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January 25, 1984

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

Recent Developments. The expansion in economic activity slowed during the final quarter of 1983 from the robust pace of recovery in the preceding six months. Spending by consumers and businesses rose strongly in the fourth quarter, but imports continued to fill a growing share of domestic demand. Exports grew little, and spending on residential construction edged down.

Industrial production advanced 1/2 percent in December, after monthly gains of 3/4 percent in the preceding two months. These increases mark a considerable deceleration from the average monthly gain of around 1-1/2 percent between January and October. For last quarter as a whole, the slowing was fairly widespread among final products and materials, with the notable exceptions of business and defense equipment. Production of consumer durables, which had weakened in October and November, did pick up in December, as auto assemblies rose from a 7-1/2 to an 8 million unit annual rate. New car production is scheduled to advance further to 8.4 million units (annual rate) in January. Output of construction supplies and materials (excluding energy) was little changed in December for the second consecutive month.

The labor market continued to improve in December, although not quite as dramatically as in earlier months. Nonfarm payroll employment grew 230,000 in December compared with average monthly increases of 325,000 in the preceding eight months. With labor force growth still quite sluggish, the civilian unemployment rate dropped another 0.2 percentage point in December to 8.2 percent.

Total consumer spending rose strongly in the final quarter of 1983. Late last year, outlays were boosted considerably by higher sales of domestic cars, which rose to 7.7 million units (annual rate) in December from the 7 million unit rate that prevailed over the preceding seven months. Sales of domestic autos advanced somewhat further to a 7.9 million unit annual rate in the first 20 days of January. Imported cars and small trucks also posted brisk sales in the fourth quarter.

Among other categories of consumer expenditures, nominal outlays for general merchandise, apparel, and furniture and appliances were up sharply for the fourth quarter as a whole, although the reported December gain was smaller than in the preceding two months. In addition, the extremely cold weather in December brought a surge in outlays for gas and electricity services. However, spending on most nondurable goods was relatively weak at the end of 1983.

Business fixed investment again rose very rapidly during the fourth quarter of 1983, up nearly 23 percent at an annual rate. Equipment spending continued to be brisk, and outlays for structures increased for a second consecutive quarter. Data on new orders for nondefense capital goods suggest that the strength in equipment investment should continue into early 1984. Excluding the volatile aircraft component, these orders rebounded in December, and were up 6-1/4 percent for the fourth quarter as a whole. For the coming year, businesses surveyed by the Commerce Department plan a 9.9 percent increase in nominal capital outlays; this survey, however, tends to underpredict investment spending during economic expansions.

Businesses continued to rebuild inventories in November, but the level of stocks remained low relative to shipments and sales. In November, much of the accumulation occurred at trade establishments. In manufacturing, stocks have been relatively lean throughout the recovery, and factory inventories edged down a bit in November.

Housing market activity has been essentially flat in recent months at a level somewhat lower than during mid-1983. Housing starts declined in December, but remained close to the 1.7 million unit average that has prevailed since September. Sales of new houses were virtually unchanged between October and November, but existing house sales rebounded in December. Both series, however, are still somewhat below their peaks last spring.

The consumer price index rose 0.3 percent in both November and December, matching the average monthly change for 1983 as a whole. Energy prices remained relatively stable, and increases for new and used cars were smaller than in the summer and early autumn. Over the course of 1983, small increases in food and energy prices contributed to holding the rise in the CPI to 3.8 percent for the year; excluding food and energy, the CPI rose 4.9 percent last year. Recent data on farm prices, however, suggest that retail food prices will accelerate in early 1984.

Outlook. The staff expects real GNP to rise at around a 4-3/4 percent annual rate in the current quarter. Some further accumulation of nonfarm inventories is projected to contribute importantly to GNP growth. But the rise in private final sales is expected to decelerate somewhat to 3-3/4 percent from the fourth-quarter pace of 5 percent.

Advances in consumer and business spending are projected to moderate after rapid increases at the end of last year. Moreover, imports are expected to continue to satisfy a substantial share of domestic demands.

The monetary policy assumptions underlying the staff projection for the next two years are M2 growth of around 8 percent in 1984 and 7-1/2 percent in 1985. Interest rates are expected to drift upward from current levels over most of the projection period.

For fiscal policy, the staff anticipates that the federal deficit will total around \$190 billion on a unified budget basis in fiscal year 1984 and will edge slightly higher in fiscal year 1985, comparable to the actual deficit of \$195 billion in fiscal year 1983. In the current fiscal year, we are assuming minimal action to reduce the deficit.

For fiscal 1985, the package of deficit-reducing measures that we expect the Congress to enact is relatively small--about \$20 billion. At the same time, the introduction of tax indexing in 1985 will reduce growth in receipts. On the outlays side, the major source of strength in federal government purchases in the next two years will be defense outlays; the uptrend in transfers and the steady cumulation of interest payments also will be important sources of growth in total federal spending.

The pace of the expansion in economic activity is projected to moderate over the next two years with real GNP rising around 4-1/4 percent during 1984 and 3-1/4 percent during 1985. The cyclical rebuilding of inventories by business is expected to be completed by early 1984. Among final sales, consumption outlays are expected to grow about in line with income gains throughout the projection period, as the

thrust to household spending from falling interest rates, rising wealth, and the tax cut has abated. New home construction is projected to edge below the 1.7 million mark at which it settled this winter. However, with profitability and operating rates much improved, business spending on equipment is likely to remain a source of relative strength over the next two years, and nonresidential construction may gather strength by late 1984. Export demand also is assumed to be rejuvenated after mid-1984, owing to rising world economic activity and the expected decline in the foreign exchange value of the dollar.

The lower rates of growth in real activity in 1984 and 1985 are projected to slow the rate of new job creation. In addition, labor force growth is expected to pick up a bit as the expansion continues into its second and third years. Thus, the civilian unemployment rate should decline less sharply over the projection horizon than during 1983, reaching 7-1/2 percent by the end of this year and 7 percent by the end of 1985.

As slack diminishes in labor and product markets, some upward pressure on prices and wages is expected to develop. In 1984, several other factors also will be contributing to more rapid rates of inflation: the large increase in Social Security taxes, a faster rise in food prices as meat supplies tighten, and, in the second half, the projected fall in the value of the dollar. In contrast, energy price increases are expected to remain relatively small. On balance, over the four quarters of 1984, the gross domestic product fixed-weighted price index is projected to rise 4-3/4 percent, compared with a 4-1/4 percent increase last year.

Throughout 1985, tight labor and product markets will be more widespread, with hourly compensation rising to 6 percent in 1985. In addition, rising import prices will have a greater impact on domestic inflation. Food prices, however, should contribute less to overall inflation, and continued stable world oil prices are projected to hold down energy prices. The GDBP fixed-weighted price index is anticipated to accelerate further to a 5-1/4 percent annual rate; excluding food and energy, this measure of inflation is expected to rise 5-1/2 percent next year.

Detailed data for these projections are shown in the tables that follow.

January 25, 1984

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				
12/14/83	1/25/84	12/14/83	1/25/84	12/14/83	1/25/84	12/14/83	1/25/84	12/14/83	1/25/84	
Annual changes:										
1982 <1>	4.0	4.0	-1.9	-1.9	6.0	6.0	6.9	6.9	9.7	9.7
1983 <1>	7.9	7.7	3.4	3.3	4.2	4.3	5.0	5.1	9.6	9.6
1984	10.2	9.7	5.5	5.1	4.6	4.7	4.6	4.8	8.0	7.7
1985	....	8.6	....	3.6	....	5.1	....	5.2	....	7.2
Quarterly changes:										
1983 Q1 <1>	8.2	8.2	2.6	2.6	3.6	3.6	6.7	6.7	10.3	10.4
Q2 <1>	13.3	13.3	9.7	9.7	4.1	4.1	3.5	3.5	10.1	10.1
Q3 <1>	11.2	11.5	7.7	7.6	4.4	4.7	5.1	5.6	9.4	9.4
Q4 <1>	11.6	8.6	6.3	4.5	4.5	4.5	4.6	5.0	8.5	8.5
1984 Q1	10.0	10.1	4.8	4.7	4.8	4.8	4.7	4.6	8.1	8.0
Q2	8.7	8.8	4.1	4.4	4.8	4.8	4.7	4.9	8.0	7.8
Q3	8.8	8.8	4.2	4.3	4.8	4.8	4.5	4.6	7.9	7.6
Q4	8.9	8.6	4.1	3.8	4.9	4.9	4.8	4.8	7.8	7.5
1985 Q1	....	8.8	....	3.4	....	5.0	....	5.2	....	7.4
Q2	....	8.4	....	3.4	....	5.2	....	5.3	....	7.3
Q3	....	8.4	....	3.1	....	5.3	....	5.6	....	7.1
Q4	....	8.4	....	2.9	....	5.4	....	5.9	....	7.0
Two-quarter changes: <2>										
1983 Q2 <1>	10.7	10.7	6.1	6.1	3.9	3.9	5.1	5.1	-0.6	-0.5
Q4 <1>	11.4	10.0	7.0	6.0	4.4	4.6	4.9	5.3	-1.6	-1.6
1984 Q2	9.3	9.4	4.4	4.6	4.8	4.8	4.7	4.7	-0.5	-0.7
Q4	8.9	8.7	4.1	4.0	4.9	4.9	4.7	4.7	-0.2	-0.3
1985 Q2	....	8.6	....	3.4	....	5.1	....	5.3	....	-0.2
Q4	....	8.4	....	3.0	....	5.4	....	5.7	....	-0.3
Four-quarter changes: <3>										
1982 Q4 <1>	2.6	2.6	-1.7	-1.7	4.7	4.7	5.4	5.4	2.4	2.4
1983 Q4 <1>	11.1	10.4	6.5	6.1	4.2	4.3	5.0	5.2	-2.2	-2.1
1984 Q4	9.1	9.1	4.3	4.3	4.8	4.8	4.7	4.7	-0.7	-1.0
1985 Q4	....	8.5	....	3.2	....	5.2	....	5.5	....	-0.5

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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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.)

	1982				1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3021.4	3070.2	3090.7	3109.6	3171.5	3272.0	3362.2	3432.0
Final sales	3047.1	3081.4	3095.6	3165.9	3210.9	3286.6	3353.7	3414.3
Private	2417.3	2449.8	2439.9	2486.2	2533.5	2603.2	2655.4	2712.6
Domestic final purchases	2387.4	2416.5	2439.0	2480.6	2516.5	2611.7	2673.7	2745.2
Personal consumption expenditures	1938.9	1972.8	2008.8	2046.9	2073.0	2147.0	2181.1	2233.1
Goods	989.1	997.6	1010.0	1025.1	1035.6	1077.3	1097.6	1121.1
Services	949.7	975.2	998.9	1021.8	1037.4	1069.7	1083.5	1112.0
Gross private domestic investment	422.9	432.5	425.3	377.4	404.1	450.1	501.1	529.8
Residential structures	87.3	91.0	87.9	96.8	111.3	128.4	141.5	140.8
Business fixed investment	361.3	352.7	342.3	337.0	332.1	336.3	351.0	371.2
Change in business inventories	-25.7	-11.2	-4.9	-56.4	-39.4	-14.5	8.5	17.7
Nonfarm	-27.6	-8.8	-2.3	-53.7	-39.0	-10.3	18.4	26.0
Net exports of goods and services <1>	29.9	33.3	.9	5.6	17.0	-8.5	-18.3	-32.6
Exports	358.4	364.5	346.0	321.6	326.9	327.1	341.1	348.1
Imports	328.5	331.2	345.0	316.1	309.9	335.6	359.4	380.7
Gov't. purchases of goods and services	629.8	631.6	655.7	679.7	677.4	683.4	698.3	701.7
Federal <2>	249.7	244.1	261.7	279.2	273.5	273.7	278.1	275.6
State and local	380.0	387.5	394.0	400.5	404.0	409.7	420.2	426.1
Gross national product in constant (1972) dollars	1485.8	1489.3	1485.7	1480.7	1490.1	1525.1	1553.4	1570.5
Personal income	2528.1	2563.2	2591.3	2632.0	2657.7	2713.6	2761.9	2834.2
Wage and salary disbursements	1542.8	1563.8	1579.8	1586.0	1610.7	1648.4	1681.9	1716.7
Disposable personal income	2127.9	2159.0	2191.5	2227.8	2255.9	2301.0	2361.7	2423.6
Saving rate (percent)	6.1	5.9	5.6	5.4	5.4	4.0	4.9	5.1
Corporate profits with I.V.A. and C.C. Adj.	162.0	166.8	168.5	161.9	181.8	218.2	248.4	256.8
Corporate profits before tax	173.2	178.8	177.3	167.5	169.7	203.3	229.1	219.1
Federal government surplus or deficit (-) (N.I.A. basis)	-108.5	-113.2	-158.3	-208.2	-183.3	-166.1	-187.3	-195.0
High employment surplus or deficit (-) <3>	-38.1	-32.7	-64.9	-99.7	-72.3	-65.1	-102.1	-116.7
State and local government surplus or deficit(-) (N.I.A. basis)	28.8	32.0	31.3	32.9	40.4	51.7	55.5	56.4
Excluding social insurance funds	-3.5	-.8	-2.1	-1.2	5.5	16.1	18.9	19.1
Civilian labor force (millions)	109.4	110.2	110.5	110.8	110.7	111.3	112.1	112.0
Unemployment rate (percent)	8.8	9.4	10.0	10.6	10.4	10.1	9.4	8.5
Nonfarm payroll employment (millions)	90.3	89.9	89.3	88.8	88.8	89.5	90.3	91.4
Manufacturing	19.4	19.1	18.7	18.3	18.3	18.5	18.8	19.2
Industrial production (1967=100)	141.7	139.4	138.2	135.2	138.5	144.5	151.8	156.0
Capacity utilization: all manufacturing (percent)	72.9	71.6	71.1	69.0	70.7	73.9	77.4	79.2
Materials (percent)	73.0	70.7	69.4	67.2	70.1	73.5	77.5	79.8
Housing starts, private (million units, A.R.)	.90	.95	1.12	1.26	1.69	1.68	1.79	1.69
New auto sales (millions, A.R.)	8.12	7.53	7.78	8.57	8.46	9.10	9.22	9.94
Domestic models	5.90	5.53	5.56	6.08	6.06	6.81	6.92	7.29
Foreign models	2.22	1.99	2.22	2.49	2.40	2.28	2.31	2.65

<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 6.0 percent high employment unemployment rate.

January 25, 1984

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

	1982				1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	-5.5	1.0	-1.0	-1.3	2.6	9.7	7.6	4.5
Final sales	-1.3	-.8	-1.5	4.5	.6	6.8	5.1	3.5
Private	-1.6	.1	-4.0	3.0	3.0	8.8	5.3	5.0
Domestic final purchases	.0	.8	-.9	3.4	3.9	11.9	5.7	8.0
Personal consumption expenditures	2.4	3.1	.9	3.6	2.9	10.0	2.2	6.5
Goods	2.0	1.5	-.1	5.1	4.4	13.5	3.7	8.4
Services	2.9	4.7	2.1	1.9	1.4	6.4	.6	4.5
Gross private domestic investment	-34.1	3.4	-5.8	-34.6	28.6	49.8	45.1	22.0
Residential structures	-28.5	17.9	-13.0	53.2	57.3	79.5	35.9	-5.2
Business fixed investment	-5.9	-14.3	-8.8	-6.6	-1.5	7.9	18.7	22.3
Gov't. purchases of goods and services	-.2	-5.0	9.4	10.6	-8.8	-1.1	4.4	-2.7
Federal	.2	-14.0	26.3	28.3	-18.0	-2.8	4.6	-6.8
National defense	-1.3	13.0	14.0	5.1	6.5	7.4	.0	6.9
State and local	-.5	1.3	-.4	-.1	-1.8	.0	4.3	.1
Disposable personal income	-3.4	1.9	-.3	2.6	2.9	3.5	6.5	7.5
<u>Current Dollars</u>								
Gross national product	-1.4	6.6	2.7	2.5	8.2	13.3	11.5	8.6
Final sales	3.9	4.6	1.9	9.4	5.8	9.8	8.4	7.4
Private	3.8	5.5	-1.6	7.8	7.8	11.5	8.3	8.9
Domestic final purchases	3.7	5.0	3.8	7.0	5.9	16.0	9.8	11.1
Personal consumption expenditures	7.5	7.2	7.5	7.8	5.2	15.1	6.5	9.9
Goods	4.4	3.5	5.1	6.1	4.2	17.1	7.8	8.8
Services	10.8	11.2	10.1	9.5	6.3	13.0	5.3	10.9
Gross private domestic investment	-37.8	9.5	-6.5	-38.0	31.5	53.9	53.6	25.0
Residential structures	-26.5	18.2	-13.0	46.9	75.3	76.7	47.5	-1.8
Business fixed investment	-6.7	-9.1	-11.3	-6.0	-5.7	5.1	18.8	25.1
Gov't. purchases of goods and services	4.6	1.2	16.1	15.5	-1.3	3.6	9.0	2.0
Federal	2.1	-8.7	32.1	29.5	-8.0	.3	6.6	-3.6
National defense	3.5	18.0	20.8	16.5	7.8	10.7	3.6	10.4
State and local	6.2	8.1	6.8	6.8	3.5	5.8	10.7	5.7
Disposable personal income	1.4	6.0	6.1	6.8	5.1	8.2	11.0	10.9
Personal income	1.8	5.7	4.5	6.4	4.0	8.7	7.3	10.9
Wage and salary disbursements	3.2	5.6	4.2	1.6	6.4	9.7	8.4	8.5
Corporate profits with I.V.A. and C.C. Adj.	-49.3	12.4	4.1	-14.8	59.0	107.5	68.0	14.2
Corporate profits before tax	-59.6	13.6	-3.3	-20.3	5.4	106.0	61.3	-16.3
Nonfarm payroll employment	-3.0	-1.8	-2.7	-2.3	.1	2.9	3.6	5.1
Manufacturing	-9.5	-7.5	-7.7	-8.6	-.1	5.2	7.0	8.2
Nonfarm business sector								
Output per hour	.1	-.4	2.3	1.3	3.7	6.6	3.1	.4
Compensation per hour	10.0	5.8	7.2	5.8	6.8	4.3	4.2	4.2
Unit labor costs	9.9	6.2	4.7	4.4	3.0	-2.1	1.1	3.7
GNP implicit deflator <1>	4.3	5.6	3.7	3.8	5.5	3.3	3.6	3.9
Gross domestic business product								
fixed-weighted price index <2>	4.9	4.5	5.8	3.8	3.6	4.1	4.7	4.5
Excluding food and energy	5.8	6.4	5.4	3.9	6.7	3.5	5.6	5.0
Consumer price index (all urban)	3.0	5.3	7.7	1.9	-.4	4.3	4.7	4.9
Industrial production	-11.8	-6.5	-3.4	-8.2	10.1	18.4	21.8	11.7

<1> Excluding the Federal pay increase, the rate of change in 1982-Q4 was 3.5 percent.

<2> Uses expenditures in 1972 as weights.

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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.)

	Projected							
	1984				1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3515.7	3590.4	3666.9	3742.9	3822.9	3901.0	3980.5	4061.2
Final sales	3471.2	3560.4	3636.9	3712.4	3791.9	3869.5	3949.0	4029.2
Private	2767.6	2820.2	2873.9	2931.3	2991.4	3052.3	3114.6	3177.3
Domestic final purchases	2808.9	2872.9	2934.4	2995.9	3056.6	3117.9	3179.4	3240.4
Personal consumption expenditures	2282.3	2331.0	2378.7	2426.2	2472.4	2520.2	2567.5	2615.7
Goods	1144.3	1167.0	1188.7	1210.2	1229.2	1249.7	1270.2	1290.2
Services	1138.0	1164.0	1190.0	1216.0	1243.2	1270.5	1297.3	1325.5
Gross private domestic investment	571.1	571.9	585.7	600.2	615.2	629.2	643.4	656.7
Residential structures	143.0	146.1	147.5	148.5	150.5	152.2	154.4	156.1
Business fixed investment	383.6	395.8	408.2	421.2	433.7	445.5	457.5	468.6
Change in business inventories	44.5	30.0	30.0	30.5	31.0	31.5	31.5	32.0
Nonfarm	36.5	26.0	26.0	28.5	31.0	31.5	31.5	32.0
Net exports of goods and services <1>	-41.3	-52.7	-60.5	-64.6	-65.2	-65.6	-64.8	-63.1
Exports	353.9	360.6	369.7	380.2	394.4	409.4	425.7	443.3
Imports	395.2	413.3	430.2	444.8	459.6	475.0	490.5	506.4
Gov't. purchases of goods and services	703.6	740.2	763.0	781.1	800.5	817.2	834.4	851.9
Federal <2>	268.1	295.9	309.8	318.8	329.0	336.3	344.3	352.4
State and local	435.5	444.3	453.2	462.3	471.5	480.9	490.1	499.5
Gross national product in constant (1972) dollars	1588.5	1605.9	1622.8	1637.9	1651.5	1665.2	1678.1	1690.4
Personal income	2916.4	2960.5	3025.4	3087.2	3155.7	3219.8	3282.9	3346.4
Wage and salary disbursements	1756.2	1791.9	1829.1	1866.6	1907.3	1946.1	1985.1	2024.2
Disposable personal income	2490.4	2528.8	2582.6	2634.1	2692.1	2744.1	2795.2	2846.4
Saving rate (percent)	5.6	5.1	5.1	5.1	5.4	5.4	5.4	5.3
Corporate profits with I.V.A. and C.C. Adj.	258.3	265.1	266.4	270.6	271.1	278.3	287.0	297.3
Corporate profits before tax	218.3	222.1	218.9	218.6	215.6	219.3	225.5	232.8
Federal government surplus or deficit (-) (N.I.A. basis)	-185.1	-192.0	-195.9	-197.5	-198.9	-199.3	-198.1	-197.3
High employment surplus or deficit (-) <3>	-111.8	-124.4	-133.5	-138.4	-141.5	-143.5	-143.6	-143.0
State and local government surplus or deficit (-) (N.I.A. basis)	60.6	59.6	58.1	57.2	55.7	54.4	52.7	51.3
Excluding social insurance funds	22.2	20.7	18.5	16.9	14.8	12.9	10.6	8.5
Civilian labor force (millions)	112.4	113.0	113.5	114.0	114.6	115.0	115.5	116.0
Unemployment rate (percent)	8.0	7.8	7.6	7.5	7.4	7.3	7.1	7.0
Nonfarm payroll employment (millions)	92.2	92.9	93.7	94.4	95.1	95.8	96.4	97.1
Manufacturing	19.5	19.8	20.1	20.3	20.5	20.6	20.7	20.7
Industrial production (1967=100)	158.5	160.9	163.1	165.0	166.4	167.6	168.8	169.9
Capacity utilization: all manufacturing (percent)	80.1	80.9	81.7	82.3	82.6	82.8	82.9	83.0
Materials (percent)	81.1	82.2	83.4	84.2	84.6	84.9	85.2	85.3
Housing starts, private (million units, A.R.)	1.70	1.70	1.65	1.65	1.65	1.60	1.60	1.60
New auto sales (millions, A.R.)	10.00	10.30	10.45	10.55	10.60	10.70	10.85	10.85
Domestic models	7.70	7.80	7.90	8.00	8.10	8.15	8.20	8.20
Foreign models	2.30	2.50	2.55	2.55	2.50	2.55	2.65	2.65

<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 6.0 percent high employment unemployment rate.

CONFIDENTIAL - FR
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	-----Projected-----							
	1984				1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	4.7	4.4	4.3	3.8	3.4	3.4	3.1	2.9
Final sales	1.2	6.4	4.4	3.8	3.4	3.4	3.2	3.0
Private	3.6	3.6	3.5	3.6	3.5	3.4	3.2	2.9
Domestic final purchases	4.9	4.4	3.3	3.2	3.2	3.1	2.8	2.4
Personal consumption expenditures	3.9	3.4	2.6	2.5	2.5	2.7	2.3	2.2
Goods	3.9	3.6	2.4	2.4	1.9	2.3	2.2	2.0
Services	4.0	3.3	2.8	2.7	3.2	3.0	2.4	2.4
Gross private domestic investment	35.1	-3.0	6.1	5.9	5.8	4.8	4.4	3.3
Residential structures	1.7	4.1	-1.1	-2.3	.2	-.7	.4	-1.2
Business fixed investment	12.1	10.1	9.2	8.9	7.9	6.6	6.2	4.7
Gov't. purchases of goods and services	-8.8	19.5	8.3	4.8	3.2	3.2	3.3	3.3
Federal	-24.7	51.9	17.2	8.1	4.4	4.4	4.9	4.9
National defense	10.3	9.7	8.6	6.4	5.7	5.5	6.5	6.3
State and local	3.0	2.4	2.5	2.4	2.4	2.4	2.2	2.2
Disposable personal income	6.2	1.0	2.9	2.5	3.7	2.6	2.2	2.0
<u>Current Dollars</u>								
Gross national product	10.1	8.8	8.8	8.6	8.8	8.4	8.4	8.4
Final sales	6.8	10.7	8.9	8.6	8.8	8.4	8.5	8.4
Private	8.4	7.8	7.8	8.2	8.5	8.4	8.4	8.3
Domestic final purchases	9.6	9.4	8.8	8.7	8.4	8.3	8.1	7.9
Personal consumption expenditures	9.1	8.8	8.4	8.2	7.8	8.0	7.7	7.7
Goods	8.5	8.2	7.6	7.4	6.4	6.8	6.7	6.4
Services	9.7	9.5	9.2	9.0	9.3	9.1	8.7	9.0
Gross private domestic investment	35.0	.6	10.0	10.3	10.4	9.4	9.3	8.5
Residential structures	6.3	9.0	3.9	2.7	5.5	4.6	5.9	4.5
Business fixed investment	14.0	13.3	13.1	13.4	12.4	11.3	11.2	10.1
Gov't. purchases of goods and services	1.1	22.5	12.9	9.8	10.3	8.6	8.7	8.7
Federal	-10.4	48.4	20.2	12.1	13.4	9.2	9.9	9.7
National defense	20.4	14.6	14.1	11.6	14.7	10.7	12.1	11.7
State and local	9.1	8.3	8.3	8.3	8.2	8.2	7.9	7.9
Disposable personal income	11.5	6.3	8.8	8.2	9.1	8.0	7.7	7.5
Personal income	12.1	6.2	9.1	8.4	9.2	8.4	8.1	8.0
Wage and salary disbursements	9.5	8.4	8.6	8.5	9.0	8.4	8.3	8.1
Corporate profits with I.V.A. and G.C. Adj.	2.2	10.9	2.0	6.4	.8	11.0	13.1	15.2
Corporate profits before tax	-1.5	7.1	-5.6	-.6	-5.3	6.9	11.8	13.6
Nonfarm payroll employment	3.7	3.1	3.2	3.2	3.0	2.9	2.7	2.6
Manufacturing	7.6	6.5	5.5	4.4	3.2	2.2	1.4	.9
Nonfarm business sector								
Output per hour	1.1	1.5	1.1	.8	.5	.7	.8	.8
Compensation per hour	7.1	5.3	5.4	5.5	6.1	5.7	5.9	6.0
Unit labor costs	5.9	3.8	4.2	4.7	5.5	5.0	5.1	5.2
GNP implicit deflator <1>	5.2	4.1	4.3	4.6	5.3	4.9	5.1	5.3
Gross domestic business product								
fixed-weighted price index <2>	4.8	4.8	4.8	4.9	5.0	5.2	5.3	5.4
Excluding food and energy	4.6	4.9	4.6	4.8	5.2	5.3	5.6	5.9
Consumer price index (all urban)	4.9	5.1	5.3	5.3	5.2	5.2	5.3	5.4
Industrial production	6.6	6.2	5.6	4.7	3.4	2.9	2.9	2.6

<1> Excluding Federal pay increases, the rate of change in 1984-Q1 is 4.8 percent and in 1985-Q1 is 4.9 percent.

<2> Uses expenditures in 1972 as weights.

January 25, 1984

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

	1978	1979	1980	1981	1982	1983	---Projected---	
							1984	1985
Gross national product	2163.9	2417.8	2631.7	2954.1	3073.0	3309.5	3629.0	3941.4
Final sales	2137.4	2403.5	2641.5	2935.6	3097.5	3316.4	3595.2	3909.9
Private	1705.5	1929.1	2103.7	2339.9	2448.3	2626.2	2848.2	3083.9
Domestic final purchases	1706.6	1915.9	2079.7	2313.6	2430.9	2636.8	2903.0	3148.6
Personal consumption expenditures	1346.5	1507.2	1668.1	1857.2	1991.9	2158.6	2354.5	2543.9
Goods	728.5	813.5	883.5	970.0	1005.5	1082.9	1177.5	1259.8
Services	618.0	693.7	784.5	887.1	986.4	1075.7	1177.0	1284.1
Gross private domestic investment	386.6	423.0	401.9	474.9	414.5	471.3	582.2	636.1
Residential construction	111.2	118.6	102.9	104.3	90.8	130.3	146.3	153.3
Business fixed investment	248.9	290.2	308.8	352.2	348.3	347.7	402.2	451.3
Change in business inventories	26.5	14.3	-9.8	18.5	-24.5	-6.9	33.7	31.5
Nonfarm	25.4	8.6	-4.5	10.9	-23.1	-1.2	29.2	31.5
Net exports of goods and services <1>	-1.1	13.2	23.9	26.3	17.4	-10.6	-54.8	-64.7
Exports	218.7	281.4	338.8	368.8	347.6	335.8	366.1	418.2
Imports	219.8	268.1	314.8	342.5	330.2	346.4	420.9	482.9
Gov't. purchases of goods and services	431.9	474.4	537.8	595.7	649.2	690.2	747.0	826.0
Federal <2>	153.6	168.3	197.0	229.2	258.7	275.2	298.1	340.5
State and local	278.3	306.0	340.8	366.5	390.5	415.0	448.8	485.5
Gross national product in constant (1972) dollars	1438.6	1479.4	1475.0	1513.8	1485.4	1534.8	1613.8	1671.3
Personal income	1732.7	1951.2	2165.3	2435.0	2578.6	2741.9	2997.4	3251.2
Wage and salary disbursements	1106.3	1237.6	1356.7	1493.2	1568.1	1664.4	1810.9	1965.7
Disposable personal income	1474.0	1650.2	1828.9	2047.6	2176.5	2335.6	2559.0	2769.4
Saving rate (percent)	6.1	5.9	6.0	6.6	5.8	4.8	5.2	5.4
Corporate profits with I.V.A. and C.C.Adj.	192.4	194.8	175.4	192.3	164.8	226.3	265.1	283.4
Corporate profits before tax	229.1	252.7	234.6	227.0	174.2	205.3	219.5	223.3
Federal government surplus or deficit(-) (N.I.A. basis)	-29.5	-16.1	-61.2	-62.2	-147.1	-182.9	-192.6	-198.4
High employment surplus or deficit(-)	-29.2	-18.6	-36.0	-26.0	-58.8	-89.1	-127.0	-142.9
State and local government surplus or deficit (-) (N.I.A. basis)	30.3	30.4	30.6	35.3	31.3	51.0	58.9	53.5
Excluding social insurance funds	10.0	6.6	3.5	4.4	-1.9	14.9	19.6	11.7
Civilian labor force (millions)	102.3	105.0	106.9	108.7	110.2	111.5	113.2	115.3
Unemployment rate (percent)	6.1	5.8	7.1	7.6	9.7	9.6	7.7	7.2
Nonfarm payroll employment (millions)	86.7	89.8	90.4	91.2	89.6	90.0	93.3	96.1
Manufacturing	20.5	21.0	20.3	20.2	18.9	18.7	19.9	20.6
Industrial production (1967=100)	146.1	152.5	147.0	150.9	138.6	147.7	161.9	168.2
Capacity utilization: all manufacturing (percent)	84.7	86.0	79.6	79.4	71.1	75.3	81.2	82.9
Materials (percent)	85.6	87.6	80.4	80.7	70.1	75.2	82.7	85.0
Housing starts, private (million units, A.R.)	2.00	1.72	1.30	1.10	1.06	1.72	1.68	1.61
New auto sales (millions, A.R.)	11.29	10.68	9.04	8.56	8.00	9.18	10.33	10.75
Domestic models	9.29	8.36	6.62	6.24	5.77	6.77	7.85	8.16
Foreign models	2.00	2.32	2.42	2.32	2.23	2.41	2.48	2.59

<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.

CONFIDENTIAL - FR
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1978	1979	1980	1981	1982	1983	--Projected--	
							1984	1985
<u>Constant (1972) Dollars</u>								
Gross national product	5.0	2.8	-.3	2.6	-1.9	3.3	5.1	3.6
Final sales	4.9	3.5	.5	1.8	-.7	2.8	4.0	3.7
Private	5.6	4.0	.1	2.0	-1.3	3.4	4.3	3.4
Domestic final purchases	5.5	2.9	-1.0	2.7	-.1	4.9	5.6	3.2
Personal consumption expenditures	4.5	2.7	.5	2.7	1.4	4.3	4.2	2.5
Goods	4.2	1.9	-1.4	2.1	.1	5.6	4.9	2.3
Services	4.8	3.7	2.7	3.3	2.9	2.8	3.4	2.8
Gross private domestic investment	10.5	-.2	-11.8	9.2	-14.5	12.3	20.3	4.8
Residential structures	2.8	-5.3	-20.3	-5.1	-15.4	39.4	7.5	-.4
Business fixed investment	12.8	7.3	-2.4	5.2	-4.8	1.1	13.4	7.7
Gov't. purchases of goods and services	2.0	1.3	2.2	.8	1.8	.5	2.4	5.1
Federal	-.1	1.8	4.2	3.8	5.6	1.2	2.5	9.1
National defense	.4	2.6	3.9	5.2	7.1	6.9	7.5	6.5
State and local	3.3	1.1	1.0	-1.0	-.5	.1	2.2	2.4
Disposable personal income	4.9	2.7	.6	3.2	.5	3.2	4.7	2.7
<u>Current Dollars</u>								
Gross national product	12.8	11.7	8.8	12.2	4.0	7.7	9.7	8.6
Final sales	12.8	12.4	9.9	11.1	5.5	7.1	8.4	8.8
Private	13.6	13.1	9.0	11.2	4.6	7.3	8.5	8.3
Domestic final purchases	13.4	12.3	8.5	11.2	5.1	8.5	10.1	8.5
Personal consumption expenditures	11.8	11.9	10.7	11.3	7.3	8.4	9.1	8.0
Goods	10.9	11.7	8.6	9.8	3.7	7.7	8.7	7.0
Services	12.9	12.2	13.1	13.1	11.2	9.1	9.4	9.1
Gross private domestic investment	19.3	9.4	-5.0	18.2	-12.7	13.7	23.5	9.3
Residential structures	16.1	6.6	-13.2	1.4	-13.0	43.8	12.1	4.8
Business fixed investment	21.3	16.6	6.4	14.1	-1.1	-.2	15.7	12.2
Gov't. purchases of goods and services	9.7	9.8	13.4	10.8	9.0	6.3	8.2	10.6
Federal	7.1	9.6	17.1	16.3	12.9	6.4	8.3	14.2
National defense	8.0	11.5	17.3	17.4	16.5	11.6	13.3	12.7
State and local	11.2	9.9	11.4	7.5	6.6	6.3	8.2	8.2
Disposable personal income	12.2	12.0	10.8	12.0	6.3	7.3	9.6	8.2
Personal income	12.5	12.6	11.0	12.5	5.9	6.3	9.3	8.5
Wage and salary disbursements	12.5	11.9	9.6	10.1	5.0	6.1	8.8	8.5
Corporate profits with I.V.A. and C.C.Adj.	15.0	1.3	-9.9	9.6	-14.3	37.3	17.1	6.9
Corporate profits before tax	17.7	10.3	-7.1	-3.3	-23.2	17.9	6.9	1.7
Nonfarm payroll employment	5.1	3.6	.6	.8	-1.7	.4	3.7	3.0
- Manufacturing	4.2	2.6	-3.6	-.6	-6.5	-.9	6.8	3.3
Nonfarm business sector								
Output per hour	.6	-1.5	-.7	1.9	-.1	3.1	1.6	.8
Compensation per hour	8.6	9.0	10.4	9.8	7.8	5.7	5.4	5.7
Unit labor costs	8.0	10.7	11.1	7.7	7.9	2.5	3.7	4.9
GNP implicit deflator	7.4	8.6	9.2	9.4	6.0	4.2	4.3	4.9
Gross domestic business product								
fixed-weighted price index <1>	8.0	9.9	10.0	9.5	6.0	4.3	4.7	5.1
Excluding food and energy	7.8	8.6	8.5	9.3	6.9	5.1	4.8	5.2
Consumer price index (all urban)	7.6	11.3	13.5	10.3	6.2	3.2	5.0	5.2
Industrial production	5.8	4.4	-3.6	2.6	-8.1	6.5	9.6	3.9

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	-----Fiscal year ¹ -----			Calendar years		FR staff estimates								
	1983 ^a	1984 ^e	1985 ^e	1983 ^e	1984 ^e	Calendar quarters; not seasonally adjusted								
						1983		1984			1985			
						III ^a	IV	I	II	III	IV	I	II	III
Unified budget receipts	601	666	742	612	685	157	148	158	186	173	168	167	214	193
Unified budget outlays	796	856	936	800	886	194	209	213	218	216	239	226	236	235
Surplus/deficit(-), unified budget	-195	-189	-195	-188	-200	-37	-61	-55	-31	-43	-71	-59	-22	-42
Surplus/deficit(-), off-budget agencies ²	-12	-13	-15	-11	-15	-5	0	-3	-5	-5	-3	-3	-5	-5
Combined deficit to be financed	-208	-202	-210	-199	-215	-42	-61	-57	-36	-48	-74	-61	-27	-48
Means of financing combined deficit:														
Net borrowing from public	212	183	206	187	216	48	37	53	49	45	70	52	40	44
Decrease in cash operating balance	-8	17	0	8	-3	-9	25	-1	-7	0	5	5	-10	0
Other ³	3	2	4	4	2	4	-1	6	-6	3	-1	4	-3	4
Cash operating balance, end of period	37	20	20	12	15	37	12	13	20	20	15	10	20	20
Memo: Sponsored agency borrowing ⁴	-3	13	17	1	15	1	3	4	4	4	4	5	5	5
NIA Budget														
						Seasonally adjusted annual rates								
Receipts	634	688	759	643	707	645	652	686	699	715	730	751	769	787
Expenditures	820	880	958	826	900	833	847	871	891	911	927	950	968	985
Purchases	276	287	332	275	298	278	276	268	296	310	319	329	336	344
Defense	197	219	249	200	227	201	206	216	224	231	237	246	252	259
Nondefense	80	68	83	75	71	77	69	52	72	79	81	83	84	85
All other expenditures	544	592	626	551	602	554	571	602	595	601	608	621	632	641
Surplus/deficit(-)	-187	-192	-198	-183	-193	-187	-195	-185	-192	-196	-197	-199	-199	-198
High Employment (H.E.) surplus/deficit(-) evaluated at the unemployment rate of 6 percent	-85	-122	-142	-89	-127	-102	-117	-112	-124	-133	-138	-142	-143	-144
	^a --actual			^e --estimated by FR staff										n.a.--not available

1. FR Board staff January estimate. Administration estimates will be released February 1. Mid-session review estimates for FY 1984 showed unified receipts of \$668 billion, outlays of \$848 billion, deficit of \$180 billion and a combined deficit of \$194 billion. The August CBO estimate of the First Concurrent Resolution on the Budget -- Fiscal Year 1984 indicated revenues of \$677 billion and outlays of \$860 billion. The lack of Congressional action on revenue measures and incoming data led CBO, in December, to reestimate FY1984 receipts to be \$665 billion and outlays to be \$850 billion. CBO's 1984 Annual Report is expected to be released February 7-8.

NOTE: Details may not add to totals due to rounding.

2. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and Strategic Petroleum Reserve.

3. Checks issued less checks paid, accrued items and other transactions.

4. FRB staff estimates and actuals include Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage-backed securities), Federal Land Banks, Federal Intermediate Credit Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis.

Recent Developments. The federal funds rate fluctuated over a rather wide range around year-end, but averages for the past three statement weeks have been close to 9-1/2 percent, in line with levels prevailing over the early weeks of December. Both short- and long-term interest rates, however, have moved lower since the December FOMC meeting, in some cases by more than 1/2 percentage point, as market participants responded to the incoming information that suggested the pace of economic expansion slowed more than generally expected in the fourth quarter, and that inflationary pressures remain quite subdued.

M1 expanded at a 6-1/2 percent annual rate in December and increased substantially further in early January.¹ This acceleration from earlier months primarily reflected a rebound in demand deposits after several months of decline. Growth in M2 and M3 slowed in December--to annual rates of increase of about 5-1/2 percent and 6-1/2 percent, respectively--as inflows into nontransactions deposits (particularly savings and small time deposits) continued to edge down. Large CDs at banks recorded a sizable increase along with other managed liabilities, in support of strong gains in bank loans; growth in large time deposits at thrifts dropped off further in December but was still exceptionally strong by historical standards.

Commercial bank credit increased at about a 13 percent annual rate in December, paced by further strong gains in business, real estate and

1. Regular benchmark and seasonal factor revisions for the monetary aggregates are in process. The data reported herein are on an unrevised basis. A discussion of revisions to the monetary aggregates will be included in the Bluebook.

consumer loans. Weekly reporting bank data for early January suggest that sizable gains in bank credit and major loan categories are continuing.

In addition to a further pickup in growth of business loans at banks in December, there was a substantial increase in commercial paper issued by nonfinancial companies. And, with finance company loans to businesses showing large gains in both October and November, it appears that the expansion of total short-term borrowing by nonfinancial firms in the fourth quarter was the strongest recorded since the first quarter of 1982. This step-up in demand appears to be attributable partly to a greater need for external funds, as investment spending outpaced, by a moderate margin, internally generated funds for the first time in several quarters. Importantly, however, it also reflects a marked drop-off in public offerings of bonds by nonfinancial firms in December and the fourth quarter, a reduction that is only partly being reversed in January in response to the recent rally in the bond market. Stock offerings also declined considerably in the fourth quarter and appear to be edging down further in January, though remaining relatively sizable.

Credit flows to households remained strong over the closing months of 1983. Growth in consumer installment credit apparently picked up significantly, as it expanded at about a 16 percent annual rate over October and November and probably posted another sizable gain in December--given strong auto sales and a further sharp rise in consumer loans at banks in that month. On the other hand, with home sales off somewhat from the third quarter, growth in home mortgage debt likely slowed a little.

Net debt issuance by the U. S. Treasury dropped off significantly in the fourth quarter, despite a sharp increase (not seasonally adjusted) in

its deficit, as the Treasury met a sizable part of its financial need with a drawdown of its cash balance. (This use of an accumulated cash balance does not, of course, reduce pressures on financial markets, because banks must either seek funds or sell securities to offset the government deposit losses.) In the municipal sector, bond offerings picked up a bit in the fourth quarter on the strength of a substantial volume of issues in December. This surge of offerings appears to have resulted, in sizable part, from concerns that Congress, in its coming session, may enact pending legislation that would set--retroactive to January 1--tight limits on the issuance of industrial revenue bonds, as well as from uncertainties over whether authority to issue revenue bonds to finance single-family houses, that lapsed at year-end, will be extended by the Congress.

Outlook. Although the pace of economic expansion has moderated, private credit demands appear likely to be well maintained in coming months. With the federal government's deficit remaining large--indeed, growing on a structural basis--interest rates likely will fluctuate around current levels and could edge up a bit.

The Board staff is projecting that the Treasury's combined (budget) deficit in the current quarter will amount to about \$58 billion, basically in line with that recorded in the fourth quarter. Essentially all of the current quarter's financing need is expected to be met through the issuance of new debt. State and local borrowing is also expected to remain rather sizable. But December's "anticipatory" borrowing, as well as existing constraints on the issuance of housing revenue bonds and uncertainties associated with the issuance of industrial revenue bonds, likely will temper new offerings of these instruments.

Business demands for funds are expected to expand further in coming months as expenditures on plant, equipment and inventories continue to grow relative to internally generated funds. With the level and structure of interest rates not expected to change materially, it seems likely that businesses will choose to meet the major part of these demands as they have in recent months--that is, mainly in the short-term sector of the market. Stock offerings, however, likely will remain relatively large, if stock prices should remain near current levels or move higher.

Household demands for consumer credit are expected to continue quite strong on into the spring as consumer spending on durable goods continues to be bolstered by rising personal income and the improved optimism on the economic outlook. With housing activity expected to remain about unchanged from the fourth quarter, mortgage credit growth may essentially match the fourth quarter's reduced but still relatively strong rate of advance.

Recent developments. Over the period since the December FOMC meeting the dollar has appreciated a further 1-1/4 percent on a trade-weighted average basis. In the earlier part of the period the dollar declined somewhat as the end of the year approached, but then came under strong upward pressure once again. In the most recent weeks there have been unusually large swings from day to day and within days in the dollar's exchange rates, especially against the German mark, but the trend of the dollar's weighted average value has been essentially flat. The dollar appreciated by 1-3/4 percent against the German mark over the period, but, at the other end of the spectrum, declined in value about 3/4 percent in yen terms.

. Intervention sales of dollars against German marks by the United States amounted to \$143 million during the sharp rise of the dollar in early January.

Economic activity in the major foreign industrial countries has continued to expand in recent months, though generally below the U.S. pace. The relatively vigorous Canadian recovery has shown some signs of moderating lately, but recent data for Japanese industrial production indicate increasing economic strength in that country. Among the European countries, however, progress is more limited. Mild recoveries are continuing in the United Kingdom and Germany, and Italy may have entered the recovery phase in the third quarter of last year. In France,

the government's austerity program has continued to restrain growth. The counterpart to this general sluggishness in economic activity has been a continued low rate of inflation, with inflation rates in 1983 well below the 1982 rates for most countries.

The December summit meeting of the heads of government of the European Community (EC) ended with no agreement on the potentially serious EC budget dispute. In order to avert a crisis this year, EC members must agree on an increase in VAT revenue contributed to the EC and/or a restructuring of the Common Agricultural Policy (CAP), which accounts for two-thirds of EC spending. This dispute is complicated by the dissatisfaction of the British concerning their large net contribution to the EC, the disinclination of some member states to pay for the accumulation of even larger surpluses of certain products, and the proposed entry into the EC of Spain and Portugal, which would further strain EC resources.

The international debt situation has been relatively calm over the past month, and the major debtors appear to have successfully engineered massive shifts in their current accounts between 1981 and 1983. The combined current account for the three largest debtors (Argentina, Brazil, and Mexico) shifted from a deficit of \$30 billion in 1981 to an estimated deficit of \$6 billion in 1983. Mexico has been able to reach tentative agreement on \$3.8 billion of net new bank financing on substantially better terms than in the 1983 loan arrangement. At the same time, BIS data through the third quarter of 1983 confirm a deceleration of bank lending to the non-OPEC developing countries. Net bank lending to these countries was \$47 billion 1981, dropped to \$30 billion in 1982, and

totalled only \$9 billion in the first nine months of 1983. The share of U.S. banks in total bank loans outstanding to these countries fell slightly over this period.

The U.S. merchandise trade balance registered another major deficit in November, though somewhat less than the October record. For the two months combined, the deficit rate was \$87 billion, up from \$73 billion in the third quarter. Exports were about unchanged, reflecting the depressing effects of a strong dollar and weak growth abroad. Imports were up substantially, however, entirely in non-oil items and spread over a wide range of products.

Data for the U.S. international capital accounts show a sizable inflow to U.S. banks from banks abroad in November, and partial data suggest a further moderate inflow in December. Credit extended to U.S. nonbanks by foreign branches of U.S. banks rose by a small amount in the fourth quarter, but was somewhat more than matched by a rise in Euro-dollar deposits held by U.S. nonbanks. Transactions in U.S. and foreign securities yielded a small net inflow in November.

Outlook. The expected profile of economic activity abroad and in the United States has not changed materially since the last Greenbook-- growth rates in the United States are expected to be higher than in the aggregate of foreign industrial countries in 1984 and this pattern will continue through 1985. However, growth rates in the United States would be decelerating over that period while growth rates abroad, though slow, would be rising. The projected U.S. current account deficit for 1984 has been lowered somewhat from last month's projection to about \$85 billion,

with the trade deficit at about \$105 billion. Both of these deficits are projected to rise in 1985--to over \$95 billion and nearer \$120 billion, respectively. However, the deficits are expected to stabilize after the early months of next year. The increase in the U.S. external deficits is expected to be accompanied by a moderate decline in the value of the dollar --nearly 20 percent on a trade-weighted average basis from the fourth quarter of 1983 to the fourth quarter of 1985.

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

	1983 ANN.	1984-P ANN.	1985-P ANN.	1983 Q3	1983 Q4	1984-P Q1	1984-P Q2	1984-P Q3	1984-P Q4	1985-P Q1	1985-P Q2	1985-P Q3	1985-P Q4
1. GNP NET EXPORTS													
CURRENT \$, NET	-10.6	-50.8	-64.7	-18.3	-32.6	-41.4	-52.7	-60.5	-64.6	-65.3	-65.6	-64.8	-63.1
EXPORTS OF G+S	335.8	366.1	418.2	341.1	348.1	353.9	360.6	369.7	380.2	394.4	409.4	425.7	443.3
IMPORTS OF G+S	346.4	420.9	482.9	359.4	380.7	395.2	413.3	430.2	444.8	459.6	475.0	490.5	506.4
CONSTANT 72 \$, NET	11.7	-3.1	-0.2	11.5	2.5	-1.7	-4.2	-3.8	-2.8	-2.0	-0.9	0.4	1.9
EXPORTS OF G+S	138.9	144.2	155.0	140.7	141.5	142.0	142.8	144.6	147.2	149.9	153.1	156.6	160.4
IMPORTS OF G+S	127.2	147.3	155.2	129.2	139.0	143.8	147.0	148.4	150.0	151.9	154.1	156.2	158.5
TERMS OF TRADE (1972=100) 1/	88.8	88.9	86.6	87.2	89.8	90.6	89.8	88.2	87.0	86.9	86.7	86.5	86.5
2. U.S. MERCHANDISE TRADE BALANCE 2/													
	-62.6 ^f	-105.9	-117.6	-72.7	-83.9 ^f	-92.7	-103.5	-111.5	-115.8	-117.1	-118.3	-118.1	-116.9
EXPORTS (EXCL. MILITARY)	200.1 ^f	213.4	243.1	202.3	204.3 ^f	208.1	210.7	214.7	220.3	228.7	237.3	247.4	259.0
AGRICULTURAL	36.7 ^f	39.0	43.0	37.8	37.8 ^f	38.5	38.8	39.3	39.5	40.9	42.1	43.6	45.2
NONAGRICULTURAL	163.3 ^f	174.4	200.1	164.6	166.5 ^f	169.5	171.9	175.4	180.8	187.8	195.2	203.8	213.7
IMPORTS	262.7 ^f	319.3	360.7	275.0	288.2 ^f	300.8	314.2	326.2	336.1	345.8	355.5	365.6	375.9
PETROLEUM AND PRODUCTS	55.1 ^f	63.4	66.2	66.3	60.0 ^f	61.2	62.8	64.4	65.1	65.1	65.5	66.5	67.6
NONPETROLEUM	207.6 ^f	256.0	294.5	208.7	228.2 ^f	239.6	251.4	261.8	271.0	280.7	290.1	299.1	308.2
3. U.S. CURRENT ACCOUNT BALANCE													
	-40.0 ^f	-83.4	-96.9	-47.9	-59.3 ^f	-68.6	-80.8	-89.6	-94.5	-96.1	-97.4	-97.5	-96.7
OF WHICH: NET INVESTMENT INCOME	24.7 ^f	24.1	20.1	27.7	28.0 ^f	26.0	24.7	23.4	22.2	21.3	20.6	19.7	18.8
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/													
REAL GNP, % CHANGE, ANNUAL RATES	1.3 ^f	2.4	2.7	2.3	2.6 ^f	2.5	2.3	2.5	2.6	2.7	2.7	2.7	2.7
CONSUMER PRICES, % CHANGE, ANNUAL RATES	5.7 ^f	5.3	5.1	5.3	5.5 ^f	5.3	5.4	4.9	5.0	5.2	5.2	4.8	4.8

1/ GNP REPORT 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.

GERMANY (20.8%), JAPAN (13.6%), FRANCE (13.1%), UNITED KINGDOM (11.8%), CANADA (9.1%), ITALY (9.0%), THE NETHERLANDS (8.3%), BELGIUM (6.4%), SWEDEN (4.2%), SWITZERLAND (3.6%)

f/ PROJECTED