the October reduction will be larger. While production cutbacks in automobiles, steel, and construction supplies have dominated the decline, recently the reductions have become more widespread. The sizable September increase in manufacturers' inventories indicates that the moderate imbalance between sales and production evident in earlier months has worsened to some extent. As of August, retail inventories were also relatively high.

Slackening production has taken its toll on jobs; unemployment rose to 8 percent in October, the highest level since 1975. Employment reductions were concentrated in manufacturing, with nearly all major industries showing losses. Transportation equipment and primary and fabricated metals were particularly hard hit.

Despite these indications of weakness, the data on consumer prices have been less encouraging recently. The consumer price index rose 1.2 percent in September; although 0.4 percentage points of this increase can be attributed to higher interest rates, the increases for food, medical care, and miscellaneous services were large. However, small increases in the producer price index for finished goods averaging 0.4 percent per month for September and October, hold out some hope that the deceleration in consumer prices that was evident earlier this year may resume.

Outlook. It now appears that the fourth-quarter decline in economic activity will be more severe than had been previously projected; real GNP is expected to fall at a 4-1/4 percent per year rate, with industrial production declining even faster. Personal consumption expenditures, business fixed investment, and inventory accumulation are all projected to be weaker in the fourth quarter than shown in the last Greenbook. Inflation, as measured by the gross business product fixed-weighted price index, is expected to be 8-1/2 percent per year this quarter, down from the disappointing 9-1/2 percent rate last quarter.

The steeper near-term decline in output implies a more cyclical pattern of economic activity over the projection horizon. The reduction in real GNP is expected to continue in the first quarter of next year, flatten out in the second quarter after inventories have been trimmed, and then rise fairly strongly in the last half of the year.

Slow income growth through mid-1982 is expected to limit increases in real consumption expenditures; substantial consumption gains are not likely to reappear until the 10 percent cut in personal tax rates

becomes effective in July of next year. Slowly declining mortgage interest rates are projected to permit housing starts to rise from their currently depressed level to 1.3 million units a year by the end of 1982. As was the case in the last Greenbook, net exports are expected to retard the growth of real output, falling about \$4 billion (1972 dollars) over the four quarters of next year. Real business fixed investment is projected to decline slightly as well.

Inflation is expected to moderate in 1982 with the fixed-weighted gross business product price index rising about 7 percent between this quarter and the fourth quarter of next year. The expected improvement of 2 percentage points over the 9 percent average for 1981 is partially attributable to the 1981 reduction in import prices, which had the immediate effect of raising the GNP deflator; in 1982, as these lower prices appear in domestic expenditure items, they should lower the inflation rate. Weakness in labor and product markets also should put additional downward pressure on prices. After a steep rise in the next few months, the unemployment rate is expected to level off in the last half of next year.

The changes in the current projection are attributable to incoming data, rather than revisions in either fiscal or monetary policy assumptions. M1-B growth in 1982 is assumed to be near the middle of its tentative target range. Short-term interest rates for the next few quarters are lower than assumed last month as a result of lower nominal GNP growth. Long-term rates are expected to decline, but remain high by historical standards.

Fiscal policy assumptions are virtually unchanged from a month ago except that the staff is now projecting enactment of only \$6 billion of the Administration's \$13 billion proposed new expenditure cuts. Last month, \$9 billion of cuts were assumed. Given the weaker near-term outlook, the projected deficit for fiscal year 1982 has been increased to \$97 billion on a unified budget basis.

## 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				
9/30/81	11/10/81	9/30/81	11/10/81	9/30/81	11/10/81	9/30/81	11/10/81	9/30/81	11/10/81	
<b>Annual changes:</b>										
1979 1/	12.0	12.0	3.2	3.2	9.7	9.7	8.4	8.4	5.8	5.8
1980 1/	8.8	8.8	-.2	-.2	9.8	9.8	8.2	8.2	7.1	7.1
1981	11.1	11.1	1.9	1.8	9.2	9.4	9.0	9.2	7.4	7.6
1982	7.5	7.1	.1	-.7	7.6	7.9	7.6	8.0	8.1	8.8
<b>Quarterly changes:</b>										
1980-Q1 1/	12.6	12.6	3.1	3.1	10.1	10.1	7.4	7.4	6.2	6.2
1980-Q2 1/	-1.1	-1.1	-9.9	-9.9	9.8	9.8	9.5	9.5	7.3	7.3
1980-Q3 1/	11.8	11.8	2.4	2.4	9.6	9.6	9.3	9.3	7.5	7.5
1980-Q4 1/	14.9	14.9	3.8	3.8	9.3	9.3	8.2	8.2	7.5	7.5
1981-Q1 1/	19.2	19.2	8.6	8.6	10.5	10.5	8.1	8.1	7.4	7.4
1981-Q2 1/	4.7	4.7	-1.6	-1.6	8.2	8.2	9.7	9.7	7.4	7.4
1981-Q3 1/	7.7	8.8	-.6	-.6	8.5	9.6	10.0	11.2	7.2	7.2
1981-Q4	6.9	5.0	-1.8	-4.2	8.1	8.5	8.2	8.6	7.7	8.3
1982-Q1	6.9	5.2	.2	-1.8	7.4	7.5	6.8	7.2	7.9	8.6
1982-Q2	7.2	8.2	.3	.9	7.2	7.4	6.7	7.1	8.1	8.8
1982-Q3	9.5	10.1	2.9	3.3	7.2	7.1	6.7	6.7	8.2	8.8
1982-Q4	10.4	10.7	3.2	3.2	6.8	6.7	6.5	6.6	8.2	8.8
<b>Two-quarter changes:</b> <sup>2/</sup>										
1980-Q2 1/	5.6	5.6	-3.6	-3.6	9.9	9.9	8.4	8.4	1.4	1.4
1980-Q4 1/	13.3	13.3	3.1	3.1	9.5	9.5	8.8	8.8	.2	.2
1981-Q2 1/	11.7	11.7	3.4	3.4	9.2	9.2	9.0	9.0	-.1	-.1
1981-Q4	7.3	6.8	-1.2	-2.4	8.3	9.1	9.2	9.9	.3	.9
1982-Q2	7.1	6.7	.2	-.4	7.3	7.4	6.7	7.1	.4	.5
1982-Q4	10.0	10.4	3.0	3.2	7.0	7.0	6.6	6.7	.1	.0
<b>Four-quarter changes:</b> <sup>3/</sup>										
1979-Q4 1/	9.9	9.9	1.7	1.7	9.7	9.7	8.2	8.2	.1	.1
1980-Q4 1/	9.4	9.4	-.3	-.3	9.7	9.7	8.6	8.6	1.6	1.6
1981-Q4	9.5	9.2	1.1	.4	8.8	9.2	9.1	9.5	.2	.8
1982-Q4	8.5	8.5	1.6	1.4	7.1	7.2	6.7	6.9	.5	.5

1/ Actual.

2/ Percent change from two quarters earlier.

3/ Percent change from four quarters earlier.



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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	2730.6
Final purchases	2316.2	2341.5	2430.8	2497.1	2569.1	2557.4	2653.4	2748.0
Private	1858.0	1876.4	1955.4	2000.7	2052.3	2027.4	2119.9	2189.4
Excluding net exports	1838.1	1868.2	1937.5	1993.1	2044.1	2010.3	2075.4	2166.1
Personal consumption expenditures	1454.1	1478.0	1529.1	1582.3	1631.0	1626.8	1682.2	1751.0
Goods	784.3	793.8	824.8	855.3	882.0	858.4	883.0	926.8
Services	669.9	684.2	704.3	727.0	749.0	768.4	799.2	824.2
Gross private domestic investment	408.3	423.2	421.7	410.0	415.6	390.9	377.1	397.7
Residential construction	116.7	117.2	119.8	120.6	115.2	93.6	99.2	113.0
Business fixed investment	267.3	272.9	288.5	290.2	297.8	289.8	294.0	302.1
Change in business inventories	24.3	33.1	13.3	-8	2.5	7.4	-16.0	-17.4
Nonfarm	20.8	29.2	7.8	-4.4	1.5	6.1	-12.3	-14.0
Net exports of goods and services <sup>1/</sup>	19.9	8.2	17.9	7.6	8.2	17.1	44.5	23.3
Exports	259.1	266.8	293.1	306.3	337.3	333.3	342.4	346.1
Imports	239.2	258.6	275.2	298.7	329.1	316.2	297.9	322.7
Gov't. purchases of goods and services	458.2	465.1	475.4	496.4	516.8	530.0	533.5	558.6
Federal <sup>2/</sup>	164.8	163.6	165.1	178.1	190.0	198.7	194.9	212.0
State and local	293.4	301.6	310.4	318.3	326.8	331.3	338.6	346.6
Gross national product in constant (1972) dollar	1479.9	1473.4	1488.2	1490.6	1501.9	1463.3	1471.9	1485.6
Personal income	1864.6	1906.3	1972.3	2032.0	2088.2	2114.5	2182.1	2256.2
Wage and salary disbursements	1194.8	1218.6	1268.6	1282.2	1314.7	1320.4	1341.8	1397.8
Disposable personal income	1580.2	1612.8	1663.8	1710.1	1765.1	1784.1	1840.6	1897.0
Saving rate (percent)	5.3	5.6	5.4	4.7	4.9	6.2	6.1	5.1
Corporate profits with I.V.A. and C.C. Adj	201.9	196.6	199.5	189.4	200.2	169.3	177.9	183.3
Corporate profits before tax	253.1	250.9	262.0	255.4	277.1	217.9	237.6	249.5
Federal government surplus or deficit (-) (N.I.A. basis)	-11.5	-8.1	-15.2	-24.5	-36.3	-66.5	-74.2	-67.9
High employment surplus or deficit (-)	-4.7	5.1	-2.3	-7.1	-17.1	-21.5	-21.1	-13.3
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	37.1
Excluding social insurance funds	7.1	-1.7	2.1	4.0	1.3	-1.7	.9	8.1
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)	89.0	89.7	90.2	90.5	90.8	90.5	90.2	90.8
Manufacturing	21.0	21.1	21.1	20.9	20.8	20.3	20.0	20.2
Industrial production (1967=100)	152.7	152.3	152.6	152.5	152.6	144.5	142.3	148.7
Capacity utilization: all mfg. (percent)	86.9	85.9	85.3	84.4	83.4	77.9	75.9	79.1
Materials (percent)	88.4	87.5	87.2	86.3	85.8	78.8	75.2	80.1
Housing starts, private (million units, A.R.)	1.64	1.84	1.79	1.59	1.23	1.06	1.39	1.54
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

<sup>1/</sup> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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CLASS II FOMC

PERCENT 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	3.8
Final purchases	2.5	-2.5	7.2	2.9	3.1	-10.4	4.1	4.4
Private	3.0	-3.0	8.7	2.2	2.2	-13.3	6.5	4.9
Excluding net exports	1.1	-1.6	5.5	1.9	-.4	-14.4	4.0	8.5
Personal consumption expenditures	.9	-1.2	4.7	3.6	.8	-9.8	5.1	7.0
Goods	-2.7	-4.6	6.0	4.2	-.3	-17.7	4.0	10.2
Services	5.5	3.0	3.1	2.8	2.1	.0	6.4	3.7
Gross private domestic investment	10.6	1.7	-9.9	-17.8	-5.6	-28.9	-10.0	11.1
Residential structures	-6.5	-10.8	-3.6	-3.1	-24.2	-60.2	16.0	64.2
Business fixed investment	5.2	-.4	13.4	-5.4	2.2	-19.9	-1.5	4.0
Gov't. purchases of goods and services	.7	-.5	1.2	6.1	6.9	2.5	-5.0	2.2
Federal	8.0	-7.9	-3.6	13.1	18.9	11.9	-13.1	2.0
National defense	2.2	3.8	2.0	7.1	9.8	6.2	-.1	5.9
State and local	-3.3	4.0	3.9	2.4	.6	-2.8	.3	2.3
Disposable personal income	3.1	.5	3.5	.8	1.3	-4.9	4.1	2.9
<u>Current dollars</u>								
Gross national product	12.7	5.9	12.2	8.8	12.6	-1.1	11.8	14.9
Final purchases	11.5	4.4	16.1	11.4	12.0	-1.8	15.9	15.0
Private	12.8	4.0	17.9	9.6	10.7	-4.8	19.5	13.8
Excluding net exports	10.8	6.7	15.7	12.0	10.6	-6.5	13.6	18.7
Personal consumption expenditures	11.0	6.7	14.6	14.7	12.9	-1.0	14.3	17.4
Goods	8.5	4.9	16.6	15.6	13.1	-10.3	12.0	21.4
Services	14.2	8.8	12.2	13.5	12.7	10.8	17.0	13.1
Gross private domestic investment	17.0	15.4	-1.5	-10.6	5.6	-21.8	-13.3	23.7
Residential structures	1.8	1.8	9.1	2.8	-16.7	-56.4	25.7	68.5
Business fixed investment	13.9	8.6	25.0	2.3	11.0	-10.4	6.0	11.5
Gov't. purchases of goods and services	6.3	6.2	9.2	18.8	17.5	10.6	2.6	20.2
Federal	10.7	-2.9	3.7	35.4	29.5	19.8	-7.5	40.2
National defense	8.2	8.2	15.0	26.2	23.2	12.4	8.4	35.0
State and local	3.9	11.6	12.2	10.6	11.2	5.6	9.1	9.7
Disposable personal income	13.5	8.5	13.3	11.6	13.5	4.4	13.3	12.8
Personal income	12.8	9.3	14.6	12.7	11.5	5.1	13.4	14.3
Wage and salary disbursements	13.5	8.2	10.2	11.2	10.5	1.8	6.6	17.8
Corporate profits with IVA & C.C. Adj.	-1.6	-10.1	6.0	-18.8	24.8	-48.9	21.9	12.7
Corporate profits before tax	8.3	-3.4	18.9	-9.7	38.6	-61.8	41.4	21.6
Nonfarm payroll employment	3.7	3.1	2.4	1.2	1.5	-1.6	-1.0	2.7
Manufacturing	3.5	2.1	-.1	-3.6	-2.4	-9.7	-5.9	3.7
Nonfarm business sector								
Output per hour	-.9	-1.6	-1.1	-.2	.3	-2.9	3.6	-.2
Compensation per hour	10.9	10.4	-8.6	9.7	10.2	11.3	9.0	9.8
Unit labor costs	11.9	12.1	9.7	9.9	9.9	14.6	5.3	10.1
GNP implicit deflator <sup>1/</sup>	8.4	7.8	7.8	8.1	9.3	9.8	9.2	10.7
Gross domestic business product								
fixed-weighted price index <sup>2/</sup>								
Excluding food and energy	9.7	9.7	9.5	10.0	10.1	9.8	9.6	9.3
Consumer price index (all urban)	7.5	7.2	6.9	11.1	7.4	9.5	9.3	8.2
Consumer price index (all urban)	10.2	12.5	14.0	14.3	16.5	13.1	7.7	12.9
Industrial production	5.4	-1.0	.8	-.3	.3	-19.6	-6.2	19.2

<sup>1/</sup> 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, 9.7 percent.

<sup>2/</sup> Uses expenditures in 1972 as weights.

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CONFIDENTIAL - FR  
S 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	Q4	Projected Q1	Projected Q2	Projected Q3	Projected Q4
Gross national product	2853.0	2885.8	2947.0	2982.9	3021.2	3081.5	3156.6	3237.8
Final purchases	2848.5	2862.5	2929.4	2977.6	3020.2	3079.5	3156.1	3236.3
Private	2272.0	2285.1	2338.9	2369.5	2404.3	2450.7	2514.8	2577.2
Excluding net exports	2242.8	2264.3	2320.9	2346.3	2385.9	2436.5	2502.2	2561.5
Personal consumption expenditures	1810.1	1829.1	1888.6	1918.0	1953.6	1994.0	2048.5	2094.1
Goods	964.3	962.6	990.1	996.0	1008.6	1027.1	1058.5	1084.7
Services	845.8	866.5	898.6	922.0	945.0	966.9	990.0	1009.4
Gross private domestic investment	437.1	458.6	449.8	433.6	433.3	444.5	454.2	468.9
Residential construction	116.7	110.7	101.4	94.4	95.9	101.4	106.9	114.4
Business fixed investment	315.9	324.6	330.8	333.9	336.4	341.1	346.8	353.0
Change in business inventories	4.5	23.3	17.6	5.3	1.0	2.0	.5	1.5
Nonfarm	6.8	21.5	13.9	5.3	1.0	2.0	.5	1.5
Net exports of goods and services <sup>1/</sup>	29.2	20.8	18.0	23.2	18.4	14.2	12.6	15.7
Exports	367.4	368.2	362.8	365.7	359.4	362.1	371.3	383.0
Imports	338.2	347.5	344.8	342.5	341.0	347.9	358.7	367.3
Gov't. purchases of goods and services	576.5	577.4	590.5	608.1	615.9	628.8	641.3	659.1
Federal <sup>2/</sup>	221.6	219.5	227.7	239.2	240.9	247.7	253.9	265.4
State and local	354.9	357.9	362.9	368.9	375.0	381.1	387.4	393.7
Gross national product in constant (1972) dollars	1516.4	1510.4	1508.2	1492.0	1485.4	1488.8	1500.7	1512.5
Personal income	2319.8	2368.5	2440.0	2483.4	2522.3	2564.8	2628.3	2682.9
Government and salary disbursements	1442.9	1467.0	1497.8	1512.2	1533.3	1556.7	1584.9	1621.4
Disposable personal income	1947.8	1985.6	2040.1	2089.5	2125.0	2158.9	2246.2	2289.4
Saving rate (percent)	4.6	5.4	4.9	5.7	5.5	5.1	6.3	6.0
Corporate profits with I.V.A. and C.C. Adj.	203.0	190.3	189.4	189.1	182.7	191.8	207.2	218.2
Corporate profits before tax	257.0	229.0	230.0	225.2	213.4	216.7	230.7	237.1
Federal government surplus or deficit (-) (N.I.A. basis)	-46.6	-47.2	-60.1	-96.6	-103.9	-104.0	-148.0	-146.3
High employment surplus or deficit (-) <sup>3/</sup>	.5	6.6	1.7	-16.1	-8.8	-.6	-46.1	-42.1
State and local government surplus or deficit (-) (N.I.A. basis)	36.9	36.1	38.2	35.4	33.5	32.8	34.2	36.0
Excluding social insurance funds	6.6	4.3	5.5	2.1	-.6	-2.0	-1.4	-.4
Civilian labor force (millions)	105.8	106.8	106.4	106.8	107.1	107.3	107.5	107.8
Unemployment rate (percent)	7.4	7.4	7.2	8.3	8.6	8.8	8.8	8.8
Nonfarm payroll employment (millions)	91.2	91.5	91.9	91.6	91.2	91.0	90.9	91.0
Manufacturing	20.2	20.4	20.5	20.1	19.7	19.5	19.6	19.7
Industrial production (1967=100)	151.8	152.5	153.1	148.4	147.0	148.6	150.3	152.0
Capacity utilization: all mfg. (percent)	79.9	79.8	79.2	75.9	74.6	74.8	75.2	75.6
Materials (percent)	82.2	81.2	81.2	77.2	75.5	76.1	76.9	77.5
Housing starts, private (million units, A.R.)	1.39	1.18	.97	.87	1.00	1.10	1.20	1.30
New autos sales, (millions, A.R.)	9.96	7.89	9.03	7.80	8.30	8.70	9.10	8.95
Domestic models	7.31	5.63	6.90	5.70	6.20	6.40	6.70	6.55
Foreign models	2.66	2.25	2.13	2.10	2.10	2.30	2.40	2.40

<sup>1/</sup> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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 \$37.6 billion in 1980-Q4 and a deficit of \$43.4 billion in 1981-Q4, and a deficit of \$70.4 billion in 1982-Q4.

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

	1981				1982			
	Q1	Q2	Q3	Q4	Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	8.6	-1.6	-6	-4.2	-1.8	.9	3.3	3.2
Final purchases	6.9	-4.7	-5	-2.3	-1.2	.8	3.5	3.1
Private	7.3	-4.5	-4	-3.0	-1.0	.7	3.9	3.5
Excluding net exports	6.7	-3.2	1.9	-3.2	-.5	1.5	4.4	3.4
Personal consumption expenditures	5.8	-2.1	4.3	-1.9	.0	1.2	4.6	3.0
Goods	9.8	-5.3	5.0	-5.0	-1.4	1.2	7.0	4.4
Services	1.4	1.6	3.5	1.7	1.6	1.2	2.1	1.5
Gross private domestic investment	24.2	16.1	-9.2	-21.4	-6.9	3.8	1.9	6.3
Residential structures	3.6	-23.4	-33.3	-29.7	-.5	16.8	15.6	22.7
Business fixed investment	13.3	-2.1	-.4	-3.0	-3.5	-.6	.4	1.0
Gov't. purchases of goods and services	5.4	-5.6	-.5	.7	-2.1	1.0	1.5	1.3
Federal	14.8	-8.4	5.3	5.3	-3.7	4.1	4.7	4.4
National defense	1.1	2.6	8.1	5.9	4.6	4.5	4.6	9.6
State and local	.2	-3.8	-4.0	-2.0	-1.1	-.9	-.6	-.7
Disposable personal income	3.0	1.4	2.2	1.5	-.7	-.6	10.1	1.8
<u>Current dollars</u>								
Gross national product	19.2	4.7	8.8	5.0	5.2	8.2	10.1	10.7
Final purchases	15.5	2.0	9.7	6.8	5.8	8.1	10.3	10.6
Private	16.0	2.3	9.8	5.4	6.0	7.9	10.9	10.3
Excluding net exports	14.9	3.9	10.4	4.5	6.9	8.8	11.2	9.8
Personal consumption expenditures	14.2	4.3	13.7	6.4	7.6	8.5	11.4	9.2
Goods	17.2	-.7	11.9	2.4	5.2	7.5	12.8	10.3
Services	10.9	10.1	15.7	10.8	10.4	9.6	9.9	8.1
Gross private domestic investment	45.9	21.1	-7.4	-13.7	-.3	10.7	9.0	13.6
Residential structures	14.0	-19.2	-29.7	-24.8	6.5	25.0	23.5	31.2
Business fixed investment	19.6	11.4	7.9	3.8	3.0	5.7	6.9	7.3
Gov't. purchases of goods and services	13.5	.6	9.4	12.4	5.2	8.6	8.2	11.6
Federal	19.3	-3.7	15.7	21.8	2.9	11.8	10.4	19.4
National defense	10.4	8.7	18.4	25.1	10.9	10.1	9.9	27.1
State and local	10.0	3.3	5.7	6.8	6.8	6.7	6.8	6.7
Disposable personal income	11.2	8.0	11.4	10.0	6.8	6.5	17.2	7.9
Personal income	11.8	8.7	12.6	7.3	6.4	6.9	10.3	8.6
Wage and salary disbursements	13.5	6.9	8.7	3.9	5.7	6.2	7.4	9.5
Corporate profits with IVA & C.C. Adj.	50.4	-22.8	-1.9	-.6	-12.9	21.5	36.2	23.0
Corporate profits before tax	12.6	-37.0	1.8	-8.2	-19.2	6.2	28.5	11.7
Nonfarm payroll employment	1.8	1.4	1.6	-1.4	-1.5	-1.1	-.2	.4
Manufacturing	.5	4.2	1.9	-8.6	-6.6	-3.7	1.1	2.0
Nonfarm business sector								
Output per hour	4.3	1.4	-2.2	-.9	-.5	2.1	3.3	2.1
Compensation per hour	11.6	9.6	9.4	8.5	8.9	8.1	7.9	7.9
Unit labor costs hour	7.0	8.1	11.9	9.4	9.4	5.8	4.5	5.7
GNP implicit deflator <sup>1/</sup>	9.8	6.4	9.4	9.6	7.1	7.3	6.6	7.3
Gross domestic business product								
fixed-weighted price index <sup>2/</sup>	10.5	8.2	9.6	8.5	7.5	7.4	7.1	6.7
Excluding food and energy	8.1	9.7	11.2	8.6	7.2	7.1	6.7	6.6
consumer price index (all urban)	10.8	7.5	12.0	11.1	10.5	6.5	6.8	6.9
Industrial production	8.3	1.9	1.6	-11.7	-3.7	4.4	4.7	4.6

<sup>1/</sup> Excluding Federal pay increases, the rates of change are: 1981-Q1, 9.7 percent; 1981-Q4, 8.6 percent; 1982-Q1, 7.1 percent; 1982-Q4, 6.4 percent.

<sup>2/</sup> 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.)

	1975	1976	1977	1978	1979	1980	Projected	
							1981	1982
Gross national product	1549.2	1718.0	1918.0	2156.1	2413.9	2626.1	2917.2	3124.3
Final purchases	1556.1	1706.2	1897.0	2133.9	2396.4	2632.0	2904.5	3123.0
Private	1216.2	1344.1	1502.5	1701.3	1922.6	2097.3	2316.4	2486.7
Excluding net exports	1189.4	1330.4	1506.7	1701.9	1909.2	2074.0	2293.6	2471.5
Personal consumption expenditures	976.4	1084.3	1205.5	1348.7	1510.9	1672.8	1861.5	2022.5
Goods	539.5	598.5	657.8	729.1	814.5	887.6	978.2	1044.7
Services	437.0	485.7	547.7	619.6	696.3	785.2	883.2	977.8
Gross private domestic investment	206.1	257.9	322.3	375.3	415.8	395.3	444.8	450.2
Residential construction	55.3	72.0	95.8	111.3	118.6	105.3	105.8	104.6
Business fixed investment	157.7	174.1	205.5	242.0	279.7	296.0	326.3	344.3
Change in business inventories	-6.9	11.8	21.0	22.2	17.5	-5.9	12.7	1.2
Nonfarm	-10.5	13.9	20.2	21.8	13.4	-4.7	11.9	1.2
Net exports of goods and services <u>1/</u>	26.8	13.7	-4.2	-6	13.4	23.3	22.8	15.2
Exports	154.9	170.9	183.3	219.8	281.3	339.8	366.0	368.9
Imports	128.1	157.1	187.5	220.4	267.9	316.5	343.2	353.7
Gov't. purchases of goods and services	339.9	362.1	394.5	432.6	473.8	534.7	588.1	636.3
Federal <u>2/</u>	122.7	129.2	143.9	153.4	167.9	198.9	227.0	252.0
State and local	217.2	232.9	250.6	279.2	305.9	335.8	361.1	384.3
Gross national product in constant (1972) dollars	1233.9	1300.4	1371.7	1436.9	1483.0	1480.7	1506.8	1496.8
Personal income	1265.0	1391.2	1538.0	1721.8	1943.8	2160.2	2402.9	2599.6
Wage and salary disbursements	806.4	889.9	983.8	1105.2	1236.1	1343.7	1480.0	1574.1
Disposable personal income	1096.1	1194.4	1311.5	1462.9	1641.7	1821.7	2015.8	2204.9
Saving rate (percent)	8.6	6.9	5.6	5.2	5.2	5.6	5.1	5.8
Corporate profits with I.V.A. and C.C. Adj.	110.5	138.1	164.7	185.5	196.8	182.7	192.9	200.0
Corporate profits before tax	132.1	166.3	192.6	223.3	255.4	245.5	235.3	224.5
Federal government surplus or deficit (N.I.A. basis)	-69.3	-53.1	-46.4	-29.2	-14.8	-61.2	-62.6	-125.5
High employment surplus or deficit (-)	-29.2	-20.1	-23.0	-15.7	-2.2	-18.2	-1.8	-24.4
State and local government surplus or deficit (-) (N.I.A. basis)	5.5	16.6	28.1	29.0	26.7	29.1	36.6	34.1
Excluding social insurance funds	-7.6	.9	10.1	9.0	2.9	2.1	4.6	-1.1
Civilian labor force (millions)	92.6	94.8	97.4	100.4	102.9	104.7	106.4	107.4
Unemployment rate (percent)	8.5	7.7	7.0	6.0	5.8	7.1	7.6	8.7
Nonfarm payroll employment (millions)	76.9	79.4	82.5	86.7	89.8	90.6	91.6	91.1
Manufacturing	18.3	19.0	19.7	20.5	21.0	20.3	20.3	19.6
Industrial production (1967=100)	117.8	130.5	138.1	146.1	152.5	147.0	151.4	149.5
Capacity utilization: all manufacturing (percent)	72.9	79.5	81.9	84.4	85.6	79.1	78.7	75.1
Materials (percent)	73.4	81.1	82.7	85.6	87.4	80.0	80.4	76.5
Housing starts, private (million units, A.R.)	1.16	1.54	1.99	2.02	1.75	1.29	1.10	1.15
New auto sales, (millions, A.R.)	8.66	10.12	11.13	11.28	10.70	9.04	8.71	8.76
Domestic models	7.08	8.63	9.07	9.29	8.38	6.62	6.41	6.46
Foreign models	1.58	1.50	2.06	1.99	2.32	2.42	2.30	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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CONFIDENTIAL - FR  
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT  
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	-2	1.8	-7
Final purchases	.3	4.2	5.2	4.7	3.5	.7	1.2	-3
Private	-1	5.3	6.0	15.4	4.0	.2	1.4	-3
Excluding net exports	-6	6.2	6.5	5.2	2.9	-1.0	2.2	.3
Personal consumption expenditures	2.2	5.6	4.9	4.7	2.9	.5	2.7	1.0
Goods	1.3	6.7	5.2	4.2	1.9	-1.4	2.7	.3
Services	3.3	4.3	4.5	5.4	4.1	2.6	2.7	1.8
Gross private domestic investment	-20.8	19.2	15.7	7.6	1.3	-12.5	4.1	-5.2
Residential structures	-12.5	21.3	18.5	2.9	-5.2	-18.6	-5.7	-7.5
Business fixed investment	-12.1	5.3	11.9	9.1	6.5	-3.0	1.6	-1.6
Gov't. purchases of goods and services	2.1	.0	2.1	2.0	1.5	2.9	.2	-4
Federal	.8	-7	4.1	-9	1.9	6.3	2.1	1.8
National defense	-7	-2.3	.8	.0	2.6	5.7	3.6	5.4
State and local	2.9	.5	.9	3.7	1.2	1.0	-1.0	-1.7
Disposable personal income	2.0	3.6	3.6	4.4	3.1	.7	2.1	1.7
<u>Current dollars</u>								
Gross national product	8.0	10.9	11.6	12.4	12.0	8.8	11.1	7.1
Final purchases	9.6	9.6	11.2	12.5	12.3	9.8	10.4	7.5
Private	9.0	10.5	11.8	13.2	13.0	9.1	10.4	7.4
Excluding net exports	7.9	11.8	13.3	12.9	12.2	8.6	10.6	7.8
Personal consumption expenditures	9.9	11.1	11.2	11.9	12.0	10.7	11.3	8.7
Goods	9.0	10.9	9.9	10.8	11.7	9.0	10.2	6.8
Services	11.1	11.2	12.7	13.1	12.4	12.8	12.5	10.7
Gross private domestic investment	-9.9	25.1	25.0	16.5	10.8	-4.9	12.5	1.2
Residential structures	-4.7	30.2	33.1	16.1	6.6	-11.3	.5	-1.1
Business fixed investment	.8	10.3	18.1	17.7	15.6	5.8	10.3	5.5
Gov't. purchases of goods and services	11.8	6.5	8.9	9.7	9.5	12.9	10.0	8.2
Federal	10.6	5.3	11.4	6.6	9.5	18.5	14.1	11.0
National defense	7.7	3.7	8.5	7.1	11.2	18.4	16.1	14.9
State and local	12.5	7.3	7.6	11.4	9.6	9.8	7.5	6.4
Disposable personal income	9.8	9.0	9.8	11.5	12.2	11.0	10.6	9.3
Personal income	8.2	10.0	10.6	12.0	12.9	11.1	11.2	8.2
Wage and salary disbursements	5.3	10.4	10.6	12.3	11.8	8.7	10.1	6.4
Corporate profits with IVA & C.C. Adj.	16.5	25.0	19.3	12.6	6.1	-7.2	5.6	3.7
Corporate profits before tax	-3.3	25.9	15.8	15.9	14.4	-3.9	-4.2	-4.6
Nonfarm payroll employment	-1.7	3.2	3.9	5.1	3.6	.8	1.1	-6
Manufacturing	-8.8	3.7	3.6	4.2	2.6	-3.5	-1	-3.2
Nonfarm business sector								
Output per hour	2.1	3.2	2.0	-.2	-.7	-.3	1.2	.4
Compensation per hour	9.4	9.6	8.1	7.6	9.7	10.0	10.1	8.6
Unit labor costs	7.4	4.7	5.5	8.7	10.4	10.3	8.8	8.1
GNP implicit deflator	9.6	5.2	5.8	7.3	8.5	9.0	9.2	7.8
Gross domestic business product								
fixed-weighted price index <sup>1/</sup>	9.2	5.5	6.3	7.8	9.7	9.8	9.4	7.9
Excluding food and energy	9.2	6.0	6.5	7.5	8.4	8.2	9.2	8.0
Consumer price index (all urban)	9.1	5.8	6.5	7.7	11.3	13.5	10.5	9.0
Industrial production	-8.9	10.8	5.8	5.8	4.4	-3.5	3.0	-1.3

<sup>1/</sup> Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

November 10, 1981

	Fiscal Year 1980*	Fiscal Year 1981*	FY 1982 e/		CY 1980*	CY 81 e/ F.R. Board	FRB Staff Estimates Calendar quarters; unadjusted data								
			Admin. 1/	F.R. Board			1980			1981			I	II	III
							IV*	I*	II*	III*	IV				
			Seasonally adjusted annual rates												
Unified budget receipts	520.0	602.6	662.4	632.7	533.0	614.6	127.0	135.2	183.7	156.7	138.9	146.7	192.4	154.7	
Unified budget outlays	579.6	660.5	704.8	729.8	600.9	688.1	160.6	167.3	167.4	165.3	188.1	165.6	186.0	190.0	
Surplus(+)/deficit(-), unified budget	-59.6	-57.9	-42.5	-97.1	-67.9	-73.5	-33.6	-32.1	16.3	-8.6	-49.2	-18.9	6.4	-35.3	
Surplus/deficit(-), off-budget agencies 2/	-14.2	-21.0	-18.2	-21.3	-15.3	-23.5	-2.2	-6.4	-5.5	-6.9	-4.7	-5.9	-5.1	-5.6	
Combined deficit to be financed	-73.8	-78.9	-60.7	-118.4	-83.2	-97.0	-35.8	-38.5	10.8	-15.5	-53.9	-24.8	1.3	-40.9	
Means of financing combined deficits:															
Net borrowing from public	70.5	79.3	59.0	112.5	79.3	90.1	27.7	35.8	-2.6	18.5	38.5	29.3	5.7	39.0	
Decrease in cash operating balance	3.2	2.3	0.0	2.4	3.6	1.2	8.7	1.6	-5.7	-2.3	7.6	0.0	-5.2	0.0	
Other 3/	0.1	-2.7	1.7	3.5	0.3	5.7	-0.6	1.1	-2.5	-0.7	7.8	-4.5	-1.8	2.0	
Cash operating balance, end of period	21.0	18.7	18.7	16.3	12.3	11.1	12.3	10.7	16.4	18.7	11.1	11.1	16.3	16.3	
Memo: Sponsored agency borrowing 4/	21.4	37.7	n.a.	26.6	24.3	35.1	9.0	3.6	9.7	15.4	6.4	6.1	8.7	5.4	
NIA Budget															
Receipts	527.3	n.a.	678.3	631.3	540.8	625.8	573.2	617.4	621.0	636.6	628.0	631.1	641.7	624.4	
Expenditures	578.2	667.5	719.3	745.1	602.0	688.4	641.1	664.0	668.2	696.5	724.8	735.8	746.6	773.3	
Purchases	190.2	220.2	247.4	245.4	198.9	227.0	212.0	221.6	219.5	227.7	239.2	240.9	247.7	253.9	
Defense	126.1	147.4	171.7	169.8	131.7	152.9	141.6	145.2	148.2	154.6	163.5	167.8	171.9	176.0	
Nondefense	64.1	72.8	75.7	75.6	67.2	74.1	70.4	76.4	71.3	73.0	75.7	73.1	75.8	77.9	
All other expenditures	388.0	447.3	471.9	499.7	403.1	461.4	429.1	442.4	448.7	468.8	485.6	494.9	498.9	519.4	
Surplus(+)/deficit(-)	-50.9	n.a.	-41.0	-113.8	-61.2	-62.7	-67.9	-46.6	-47.2	-60.1	-96.8	-104.7	-104.9	-148.9	
High Employment (H.E.) Surplus(+)/deficit(-) evaluated at H.E. unemployment rate of:															
5.1 percent	-16.7	-1.1	n.a.	-17.9	-18.2	-1.8	-13.3	0.5	6.6	1.7	-16.1	-8.8	-0.6	-46.1	
6.1 percent	-39.5	-26.7	n.a.	-45.7	-41.6	-28.2	-37.6	-24.9	-19.2	-25.2	-43.4	-36.7	-29.0	-73.7	
	*--actual		e--estimated		n.a.--not available.										

1. OMB Mid-Session Review of the 1982 Budget, July 1981. On September 24, 1981, the Administration presented revised estimates of unified budget receipts and outlays for FY1982. The Fall Budget Program Fact Sheet estimates receipts of \$666.2 billion and outlays of \$709.3 billion for a deficit of \$43.1 billion.

2. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, and 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 offering basis.

NOTE: Quarterly figures may not add to yearly totals due to rounding.

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## DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. Interest rates have declined since the October FOMC meeting as financial markets have responded to further weakening in economic activity, an associated moderation in private sector credit demands, and continued sluggishness in narrow money growth. After trading in a 14-1/2 to 15-1/2 percent range throughout most of the intermeeting period, the federal funds rate has dropped below 14 percent. Meanwhile, most other short-term rates have fallen 2 to 2-3/4 percentage points from their early October levels. In concert with these developments, the prime lending rate has been cut 2 percentage points to 17 percent. The one-point reduction in the basic discount rate announced at the end of October added momentum to the slide in money market rates in early November.

Yields in long-term securities markets have also moved down from the record weekly highs posted in mid- to late September. Most of these rates now stand 3/4 to 1-1/2 percentage points below those levels. Commitment rates posted for conventional home mortgages have receded from their early October peak as well, and equity prices have recovered somewhat from the depressed levels at the end of the third quarter. The relative movement in short-term and long-term rates has produced an upward-sloping yield curve for taxable securities for the first time in more than a year.

M1-B, adjusted for shifts into NOW accounts, grew at only a 3-1/2 percent rate in October, roughly offsetting a decline in the preceding month. From the fourth quarter of 1980 through October 1981, growth in this aggregate was only 1-1/4 percent at an annual rate, well below the FOMC's long-run range.



M2 expansion also picked up in October, reflecting an acceleration in its nontransaction component as well as the up-tick in M1-B. Depository institutions garnered an estimated \$27-3/4 billion in the new tax-exempt all savers certificates (ASCs) during the first part of October; however, most of the money placed in ASCs represented diversions from other components of M2--primarily time deposits.

Bank credit advanced at an 8 percent rate in October--down from the pace of the preceding two months--as growth in all major lending categories tapered off. The expansion in loans to business firms was about 13 percent at an annual rate--its slowest pace since April. Inflows into core deposits and government accounts during October were sufficient to finance the expansion in bank credit; consequently these institutions cut their dependence on managed liabilities, contributing to a slowing of M3 growth. Thrifts also took advantage of renewed deposit flows to pay down FHLB advances in October and to rebuild liquidity as their mortgage lending activity deteriorated further.

The deceleration in bank business lending was but one part of a more general reduction in short-term credit demands by this sector. After skyrocketing in the third quarter, the net issuance of commercial paper by nonfinancial corporations slowed to a virtual standstill in October. Public offerings of long-term debt, while up somewhat from the depressed third-quarter pace, remained sluggish, but volume did pick up markedly in early November as the decline in long-term rates gathered momentum. Equity financing totalled only \$700 million (seasonally adjusted) in October, about half the third-quarter pace.

Households evidently reduced their borrowing in September, and most likely continued to borrow lightly in October. The level of S&L holdings of residential mortgages was unchanged in September and their loan commitment activity was cut back still further. Growth in consumer installment credit also was about unchanged in September from its August pace, with finance companies continuing to dominate the market, especially for auto credit. The sharp fall-off in auto sales in October suggests that consumer credit growth slowed substantially in that month.

The government sector continued on balance to place large demands on credit markets. State and local governments sold a considerable amount of short-term debt and issued bonds at a pace only slightly below the high third-quarter average. From the beginning of October through mid-November the U.S. Treasury raised \$18 billion in new cash from the public. Borrowing by federally sponsored agencies, in contrast, fell back sharply as FHLBs ran off debt using funds repaid by S&Ls.

Outlook. In the months ahead the staff expects credit demands by the private sector to moderate further, largely as a result of the projected weakness in the economy. Under these conditions, over the near term interest rates in both short- and long-term markets may be under some additional downward pressure.

In the business sector, cutbacks in capital spending plans are expected to reduce external financing needs substantially in the fourth quarter; consequently, demands for credit by nonfinancial corporations are likely to taper off. It is probable that firms will enter the bond market in size to attempt a restructuring of their balance sheets if long-term rates stay at their current levels or decline further.

Credit flows to the household sector also are expected to remain sluggish. High mortgage rates and limited primary market activity on the part of the troubled thrift industry suggest that mortgage credit growth will be slow, and the expected weakness in auto sales portends sluggish activity in this major component of consumer installment credit as well.

The government sector, on the other hand, is expected to remain a source of sizable demand in credit markets. Borrowing by the federal government will be heavy over the balance of the quarter, as the Treasury completes its financing of a record quarterly deficit. State and local governments are expected to continue raising substantial amounts of money.

## INTERNATIONAL DEVELOPMENTS

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Summary. The weighted-average value of the dollar has declined, on balance, by about 3 percent since the end of September. During that period the dollar experienced upward and downward fluctuations over a range of 4-1/2 percent, responding to political developments in the Middle East and Poland as well as to movements in actual or expected relative interest rates. Over the period as a whole U.S. short-term interest rates declined about 3 percentage points, while a weighted average of comparable foreign rates declined by around 1 percentage point.

. The United States remained out of the market.

On October 4 the EMS was realigned; the central rates for the German mark and Dutch guilder were revalued by 5-1/2 percent vis-a-vis the Belgian franc and the Danish krone, while the central rates for the French franc and Italian lira were devalued by 3 percent. After the realignment the French franc moved to the top of the new EMS band, and the mark and guilder moved near their intervention floors.

Economic activity in the major foreign economies remained generally weak in the third quarter, according to preliminary indicators. Industrial production was flat or negative in most countries; the principal exception was Japan, where expanding exports were a supporting factor. In France also activity appears to have picked up in the summer months, and inflation accelerated. Unemployment rose further in all major foreign economies from already high levels. With activity sluggish and unemployment high, government deficits are tending to rise.

There are few signs yet of significant abatement in price inflation, though the rate of price increase appears to have slowed in the United Kingdom after a bulge earlier in the year.

The German and Japanese current-account balances showed further gains in the third quarter. The Japanese balance has now moved into substantial surplus, while the German deficit is diminishing.

In the United States, the trade deficit in the third quarter rose slightly to \$29 billion (SAAR), as the deficit in September dropped sharply from a temporary peak in August. Exports declined somewhat in the quarter. About half of the decline reflected a slow-down in agricultural shipments early in the quarter. Other exports also declined somewhat, with a rise in coal exports more than offset by a drop in exports of civilian aircraft and smaller declines in other commodity categories. On the import side, the value of oil

imports fell sharply as both price and quantity declined. Other imports increased moderately. With the small increase in the trade deficit, and probably a small decline in net service receipts, it appears that the third-quarter current account was about in balance, compared with a small surplus in the second quarter.

U.S.-based banks increased their net advances to their foreign branches (on a daily average basis) by about \$6 billion in September-October, while credit extended by the branches to U.S. nonbanks rose about \$2 billion. The rise in credit to U.S. borrowers indicated a continued shift to LIBOR pricing, as the prime rate exceeded LIBOR by about 200 basis points in September and October. For the year, through October, net advances to foreign branches were up about \$1 billion, but credit extended by the branches to U.S. nonbanks expanded by about \$6 billion.

A larger flow of funds was connected with placements in the Euro-dollar market by U.S. nonbanks. Such holdings rose from about \$60 billion at the beginning of the year to about \$85 billion in August. About one-third of the increase was accounted for by purchases of Euro-dollar CDs by money market mutual funds. Such CDs are an increasingly important component of banks' borrowings.

Foreign net purchases of U.S. corporate stocks were negligible in July and August, in contrast to sizeable inflows through mid year. However, foreign net purchases of U.S. bonds were maintained at a substantial rate.

Foreign official assets in the United States declined \$4.8 billion in August, and appear to have declined by a further \$1 billion

in September and October. Holdings of the G-10 countries fell about \$2-1/2 billion in August, and by a like amount in September-October,

. Holdings of OPEC countries were about unchanged over the August-October period; they had increased by \$10.6 billion in the first seven months of the year.

Outlook. A gradual recovery of economic activity in major industrial countries is projected for next year. However, the rate of growth of real GNP through the fourth quarter of 1982 is still expected to be less than 3 percent. The principal near-term source of strength in some countries is the export sector. On this projection unemployment would continue to rise, but the staff is not assuming any significant shift toward stimulative policies. Inflation is expected to decelerate, with capacity utilization well below historical levels and wage settlements tending to moderate.

This foreign outlook is not significantly changed from a month ago, but changes in other factors have had the effect of reducing the projected current-account deficit to perhaps \$5 billion in 1982, down from about \$21 billion. The main changes are (1) an earlier decline in the dollar exchange rate; (2) reduced demand in the U.S. economy; (3) lower average import prices for petroleum in 1982, and (4) larger agricultural exports as a result of a large U.S. harvest and some reduction in harvests elsewhere.

The average value of the dollar in recent months has been somewhat lower than projected earlier, largely reflecting the shifts in relative interest rates. Further declines over the year ahead are expected to be relatively minor unless U.S. interest rates decline significantly relative to foreign rates.

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

November 10, 1981

	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
<b>1. GNP NET EXPORTS</b>											
CURRENT \$, NET	23.3	22.8	15.2	29.2	20.8	18.0	23.2	18.4	14.2	12.6	15.7
EXPORTS OF G&S	339.8	366.0	368.9	367.4	368.2	362.8	365.7	359.4	362.1	371.3	383.0
IMPORTS OF G&S	316.5	343.2	353.7	338.2	347.5	344.8	342.5	341.0	347.9	358.7	367.3
CONSTANT 72 \$, NET	52.0	44.1	36.3	50.9	46.2	39.5	39.8	38.3	36.2	35.2	35.7
EXPORTS OF G&S	161.1	159.5	150.1	162.5	161.2	157.9	155.9	150.2	148.5	149.7	151.9
IMPORTS OF G&S	109.1	115.4	113.7	111.6	115.4	118.4	116.1	111.9	112.3	114.6	116.1
TERMS OF TRADE (1972=100) 1/	72.7	77.1	79.0	74.6	75.7	78.8	79.4	78.5	78.7	79.2	79.7
<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>											
EXPORTS (EXCL. MILITARY)	224.0	239.1	239.3	244.4	241.9	232.0	238.2	237.5	237.9	239.3	242.5
AGRICULTURAL	42.2	45.4	50.1	50.9	44.3	39.6	46.6	48.0	49.3	50.6	52.5
NONAGRICULTURAL	181.7	193.8	189.2	193.5	197.6	192.5	191.6	189.5	188.6	188.7	190.0
IMPORTS	249.3	263.9	270.1	263.1	269.6	260.9	261.9	263.6	266.3	272.7	277.5
PETROLEUM AND PRODUCTS	78.9	77.8	70.6	83.3	84.8	71.9	71.3	71.5	71.2	70.5	69.1
NONPETROLEUM	170.4	186.1	199.5	179.8	184.8	189.0	190.6	192.1	195.1	202.2	208.4
<b>3. U.S. CURRENT ACCOUNT BALANCE</b>											
OF WHICH: NET INVESTMENT INCOME	3.7	4.7	-5.0	13.1	4.3	-1.3	2.8	-0.9	-4.7	-7.8	-6.6
	32.8	34.4	32.3	36.2	34.6	33.7	33.2	32.0	30.3	32.1	34.9
<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/</b>											
REAL GNP, % CHANGE, ANNUAL RATES	1.8	.5	1.8	.6	.6	.6	1.2	2.0	2.2	2.7	2.8
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	10.5	9.6	8.4	10.8	10.7	8.1	8.2	8.6	8.6	7.6	7.5

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 -- 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%).

P/ PROJECTED.