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July 11, 1984

# **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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Recent developments. Output and employment have continued to show considerable strength. Consumer and business spending remained buoyant through the spring, with the housing sector alone evidencing signs of weakness. Despite the strength of demand and the further tightening of labor markets, wage and price increases generally have remained small.

Industrial production, after advancing about 1 percent in April, rose nearly 1/2 percent in May. A comparable gain is indicated for June, with sizable increases in output of business equipment and defense products. Capacity utilization in manufacturing edged up in both May and June, and at about 82 percent in June, was at the highest rate since March 1980. However, supplies appear to be tight for only a few goods.

Growth in employment continued strong in the second quarter. Nonfarm payroll employment rose 300,000 in June, about the average monthly pace of the first five months of the year, with gains widespread by industry. In manufacturing, employment gains have moderated but remained quite large in a number of durable goods industries. Employment in services in June recorded the strongest advance in the recovery. With little change in the labor force other than the normal seasonal influx of youth, the civilian unemployment rate dropped 0.4 percentage point to 7.1 percent in June. Declines in unemployment rates were widespread among major demographic groups, and were particularly large for teenagers.

After increasing slightly in March, consumer spending expanded considerably in April and May as real income continued to rise strongly and measures of consumer confidence remained at high levels. Although auto sales in June were off from the very high pace in May, sales in the

second quarter were still slightly above the strong first-quarter selling rate. For April and May combined, there were also substantial gains in spending on durables other than autos and on nondurables.

Business fixed investment in the second quarter appears to have expanded even more rapidly than the 16 percent annual rate in the first quarter. Nonresidential construction was especially strong: expenditures rose 4-1/2 percent in May, raising building activity to a level more than 10 percent (not at an annual rate) above the first-quarter average. Shipments of nondefense capital goods rose nearly 4 percent in May, bringing the May average about 5 percent above shipments in the first quarter. Sizable increases in contracts and orders signal continued rapid growth in business spending on equipment and structures.

Nonfarm inventory investment continued at a rapid pace in the second quarter, but with sales growing rapidly, inventory-sales ratios generally remain quite low. Total manufacturing and trade inventories rose nearly \$100 billion at an annual rate in April on a book value basis (somewhat below the record increase in February), and in May manufacturers' inventories alone rose about \$50 billion. However, auto dealers' stocks declined through June, reflecting strength in auto sales and capacity constraints in the production of certain models.

Owing to the rising cost of mortgage credit, housing activity has weakened. The May level of starts--1.78 million units at an annual rate--was about 10 percent lower, and new building permits 3 percent lower, than the average of the first four months of the year. New home sales have dropped for three successive months, resulting in some increase in the inventory of unsold new homes.

The expansion in domestic demand continued to be reflected in growing purchases from abroad, but the rise in imports in April and May combined was considerably below the explosive rate in the first quarter. With exports sluggish, the average trade deficit in April and May was somewhat larger than the \$100 billion (annual rate) figure recorded in the first quarter.

Wage increases have remained quite moderate so far this year. In June the hourly earnings index, which covers production and nonsupervisory workers, rose 0.3 percent. For the first half of this year, this index increased at a 3-1/4 percent annual rate, a decline from the nearly 4 percent rate in 1983. Wage changes were especially small in manufacturing and construction.

Price increases also have remained low. Producer prices of finished goods were unchanged in April and May, and the consumer price index, after increasing 0.5 percent in April, rose 0.2 percent in May. Food prices declined after the bulge associated with bad winter weather, and inflation rates for other goods and services remained quite moderate. Excluding food and energy, the CPI rose 0.4 percent on average in April and May, about the same as the pace in the first quarter and during 1983.

Outlook. Real GNP grew at an annual rate of 9-3/4 percent in the first quarter, and the projection for GNP growth in the second quarter has been revised upward since the last Greenbook to around 6-3/4 percent, somewhat higher than the Commerce Department's "flash" estimate of 5.7 percent. For the first half of the year the rate of growth in real GNP is estimated to have been 2 percentage points above the 6-1/4 percent advance during 1983.

All major components of final demand are projected to have contributed to growth last quarter. Boosted by continued strong gains in real income, consumer spending appears to have advanced at about the rapid first-quarter pace. As noted above, business fixed investment probably expanded even faster than in the first quarter, reflecting large advances in spending on both structures and durable equipment. Government outlays are also estimated to have increased strongly in the second quarter. With a projected slowdown in import growth, real net exports appear to have been a much smaller drag on the economy. The moderation in real GNP growth between the first and second quarters is accounted for mainly by a reduced accumulation of inventories, as auto stocks in particular were drawn down in the second quarter. Prices, as measured by the fixed-weighted price index for gross domestic business product, are estimated to have risen about 3 percent, 1 percentage point below the inflation rate in the first quarter.

The staff's assumptions regarding fiscal and monetary policy are little changed from the last Greenbook. M1 and M2 are assumed to grow this year at rates around, or somewhat above, the midpoints of the FOMC target ranges and then to slow a little on balance in 1985. Market rates of interest are projected to move somewhat higher--particularly short-term rates, as the yield curve is expected to flatten a bit from its current unusual steepness. The federal deficit, on a unified basis, is expected to total about \$176 billion in fiscal 1984 and \$189 billion in fiscal 1985. Deficit-reduction measures are expected to have an impact beginning in FY1985 as the staff has incorporated the revenue-raising and spending measures included in the Deficit Reduction Act of 1984; some additional

spending cuts are assumed as well. Altogether, the assumptions for tax and spending measures reduce the FY1985 deficit by about \$23 billion.

The staff expects the economy to advance strongly in the third quarter and then to grow at a more moderate rate as the expansionary thrust of key sectors diminishes. The housing sector is expected to contract moderately through the end of 1985, reflecting higher mortgage rates. Rising financing costs and the already large accumulation of stocks of consumer durables to date should lead to a deceleration in durable outlays. Inventory accumulation is projected to slow along with reduced growth in final sales. In contrast, investment in fixed capital should remain a source of strength, although it is expected to slow from its recent unsustainable rate of growth. Government outlays are projected to keep advancing, especially defense spending. In addition, based on the staff's expectation that the dollar will depreciate from its current high level, export demand is projected to pick up in coming quarters and growth in imports to diminish. Total GNP in real terms is projected to rise at a 4-1/2 percent rate during the second half of 1984 and at a 2-3/4 percent rate during 1985. With employment gains outpacing labor force growth, the unemployment rate is projected to fall to around 6-1/2 percent by the end of 1985.

Advances in wages and prices in the second half of this year are expected to remain quite moderate. However, during 1985 inflationary pressures are likely to increase considerably. With an overall tightening of labor and product markets, and foreign sources of supply becoming increasingly costly (given the assumed depreciation of the dollar), the staff projects a substantially more rapid increase in prices and wages.

Overall, the fixed-weighted price index for gross business product is expected to rise 4 percent during 1984 and nearly 5-1/2 percent during 1985.



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## 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 |         |                             |         |      |
| 5/16/84                                | 7/11/84 | 5/16/84  | 7/11/84 | 5/16/84  | 7/11/84 | 5/16/84                   | 7/11/84 | 5/16/84                     | 7/11/84 |      |
| <b>Annual changes:</b>                 |         |          |         |  |         |                           |         |                             |         |      |
| 1982 <1>                               | 4.0     | 4.0      | -1.9    | -1.9   | 6.0     | 6.0                       | 6.9     | 6.9                         | 9.7     | 9.7  |
| 1983 <1>                               | 7.7     | 7.7      | 3.4     | 3.4  | 4.2     | 4.2                       | 5.1     | 5.1                         | 9.6     | 9.6  |
| 1984                                   | 10.6    | 11.0     | 6.3     | 7.0  | 4.4     | 4.1                       | 4.5     | 4.2                         | 7.5     | 7.2  |
| 1985                                   | 8.6     | 8.4      | 3.3     | 3.5  | 5.4     | 4.9                       | 5.5     | 5.1                         | 7.0     | 6.5  |
| <b>Quarterly changes:</b>              |         |          |         |  |         |                           |         |                             |         |      |
| 1983 Q1 <1>                            | 8.2     | 8.2      | 2.6     | 2.6  | 3.6     | 3.6                       | 6.7     | 6.7                         | 10.4    | 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>                                 | 11.5    | 11.5     | 7.6     | 7.6  | 4.7     | 4.7                       | 5.6     | 5.6                         | 9.4     | 9.4  |
| Q4 <1>                                 | 9.1     | 9.1      | 5.0     | 5.0  | 4.1     | 4.1                       | 4.4     | 4.4                         | 8.5     | 8.5  |
| 1984 Q1 <1>                            | 12.8    | 13.9     | 8.3     | 9.7  | 4.1     | 4.2                       | 3.8     | 3.7                         | 7.9     | 7.9  |
| Q2                                     | 9.5     | 9.8      | 5.0     | 6.7  | 4.3     | 3.1                       | 4.5     | 3.7                         | 7.6     | 7.5  |
| Q3                                     | 9.8     | 9.6      | 4.9     | 5.3  | 5.0     | 4.3                       | 4.9     | 4.4                         | 7.3     | 6.9  |
| Q4                                     | 8.0     | 8.2      | 3.1     | 3.5  | 5.2     | 4.8                       | 5.1     | 4.8                         | 7.2     | 6.7  |
| 1985 Q1                                | 8.3     | 8.1      | 2.7     | 3.0  | 5.4     | 5.1                       | 5.5     | 5.1                         | 7.1     | 6.6  |
| Q2                                     | 8.3     | 7.7      | 2.9     | 2.8  | 5.5     | 5.2                       | 5.8     | 5.4                         | 7.0     | 6.5  |
| Q3                                     | 8.7     | 8.2      | 2.9     | 2.8  | 5.8     | 5.6                       | 6.1     | 5.9                         | 6.9     | 6.4  |
| Q4                                     | 8.8     | 8.5      | 2.8     | 2.7  | 6.0     | 5.9                       | 6.4     | 6.2                         | 6.8     | 6.4  |
| <b>Two-quarter changes: &lt;2&gt;</b>  |         |          |         |  |         |                           |         |                             |         |      |
| 1983 Q2 <1>                            | 10.7    | 10.7     | 6.1     | 6.1  | 3.9     | 3.9                       | 5.1     | 5.1                         | -0.5    | -0.5 |
| Q4 <1>                                 | 10.3    | 10.3     | 6.3     | 6.3  | 4.4     | 4.4                       | 5.0     | 5.0                         | -1.6    | -1.6 |
| 1984 Q2                                | 11.1    | 11.8     | 6.6     | 8.2  | 4.2     | 3.6                       | 4.2     | 3.7                         | -0.9    | -1.0 |
| Q4                                     | 8.9     | 8.9      | 4.0     | 4.4  | 5.1     | 4.5                       | 5.0     | 4.6                         | -0.4    | -0.8 |
| 1985 Q2                                | 8.3     | 7.9      | 2.8     | 2.9  | 5.5     | 5.1                       | 5.7     | 5.2                         | -0.2    | -0.2 |
| Q4                                     | 8.8     | 8.3      | 2.8     | 2.7  | 5.9     | 5.7                       | 6.3     | 6.1                         | -0.2    | -0.1 |
| <b>Four-quarter changes: &lt;3&gt;</b> |         |          |         |  |         |                           |         |                             |         |      |
| 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>                            | 10.5    | 10.5     | 6.2     | 6.2  | 4.2     | 4.2                       | 5.1     | 5.1                         | -2.1    | -2.1 |
| 1984 Q4                                | 10.0    | 10.4     | 5.3     | 6.3  | 4.7     | 4.1                       | 4.6     | 4.1                         | -1.3    | -1.8 |
| 1985 Q4                                | 8.5     | 8.1      | 2.8     | 2.8  | 5.7     | 5.4                       | 6.0     | 5.6                         | -0.4    | -0.3 |

&lt;1&gt; Actual.

&lt;2&gt; Percent change from two quarters earlier.

&lt;3&gt; Percent change from four quarters earlier.

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GROSS 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 | 3436.2 |
| Final sales  | 3047.1 | 3081.4 | 3095.6 | 3165.9 | 3210.9 | 3286.6 | 3353.7 | 3416.6 |
| Private  | 2417.3 | 2449.8 | 2439.9 | 2486.2 | 2533.5 | 2603.2 | 2655.4 | 2717.6 |
| Domestic final purchases   | 2387.4 | 2416.5 | 2439.0 | 2480.6 | 2516.5 | 2611.7 | 2673.7 | 2743.7 |
| Personal consumption expenditures                                  | 1938.9 | 1972.8 | 2008.8 | 2046.9 | 2073.0 | 2147.0 | 2181.1 | 2230.9 |
| Goods  | 989.1  | 997.6  | 1010.0 | 1025.1 | 1035.6 | 1077.3 | 1097.6 | 1123.6 |
| Services   | 949.7  | 975.2  | 998.9  | 1021.8 | 1037.4 | 1069.7 | 1083.5 | 1107.3 |
| Gross private domestic investment                                  | 422.9  | 432.5  | 425.3  | 377.4  | 404.1  | 450.1  | 501.1  | 532.5  |
| Residential structures   | 87.3   | 91.0   | 87.9   | 96.8   | 111.3  | 128.4  | 141.5  | 138.8  |
| Business fixed investment  | 361.3  | 352.7  | 342.3  | 337.0  | 332.1  | 336.3  | 351.0  | 374.0  |
| Change in business inventories                                     | -25.7  | -11.2  | -4.9   | -56.4  | -39.4  | -14.5  | 8.5    | 19.6   |
| Nonfarm  | -27.6  | -8.8   | -2.3   | -53.7  | -39.0  | -10.3  | 18.4   | 19.7   |
| Net exports of goods and services <1>                              | 29.9   | 33.3   | .9     | 5.6    | 17.0   | -8.5   | -18.3  | -26.1  |
| Exports  | 358.4  | 364.5  | 346.0  | 321.6  | 326.9  | 327.1  | 341.1  | 346.5  |
| Imports  | 328.5  | 331.2  | 345.0  | 316.1  | 309.9  | 335.6  | 359.4  | 372.6  |
| Gov't. purchases of goods and services                             | 629.8  | 631.6  | 655.7  | 679.7  | 677.4  | 683.4  | 698.3  | 699.0  |
| Federal <2>  | 249.7  | 244.1  | 261.7  | 279.2  | 273.5  | 273.7  | 278.1  | 274.1  |
| State and local  | 380.0  | 387.5  | 394.0  | 400.5  | 404.0  | 409.7  | 420.2  | 424.9  |
| Gross national product in<br>constant (1972) dollars               | 1485.8 | 1489.3 | 1485.7 | 1480.7 | 1490.1 | 1525.1 | 1553.4 | 1572.5 |
| Personal income  | 2528.1 | 2563.2 | 2591.3 | 2632.0 | 2657.7 | 2713.6 | 2761.9 | 2835.2 |
| Wage and salary disbursements                                      | 1542.8 | 1563.8 | 1579.8 | 1586.0 | 1610.7 | 1648.4 | 1681.9 | 1717.3 |
| Disposable personal income   | 2127.9 | 2159.0 | 2191.5 | 2227.8 | 2255.9 | 2301.0 | 2361.7 | 2423.9 |
| Saving rate (percent)  | 6.1    | 5.9    | 5.6    | 5.4    | 5.4    | 4.0    | 4.9    | 5.2    |
| Corporate profits with I.V.A. and C.C. Adj.                        | 162.0  | 166.8  | 168.5  | 161.9  | 181.8  | 218.2  | 248.4  | 268.2  |
| Corporate profits before tax                                       | 173.2  | 178.8  | 177.3  | 167.5  | 169.7  | 203.3  | 229.1  | 228.2  |
| Federal government surplus or deficit (-)<br>(N.I.A. basis)        | -108.5 | -113.2 | -158.3 | -208.2 | -183.3 | -166.1 | -187.3 | -189.8 |
| High employment surplus or deficit (-) <3>                         | -41.8  | -38.2  | -71.9  | -107.9 | -78.7  | -73.9  | -110.4 | -122.2 |
| State and local government surplus or<br>deficit(-) (N.I.A. basis) | 28.8   | 32.0   | 31.3   | 32.9   | 40.4   | 51.7   | 55.5   | 58.1   |
| Excluding social insurance funds                                   | -3.5   | -8     | -2.1   | -1.2   | 5.5    | 16.1   | 18.9   | 20.8   |
| 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)                              | 90.4   | 89.9   | 89.2   | 88.7   | 88.8   | 89.6   | 90.4   | 91.7   |
| Manufacturing  | 19.4   | 19.0   | 18.6   | 18.1   | 18.1   | 18.3   | 18.6   | 19.0   |
| Industrial production (1967=100)                                   | 141.7  | 139.4  | 138.2  | 135.2  | 138.5  | 144.5  | 151.8  | 155.5  |
| Capacity utilization: all manufacturing (percent)                  | 72.9   | 71.6   | 71.1   | 69.0   | 70.7   | 73.9   | 77.4   | 78.9   |
| Materials (percent)  | 73.0   | 70.7   | 69.4   | 67.2   | 70.1   | 73.5   | 77.5   | 79.6   |
| Housing starts, private (million units, A.R.)                      | .88    | .96    | 1.12   | 1.27   | 1.64   | 1.69   | 1.78   | 1.70   |
| 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 percent high employment unemployment rate.

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PERCENT 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  | 5.0  |
| Final sales                                 | -1.3  | -.8   | -1.5  | 4.5   | .6    | 6.8   | 5.1  | 3.7  |
| Private                                     | -1.6  | .1    | -4.0  | 3.0   | 3.0   | 8.8   | 5.3  | 5.5  |
| Domestic final purchases                    | .0    | .8    | -.9   | 3.4   | 3.9   | 11.9  | 5.7  | 8.5  |
| 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  | 9.0  |
| Services                                    | 2.9   | 4.7   | 2.1   | 1.9   | 1.4   | 6.4   | .6   | 3.7  |
| Gross private domestic investment           | -34.1 | 3.4   | -5.8  | -34.6 | 28.6  | 49.8  | 45.1 | 27.6 |
| Residential structures                      | -28.5 | 17.9  | -13.0 | 53.2  | 57.3  | 79.5  | 35.9 | -6.9 |
| Business fixed investment                   | -5.9  | -14.3 | -8.8  | -6.6  | -1.5  | 7.9   | 18.7 | 27.2 |
| Gov't. purchases of goods and services      | -.2   | -5.0  | 9.4   | 10.6  | -8.8  | -1.1  | 4.4  | -3.9 |
| Federal                                     | .2    | -14.0 | 26.3  | 28.3  | -18.0 | -2.8  | 4.6  | -8.4 |
| National defense                            | -1.3  | 13.0  | 14.0  | 5.1   | 6.5   | 7.4   | .0   | 7.8  |
| State and local                             | -.5   | 1.3   | -.4   | -.1   | -1.8  | .0    | 4.3  | -.8  |
| Disposable personal income                  | -3.4  | 1.9   | -.3   | 2.6   | 2.9   | 3.5   | 6.5  | 8.0  |
| <u>Current Dollars</u>                      |       |       |       |       |       |       |      |      |
| Gross national product                      | -1.4  | 6.6   | 2.7   | 2.5   | 8.2   | 13.3  | 11.5 | 9.1  |
| Final sales                                 | 3.9   | 4.6   | 1.9   | 9.4   | 5.8   | 9.8   | 8.4  | 7.7  |
| Private                                     | 3.8   | 5.5   | -1.6  | 7.8   | 7.8   | 11.5  | 8.3  | 9.7  |
| Domestic final purchases                    | 3.7   | 5.0   | 3.8   | 7.0   | 5.9   | 16.0  | 9.8  | 10.9 |
| Personal consumption expenditures           | 7.5   | 7.2   | 7.5   | 7.8   | 5.2   | 15.1  | 6.5  | 9.4  |
| Goods                                       | 4.4   | 3.5   | 5.1   | 6.1   | 4.2   | 17.1  | 7.8  | 9.8  |
| Services                                    | 10.8  | 11.2  | 10.1  | 9.5   | 6.3   | 13.0  | 5.3  | 9.1  |
| Gross private domestic investment           | -37.8 | 9.5   | -6.5  | -38.0 | 31.5  | 53.9  | 53.6 | 27.5 |
| Residential structures                      | -26.5 | 18.2  | -13.0 | 46.9  | 75.3  | 76.7  | 47.5 | -7.3 |
| Business fixed investment                   | -6.7  | -9.1  | -11.3 | -6.0  | -5.7  | 5.1   | 18.8 | 28.8 |
| Gov't. purchases of goods and services      | 4.6   | 1.2   | 16.1  | 15.5  | -1.3  | 3.6   | 9.0  | .4   |
| Federal                                     | 2.1   | -8.7  | 32.1  | 29.5  | -8.0  | .3    | 6.6  | -5.6 |
| National defense                            | 3.5   | 18.0  | 20.8  | 16.5  | 7.8   | 10.7  | 3.6  | 10.5 |
| State and local                             | 6.2   | 8.1   | 6.8   | 6.8   | 3.5   | 5.8   | 10.7 | 4.6  |
| 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  | 11.0 |
| Wage and salary disbursements               | 3.2   | 5.6   | 4.2   | 1.6   | 6.4   | 9.7   | 8.4  | 8.7  |
| Corporate profits with I.V.A. and C.C. Adj. | -49.3 | 12.4  | 4.1   | -14.8 | 59.0  | 107.5 | 68.0 | 35.9 |
| Corporate profits before tax                | -59.6 | 13.6  | -3.3  | -20.3 | 5.4   | 106.0 | 61.3 | -1.6 |
| Nonfarm payroll employment                  | -2.7  | -1.9  | -3.1  | -2.3  | .5    | 3.4   | 3.7  | 5.8  |
| Manufacturing                               | -9.2  | -8.7  | -8.9  | -9.5  | -.9   | 5.0   | 7.0  | 9.1  |
| Nonfarm business sector                     |       |       |       |       |       |       |      |      |
| Output per hour                             | .1    | -.4   | 2.3   | 1.3   | 3.5   | 7.1   | 2.3  | 2.7  |
| Compensation per hour                       | 10.0  | 5.8   | 7.2   | 5.8   | 6.6   | 4.4   | 3.8  | 4.3  |
| Unit labor costs                            | 9.9   | 6.2   | 4.7   | 4.4   | 3.0   | -2.6  | 1.5  | 1.0  |
| 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  | 4.1  |
| Excluding food and energy                   | 5.8   | 6.4   | 5.4   | 3.9   | 6.7   | 3.5   | 5.6  | 4.4  |
| Consumer price index (all urban)            | 3.8   | 5.5   | 7.3   | 1.5   | .3    | 4.4   | 4.1  | 4.5  |
| Industrial production                       | -11.8 | -6.5  | -3.4  | -8.2  | 10.1  | 18.4  | 21.8 | 10.2 |

<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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GROSS 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  | 3550.1    | 3633.8 | 3718.3 | 3792.2 | 3866.5 | 3939.4 | 4017.5 | 4099.8 |
| Final sales   | 3479.1    | 3579.3 | 3661.3 | 3744.2 | 3824.5 | 3899.4 | 3981.5 | 4067.8 |
| Private   | 2771.5    | 2837.4 | 2897.8 | 2959.6 | 3017.8 | 3075.2 | 3138.7 | 3206.6 |
| Domestic final purchases  | 2819.7    | 2895.2 | 2964.9 | 3032.1 | 3094.0 | 3152.8 | 3216.5 | 3280.4 |
| Personal consumption expenditures                                   | 2286.2    | 2336.0 | 2389.5 | 2440.0 | 2487.1 | 2533.8 | 2582.7 | 2632.8 |
| Goods   | 1158.3    | 1185.5 | 1213.5 | 1238.0 | 1258.4 | 1277.8 | 1297.5 | 1317.3 |
| Services  | 1127.9    | 1150.5 | 1176.0 | 1202.0 | 1228.7 | 1256.0 | 1285.2 | 1315.5 |
| Gross private domestic investment                                   | 604.6     | 613.7  | 632.4  | 640.1  | 648.9  | 659.0  | 669.8  | 679.6  |
| Residential structures  | 147.8     | 151.1  | 149.4  | 149.5  | 149.3  | 147.5  | 149.2  | 150.2  |
| Business fixed investment   | 385.7     | 408.1  | 426.0  | 442.6  | 457.6  | 471.5  | 484.6  | 497.4  |
| Change in business inventories                                      | 71.0      | 54.5   | 57.0   | 48.0   | 42.0   | 40.0   | 36.0   | 32.0   |
| Nonfarm   | 50.1      | 47.5   | 50.0   | 45.0   | 42.0   | 40.0   | 36.0   | 32.0   |
| Net exports of goods and services <1>                               | -48.2     | -57.7  | -67.1  | -72.5  | -76.1  | -77.6  | -77.8  | -73.8  |
| Exports   | 358.8     | 365.8  | 375.1  | 386.7  | 399.1  | 413.4  | 428.5  | 446.3  |
| Imports   | 407.0     | 423.5  | 442.2  | 459.2  | 475.3  | 491.0  | 506.3  | 520.1  |
| Gov't. purchases of goods and services                              | 707.6     | 741.9  | 763.5  | 784.6  | 806.7  | 824.1  | 842.8  | 861.2  |
| Federal <2>   | 271.9     | 296.1  | 307.7  | 318.9  | 331.3  | 338.8  | 347.3  | 355.5  |
| State and local   | 435.7     | 445.8  | 455.8  | 465.7  | 475.4  | 485.3  | 495.5  | 505.7  |
| Gross national product in<br>constant (1972) dollars                | 1609.3    | 1635.7 | 1656.9 | 1671.3 | 1683.6 | 1695.3 | 1706.8 | 1718.4 |
| Personal income   | 2926.2    | 2978.7 | 3048.3 | 3116.9 | 3187.8 | 3249.5 | 3315.9 | 3380.7 |
| Wage and salary disbursements                                       | 1756.4    | 1795.5 | 1834.1 | 1871.5 | 1910.4 | 1947.5 | 1985.1 | 2023.1 |
| Disposable personal income  | 2504.9    | 2548.1 | 2604.8 | 2661.2 | 2719.4 | 2769.1 | 2823.5 | 2877.5 |
| Saving rate (percent)   | 5.9       | 5.5    | 5.4    | 5.5    | 5.7    | 5.6    | 5.7    | 5.7    |
| Corporate profits with I.V.A. and C.C. Adj.                         | 281.6     | 284.1  | 295.3  | 297.4  | 296.2  | 298.7  | 305.6  | 315.9  |
| Corporate profits before tax  | 244.3     | 245.6  | 254.3  | 253.4  | 247.2  | 245.2  | 248.1  | 253.4  |
| Federal government surplus or deficit (-)<br>(N.I.A. basis)         | -170.7    | -169.1 | -173.1 | -181.4 | -190.4 | -190.1 | -192.7 | -192.2 |
| High employment surplus or deficit (-) <3>                          | -121.9    | -133.3 | -148.3 | -161.4 | -173.2 | -174.4 | -178.2 | -178.4 |
| State and local government surplus or<br>deficit (-) (N.I.A. basis) | 60.5      | 60.9   | 61.1   | 59.6   | 56.8   | 54.9   | 52.6   | 49.5   |
| Excluding social insurance funds                                    | 22.3      | 22.2   | 21.7   | 19.6   | 16.1   | 13.6   | 10.6   | 6.8    |
| Civilian labor force (millions)                                     | 112.6     | 113.6  | 114.3  | 114.8  | 115.4  | 115.9  | 116.4  | 116.9  |
| Unemployment rate (percent)   | 7.9       | 7.5    | 6.9    | 6.7    | 6.6    | 6.5    | 6.4    | 6.4    |
| Nonfarm payroll employment (millions)                               | 92.8      | 93.7   | 94.7   | 95.5   | 96.2   | 96.9   | 97.5   | 98.1   |
| Manufacturing   | 19.4      | 19.6   | 19.8   | 20.0   | 20.1   | 20.3   | 20.4   | 20.5   |
| Industrial production (1967=100)                                    | 159.8     | 163.0  | 165.8  | 167.7  | 169.3  | 170.8  | 172.2  | 173.6  |
| Capacity utilization: all manufacturing (percent)                   | 80.7      | 81.8   | 82.8   | 83.2   | 83.4   | 83.5   | 83.6   | 83.6   |
| Materials (percent)   | 81.6      | 83.1   | 84.2   | 84.7   | 85.0   | 85.2   | 85.4   | 85.5   |
| Housing starts, private (million units, A.R.)                       | 1.97      | 1.84   | 1.70   | 1.70   | 1.65   | 1.60   | 1.60   | 1.60   |
| New auto sales (millions, A.R.)                                     | 10.52     | 10.63  | 10.85  | 11.00  | 10.95  | 11.15  | 11.15  | 11.15  |
| Domestic models   | 8.22      | 8.33   | 8.30   | 8.35   | 8.30   | 8.60   | 8.50   | 8.40   |
| Foreign models  | 2.30      | 2.30   | 2.55   | 2.65   | 2.45   | 2.55   | 2.65   | 2.75   |

<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 percent high employment unemployment rate.

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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                      | 9.7       | 6.7  | 5.3  | 3.5  | 3.0  | 2.8  | 2.8  | 2.7  |
| Final sales                                 | 3.9       | 9.1  | 5.2  | 4.6  | 3.7  | 3.1  | 3.2  | 3.2  |
| Private                                     | 5.2       | 7.6  | 4.9  | 4.2  | 3.4  | 3.0  | 3.1  | 3.1  |
| Domestic final purchases                    | 8.6       | 8.4  | 5.7  | 4.3  | 3.3  | 2.6  | 2.6  | 2.2  |
| Personal consumption expenditures           | 6.4       | 6.5  | 5.0  | 3.4  | 2.6  | 2.2  | 2.1  | 1.9  |
| Goods                                       | 10.3      | 9.3  | 6.1  | 3.6  | 2.3  | 1.8  | 1.5  | 1.3  |
| Services                                    | 2.1       | 3.4  | 3.7  | 3.3  | 2.9  | 2.8  | 2.7  | 2.6  |
| Gross private domestic investment           | 63.8      | 2.4  | 9.1  | 1.5  | 1.8  | 2.2  | 1.9  | 1.0  |
| Residential structures                      | 26.3      | 4.4  | -8.1 | -4.2 | -5.3 | -9.3 | -3   | -2.2 |
| Business fixed investment                   | 16.1      | 20.8 | 14.6 | 11.7 | 9.4  | 7.5  | 5.9  | 4.9  |
| Gov't. purchases of goods and services      | -1.7      | 15.5 | 6.4  | 6.1  | 4.9  | 3.5  | 3.6  | 3.5  |
| Federal                                     | -8.6      | 37.0 | 11.6 | 10.6 | 8.0  | 4.6  | 4.8  | 4.7  |
| National defense                            | 6.3       | 11.4 | 14.7 | 9.8  | 7.3  | 5.9  | 6.4  | 6.1  |
| State and local                             | 3.0       | 3.1  | 2.9  | 2.9  | 2.7  | 2.7  | 2.6  | 2.6  |
| Disposable personal income                  | 10.0      | 4.6  | 4.7  | 3.6  | 3.6  | 2.0  | 2.2  | 1.8  |
| <u>Current Dollars</u>                      |           |      |      |      |      |      |      |      |
| Gross national product                      | 13.9      | 9.8  | 9.6  | 8.2  | 8.1  | 7.7  | 8.2  | 8.5  |
| Final sales                                 | 7.5       | 12.0 | 9.5  | 9.4  | 8.9  | 8.1  | 8.7  | 9.0  |
| Private                                     | 8.2       | 9.9  | 8.8  | 8.8  | 8.1  | 7.8  | 8.5  | 8.9  |
| Domestic final purchases                    | 11.5      | 11.1 | 10.0 | 9.4  | 8.4  | 7.8  | 8.3  | 8.2  |
| Personal consumption expenditures           | 10.3      | 9.0  | 9.5  | 8.7  | 7.9  | 7.7  | 7.9  | 8.0  |
| Goods                                       | 12.9      | 9.7  | 9.8  | 8.3  | 6.8  | 6.3  | 6.3  | 6.2  |
| Services                                    | 7.7       | 8.3  | 9.2  | 9.1  | 9.2  | 9.2  | 9.6  | 9.8  |
| Gross private domestic investment           | 66.2      | 6.1  | 12.8 | 4.9  | 5.6  | 6.4  | 6.7  | 6.0  |
| Residential structures                      | 28.6      | 9.2  | -4.4 | .3   | -5   | -4.7 | 4.7  | 2.7  |
| Business fixed investment                   | 13.1      | 25.3 | 18.8 | 16.5 | 14.3 | 12.7 | 11.6 | 11.0 |
| Gov't. purchases of goods and services      | 5.0       | 20.8 | 12.2 | 11.5 | 11.8 | 8.9  | 9.3  | 9.1  |
| Federal                                     | -3.2      | 40.6 | 16.6 | 15.4 | 16.5 | 9.4  | 10.4 | 9.8  |
| National defense                            | 13.1      | 13.4 | 20.1 | 15.4 | 16.7 | 11.3 | 12.8 | 11.6 |
| State and local                             | 10.6      | 9.6  | 9.3  | 9.0  | 8.6  | 8.6  | 8.6  | 8.6  |
| Disposable personal income                  | 14.1      | 7.1  | 9.2  | 9.0  | 9.0  | 7.5  | 8.1  | 7.9  |
| Personal income                             | 13.5      | 7.4  | 9.7  | 9.3  | 9.4  | 8.0  | 8.4  | 8.0  |
| Wage and salary disbursements               | 9.4       | 9.2  | 8.9  | 8.4  | 8.6  | 8.0  | 7.9  | 7.9  |
| Corporate profits with I.V.A. and C.C. Adj. | 21.5      | 3.5  | 16.8 | 2.9  | -1.6 | 3.4  | 9.5  | 14.2 |
| Corporate profits before tax                | 31.4      | 2.1  | 15.1 | -1.4 | -9.4 | -3.2 | 4.8  | 8.9  |
| Nonfarm payroll employment                  | 4.8       | 4.2  | 4.2  | 3.6  | 3.0  | 2.7  | 2.4  | 2.4  |
| Manufacturing                               | 7.5       | 4.5  | 4.1  | 3.7  | 3.2  | 2.8  | 2.4  | 2.0  |
| Nonfarm business sector                     |           |      |      |      |      |      |      |      |
| Output per hour                             | 3.5       | 1.7  | 1.3  | .2   | .4   | .4   | .7   | .7   |
| Compensation per hour                       | 6.0       | 4.0  | 4.6  | 5.0  | 5.8  | 5.6  | 5.9  | 6.2  |
| Unit labor costs                            | 2.4       | 2.3  | 3.2  | 4.8  | 5.4  | 5.2  | 5.2  | 5.4  |
| GNP implicit deflator <1>                   | 3.9       | 2.8  | 4.1  | 4.5  | 4.9  | 4.8  | 5.3  | 5.6  |
| Gross domestic business product             |           |      |      |      |      |      |      |      |
| fixed-weighted price index <2>              | 4.2       | 3.1  | 4.3  | 4.8  | 5.1  | 5.2  | 5.6  | 5.9  |
| Excluding food and energy                   | 3.7       | 3.7  | 4.4  | 4.8  | 5.1  | 5.4  | 5.9  | 6.2  |
| Consumer price index (all urban)            | 5.0       | 3.9  | 4.7  | 5.1  | 5.3  | 5.4  | 5.8  | 6.0  |
| Industrial production                       | 11.5      | 8.3  | 7.1  | 4.7  | 3.9  | 3.6  | 3.3  | 3.3  |

<1> Excluding Federal pay increase, the rate of change in 1984-Q1 is 3.4 percent and in 1985-Q1 is 4.6 percent.  
<2> Uses expenditures in 1972 as weights.

July 11, 1984

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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 | 3310.5 | 3673.6          | 3980.8 |
| Final sales  | 2137.4 | 2403.5 | 2641.5 | 2935.6 | 3097.5 | 3316.9 | 3616.0          | 3943.3 |
| Private  | 1705.5 | 1929.1 | 2103.7 | 2339.9 | 2448.3 | 2627.4 | 2866.6          | 3109.6 |
| Domestic final purchases   | 1706.6 | 1915.9 | 2079.7 | 2313.6 | 2430.9 | 2636.4 | 2928.0          | 3185.9 |
| Personal consumption expenditures                                | 1346.5 | 1507.2 | 1668.1 | 1857.2 | 1991.9 | 2158.0 | 2362.9          | 2559.1 |
| Goods  | 728.5  | 813.5  | 883.5  | 970.0  | 1005.5 | 1083.5 | 1198.8          | 1287.7 |
| Services   | 618.0  | 693.7  | 784.5  | 887.1  | 986.4  | 1074.5 | 1164.1          | 1271.3 |
| Gross private domestic investment                                | 386.6  | 423.0  | 401.9  | 474.9  | 414.5  | 471.9  | 622.7           | 664.3  |
| Residential construction   | 111.2  | 118.6  | 102.9  | 104.3  | 90.8   | 130.0  | 149.4           | 149.0  |
| Business fixed investment  | 248.9  | 290.2  | 308.8  | 352.2  | 348.3  | 348.4  | 415.6           | 477.8  |
| Change in business inventories                                   | 26.5   | 14.3   | -9.8   | 18.5   | -24.5  | -6.4   | 57.6            | 37.5   |
| Nonfarm  | 25.4   | 8.6    | -4.5   | 10.9   | -23.1  | -2.8   | 48.1            | 37.5   |
| Net exports of goods and services <1>                            | -1.1   | 13.2   | 23.9   | 26.3   | 17.4   | -9.0   | -61.4           | -76.3  |
| Exports  | 218.7  | 281.4  | 338.8  | 368.8  | 347.6  | 335.4  | 371.6           | 421.9  |
| Imports  | 219.8  | 268.1  | 314.8  | 342.5  | 330.2  | 344.4  | 433.0           | 498.2  |
| Gov't. purchases of goods and services                           | 431.9  | 474.4  | 537.8  | 595.7  | 649.2  | 689.5  | 749.4           | 833.7  |
| Federal <2>  | 153.6  | 168.3  | 197.0  | 229.2  | 258.7  | 274.8  | 298.6           | 343.2  |
| State and local  | 278.3  | 306.0  | 340.8  | 366.5  | 390.5  | 414.7  | 450.7           | 490.5  |
| Gross national product in constant (1972) dollars                | 1438.6 | 1479.4 | 1475.0 | 1513.8 | 1485.4 | 1535.3 | 1643.3          | 1701.0 |
| Personal income  | 1732.7 | 1951.2 | 2165.3 | 2435.0 | 2578.6 | 2742.1 | 3017.5          | 3283.5 |
| Wage and salary disbursements                                    | 1106.3 | 1237.6 | 1356.7 | 1493.2 | 1568.1 | 1664.6 | 1814.4          | 1966.5 |
| Disposable personal income                                       | 1474.0 | 1650.2 | 1828.9 | 2047.6 | 2176.5 | 2335.6 | 2579.8          | 2797.4 |
| Saving rate (percent)  | 6.1    | 5.9    | 6.0    | 6.6    | 5.8    | 4.9    | 5.6             | 5.7    |
| Corporate profits with I.V.A. and C.C.Adj.                       | 192.4  | 194.8  | 175.4  | 192.3  | 164.8  | 229.1  | 289.6           | 304.1  |
| Corporate profits before tax                                     | 229.1  | 252.7  | 234.6  | 227.0  | 174.2  | 207.5  | 249.4           | 248.5  |
| Federal government surplus or deficit(-)<br>(N.I.A. basis)       | -29.5  | -16.1  | -61.2  | -62.2  | -147.1 | -181.6 | -173.6          | -191.3 |
| High employment surplus or deficit(-)                            | -33.9  | -20.8  | -36.4  | -30.2  | -65.0  | -96.3  | -141.2          | -176.1 |
| State and local government surplus or deficit (-) (N.I.A. basis) | 30.3   | 30.4   | 30.6   | 35.3   | 31.3   | 51.4   | 60.5            | 53.4   |
| Excluding social insurance funds                                 | 10.0   | 6.6    | 3.5    | 4.4    | -1.9   | 15.3   | 21.4            | 11.8   |
| Civilian labor force (millions)                                  | 102.3  | 105.0  | 106.9  | 108.7  | 110.2  | 111.6  | 113.8           | 116.1  |
| Unemployment rate (percent)                                      | 6.1    | 5.8    | 7.1    | 7.6    | 9.7    | 9.6    | 7.2             | 6.5    |
| Nonfarm payroll employment (millions)                            | 86.7   | 89.8   | 90.4   | 91.2   | 89.6   | 90.0   | 94.2            | 97.2   |
| Manufacturing  | 20.5   | 21.0   | 20.3   | 20.2   | 18.9   | 18.7   | 19.7            | 20.3   |
| Industrial production (1967=100)                                 | 146.1  | 152.5  | 147.0  | 150.9  | 138.6  | 147.6  | 164.1           | 171.5  |
| Capacity utilization: all manufacturing (percent)                | 84.7   | 86.0   | 79.6   | 79.4   | 71.1   | 75.2   | 82.1            | 83.5   |
| Materials (percent)  | 85.6   | 87.6   | 80.4   | 80.7   | 70.1   | 75.2   | 83.4            | 85.3   |
| Housing starts, private (million units, A.R.)                    | 2.00   | 1.72   | 1.30   | 1.10   | 1.06   | 1.70   | 1.80            | 1.61   |
| New auto sales (millions, A.R.)                                  | 11.29  | 10.68  | 9.04   | 8.56   | 8.00   | 9.18   | 10.77           | 11.10  |
| Domestic models  | 9.29   | 8.36   | 6.62   | 6.24   | 5.77   | 6.77   | 8.31            | 8.50   |
| Foreign models   | 2.00   | 2.32   | 2.42   | 2.32   | 2.23   | 2.41   | 2.46            | 2.60   |

- <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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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  | 3.4  | 7.0           | 3.5  |
| Final sales                                | 4.9  | 3.5  | .5    | 1.8  | -.7   | 2.8  | 5.3           | 4.1  |
| Private                                    | 5.6  | 4.0  | .1    | 2.0  | -1.3  | 3.4  | 5.8           | 3.9  |
| Domestic final purchases                   | 5.5  | 2.9  | -1.0  | 2.7  | -.1   | 5.0  | 7.7           | 3.8  |
| Personal consumption expenditures          | 4.5  | 2.7  | .5    | 2.7  | 1.4   | 4.2  | 5.7           | 3.1  |
| Goods                                      | 4.2  | 1.9  | -1.4  | 2.1  | .1    | 5.6  | 8.2           | 3.2  |
| Services                                   | 4.8  | 3.7  | 2.7   | 3.3  | 2.9   | 2.7  | 3.0           | 3.0  |
| Gross private domestic investment          | 10.5 | -.2  | -11.8 | 9.2  | -14.5 | 12.6 | 28.8          | 2.7  |
| Residential structures                     | 2.8  | -5.3 | -20.3 | -5.1 | -15.4 | 39.4 | 11.8          | -4.8 |
| Business fixed investment                  | 12.8 | 7.3  | -2.4  | 5.2  | -4.8  | 1.4  | 18.3          | 10.0 |
| Gov't. purchases of goods and services     | 2.0  | 1.3  | 2.2   | .8   | 1.8   | .4   | 3.2           | 5.4  |
| Federal                                    | -.1  | 1.8  | 4.2   | 3.8  | 5.6   | 1.0  | 4.7           | 9.2  |
| National defense                           | .4   | 2.6  | 3.9   | 5.2  | 7.1   | 6.9  | 8.0           | 8.5  |
| State and local                            | 3.3  | 1.1  | 1.0   | -1.0 | -.5   | .1   | 2.2           | 2.8  |
| Disposable personal income                 | 4.9  | 2.7  | .6    | 3.2  | .5    | 3.2  | 6.7           | 3.2  |
| <u>Current Dollars</u>                     |      |      |       |      |       |      |               |      |
| Gross national product                     | 12.8 | 11.7 | 8.8   | 12.2 | 4.0   | 7.7  | 11.0          | 8.4  |
| Final sales                                | 12.8 | 12.4 | 9.9   | 11.1 | 5.5   | 7.1  | 9.0           | 9.1  |
| Private                                    | 13.6 | 13.1 | 9.0   | 11.2 | 4.6   | 7.3  | 9.1           | 8.5  |
| Domestic final purchases                   | 13.4 | 12.3 | 8.5   | 11.2 | 5.1   | 8.5  | 11.1          | 8.8  |
| Personal consumption expenditures          | 11.8 | 11.9 | 10.7  | 11.3 | 7.3   | 8.3  | 9.5           | 8.3  |
| Goods                                      | 10.9 | 11.7 | 8.6   | 9.8  | 3.7   | 7.8  | 10.6          | 7.4  |
| Services                                   | 12.9 | 12.2 | 13.1  | 13.1 | 11.2  | 8.9  | 8.3           | 9.2  |
| Gross private domestic investment          | 19.3 | 9.4  | -5.0  | 18.2 | -12.7 | 13.8 | 31.9          | 6.7  |
| Residential structures                     | 16.1 | 6.6  | -13.2 | 1.4  | -13.0 | 43.3 | 15.0          | -.3  |
| Business fixed investment                  | 21.3 | 16.6 | 6.4   | 14.1 | -1.1  | .0   | 19.3          | 15.0 |
| Gov't. purchases of goods and services     | 9.7  | 9.8  | 13.4  | 10.8 | 9.0   | 6.2  | 8.7           | 11.3 |
| Federal                                    | 7.1  | 9.6  | 17.1  | 16.3 | 12.9  | 6.2  | 8.7           | 14.9 |
| National defense                           | 8.0  | 11.5 | 17.3  | 17.4 | 16.5  | 11.6 | 12.3          | 14.8 |
| State and local                            | 11.2 | 9.9  | 11.4  | 7.5  | 6.6   | 6.2  | 8.7           | 8.8  |
| Disposable personal income                 | 12.2 | 12.0 | 10.8  | 12.0 | 6.3   | 7.3  | 10.5          | 8.4  |
| Personal income                            | 12.5 | 12.6 | 11.0  | 12.5 | 5.9   | 6.3  | 10.0          | 8.8  |
| Wage and salary disbursements              | 12.5 | 11.9 | 9.6   | 10.1 | 5.0   | 6.2  | 9.0           | 8.4  |
| Corporate profits with I.V.A. and C.C.Adj. | 15.0 | 1.3  | -9.9  | 9.6  | -14.3 | 39.0 | 26.4          | 5.0  |
| Corporate profits before tax               | 17.7 | 10.3 | -7.1  | -3.3 | -23.2 | 19.1 | 20.2          | -.4  |
| Nonfarm payroll employment                 | 5.1  | 3.6  | .6    | .8   | -1.7  | .4   | 4.7           | 3.2  |
| Manufacturing                              | 4.2  | 2.6  | -3.6  | -.6  | -6.5  | -.9  | 5.3           | 3.2  |
| Nonfarm business sector                    |      |      |       |      |       |      |               |      |
| Output per hour                            | .6   | -1.5 | -.7   | 1.9  | -.1   | 3.2  | 2.6           | .6   |
| Compensation per hour                      | 8.6  | 9.0  | 10.4  | 9.8  | 7.8   | 5.6  | 4.7           | 5.4  |
| Unit labor costs                           | 8.0  | 10.7 | 11.1  | 7.7  | 7.9   | 2.3  | 2.1           | 4.7  |
| GNP implicit deflator                      | 7.4  | 8.6  | 9.2   | 9.4  | 6.0   | 4.2  | 3.7           | 4.7  |
| Gross domestic business product            |      |      |       |      |       |      |               |      |
| fixed-weighted price index <1>             | 8.0  | 9.9  | 10.0  | 9.5  | 6.0   | 4.2  | 4.1           | 4.9  |
| Excluding food and energy                  | 7.8  | 8.6  | 8.5   | 9.3  | 6.9   | 5.1  | 4.2           | 5.1  |
| Consumer price index (all urban)           | 7.6  | 11.3 | 13.5  | 10.3 | 6.1   | 3.2  | 4.5           | 5.2  |
| Industrial production                      | 5.8  | 4.4  | -3.6  | 2.6  | -8.1  | 6.4  | 11.2          | 4.5  |

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

| Fiscal<br>Year<br>1983*   | FY1984 <sup>a/2/</sup> |              | FY1985 <sup>a/2/</sup> |              | CY1984 <sup>a</sup> |              | FRB staff estimates                        |                |      |      |      |      |      |      |      |
|---|------------------------|--------------|------------------------|--------------|---------------------|--------------|--|----------------|------|------|------|------|------|------|------|
|   | Admin.<br>1/           | FRB<br>Staff | Admin.<br>1/           | FRB<br>Staff | CY<br>1983*         | FRB<br>Staff | Calendar quarters; not seasonally adjusted |                |      |      |      |      |      |      |      |
|   |                        |              |                        |              |                     |              | 1983                                       | 1984           |      |      | 1985 |      |      |      |      |
|   |                        |              |                        |              |                     |              | IV <sup>a</sup>                            | I <sup>a</sup> | II   | III  | IV   | I    | II   | III  |      |
| Unified budget receipts   | 601                    | 673          | 671                    | 753          | 749                 | 613          | 690  | 149            | 155  | 188  | 179  | 169  | 171  | 213  | 196  |
| Unified budget outlays  | 796                    | 851          | 847                    | 932          | 938                 | 803          | 871  | 213            | 209  | 212  | 214  | 237  | 232  | 235  | 233  |
| Surplus/deficit(-), unified budget  | -195                   | -178         | -176                   | -179         | -189                | -190         | -181                                       | -63            | -55  | -24  | -35  | -68  | -61  | -22  | -37  |
| Surplus/deficit(-), off-budget agencies <sup>3</sup>                      | -12                    | -15          | -12                    | -15          | -15                 | -10          | -15  | 1              | -2   | -4   | -6   | -3   | -3   | -5   | -5   |
| Combined deficit to be financed   | -208                   | -193         | -188                   | -194         | -204                | -201         | -196                                       | -62            | -57  | -28  | -41  | -71  | -64  | -27  | -42  |
| Means of financing combined deficit:                                      |                        |              |                        |              |                     |              |  |                |      |      |      |      |      |      |      |
| Net borrowing from public   | 212                    | 176          | 170                    | 192          | 199                 | 187          | 198  | 36             | 49   | 31   | 53   | 65   | 54   | 39   | 41   |
| Decrease in cash operating balance  | -8                     | 17           | 16                     | 0            | 3                   | 8            | -2   | 25             | -2   | 1    | -7   | 7    | 6    | -9   | -1   |
| Other <sup>4</sup>  | 3                      | 0            | 3                      | 2            | 2                   | 6            | 0  | 1              | 10   | -3   | -5   | -2   | 4    | -3   | 3    |
| Cash operating balance, end of period                                     | 37                     | 20           | 21                     | 20           | 18                  | 12           | 14   | 12             | 14   | 14   | 21   | 14   | 8    | 17   | 18   |
| Memo: Sponsored agency borrowing <sup>5</sup>                             | -3                     | 13           | 18                     | 16           | 18                  | 1            | 19   | 3              | 5    | 5    | 5    | 4    | 4    | 5    | 5    |
| <b>NIA Budget</b>   |                        |              |                        |              |                     |              |  |                |      |      |      |      |      |      |      |
| Receipts  | 633                    | 694          | 693                    | 785          | 770                 | 645          | 714  | 658            | 688  | 703  | 725  | 741  | 763  | 779  | 796  |
| Expenditures  | 820                    | 871          | 869                    | 954          | 958                 | 826          | 888  | 847            | 859  | 872  | 898  | 922  | 953  | 969  | 989  |
| Purchases   | 276                    | 291          | 287                    | 342          | 334                 | 275          | 299  | 274            | 272  | 296  | 308  | 319  | 331  | 339  | 347  |
| Defense   | 196                    | 224          | 217                    | 257          | 251                 | 200          | 225  | 206            | 213  | 220  | 230  | 238  | 248  | 254  | 262  |
| Nondefense  | 80                     | 67           | 70                     | 85           | 84                  | 75           | 74   | 68             | 59   | 77   | 78   | 81   | 84   | 85   | 85   |
| All other expenditures  | 544                    | 581          | 582                    | 612          | 624                 | 551          | 589  | 573            | 587  | 576  | 590  | 603  | 622  | 630  | 641  |
| Surplus/deficit(-)  | -186                   | -177         | -176                   | -169         | -189                | -182         | -174                                       | -190           | -171 | -169 | -173 | -181 | -190 | -190 | -193 |
| High employment surplus/deficit(-)<br>evaluated at 6 percent unemployment | -93                    | n.a.         | -131                   | n.a.         | -172                | -96          | -141                                       | -122           | -122 | -133 | -148 | -161 | -173 | -174 | -178 |

\*--actual

a--estimated

n.s.--not available

- OMB Current Budget Estimates, April 1984 and NEA's NIA translations, April 1984.
- The CBO baseline budget estimates show revenues of \$663 billion and \$733 billion, outlays of \$852 billion and \$930 billion and deficits of \$189 billion and \$197 billion in fiscal years 1984 and 1985 respectively (An Analysis of the President's Budgetary Proposals, February 1984).

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

- Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and Strategic Petroleum Reserve.
- Checks issued less checks paid, accrued items and other transactions.
- Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage-backed securities), Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis.



## DOMESTIC FINANCIAL DEVELOPMENTS

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Recent Developments. Financial markets have been unsettled since the last FOMC meeting. Heightened concerns about the exposure of banks to losses on Latin American loans, which overlaid continued liquidity problems of Continental Illinois, contributed to the nervous tone. Spreads between private and Treasury rates widened and there was evidence of increased tiering against major U.S. banks in the domestic CD and Eurodollar markets. Responding in addition to varying signals over time about the course of economic activity and shifting perceptions of likely interest rate trends, longer-term security prices fluctuated over an unusually wide range.

On balance, long-term Treasury bond yields are down as much as 25 basis points since the last FOMC meeting, while Treasury bill rates have changed little. By contrast, rates on corporate bonds have risen 15 basis points and those on private short-term instruments 50 to 100 basis points. The federal funds rate backed up from the 10-1/2 percent area to over 11 percent around the mid-June tax date, where it later was sustained by pressures associated with the quarter-end and the July 4th holiday, and by a seemingly more cautious attitude by large banks toward discount borrowing. In response to higher costs of funds, banks raised the prime rate from 12-1/2 to 13 percent on June 25.

The rebound of growth of M1 to a 12-1/2 percent annual rate in May apparently represented a technical compensation for the earlier seasonal factor distortion depressing this aggregate in April. In June, continued expansion near this rate--buoyed by a rapid increase in demand deposits--placed M1 just below the top of its 4 to 8 percent annual range. Robust spending evidently has elevated M1 growth through midyear, with the uptrend

in market interest rates damping M1 demands relative to nominal GNP and velocity rising on average about 4-1/2 percent over the last two quarters. The growth of M1 has been in line with econometric representations of past patterns of money demand behavior.

The surge in M1 during May and June led to faster M2 growth. Over the two months, the nontransactions component of M2 decelerated, owing principally to the large runoff in overnight RPs in June that accompanied a sharp decline in commercial bank holdings of Treasury securities. M2 was a little below the 7-1/2 percent midpoint of its annual range in June.

Heavy issuance of large CDs at depository institutions to finance sizable loan extensions kept M3 growth on average in May and June above the 9 percent upper end of its 1984 target range. In May, when their Treasury deposits fell, commercial banks also borrowed heavily from their foreign offices. However, in June banks advanced \$6 billion to their foreign offices; meanwhile, term Eurodollar deposits held by U.S. residents at foreign branches ran off. In May and June thrift borrowing from FHLBanks showed the largest increases of the year.

Business credit at commercial banks in the U.S., at foreign branches of U.S. banks, and in the commercial paper market is estimated to have risen at a 23-1/2 percent annual rate in May and June combined, with about a third of that figure representing effects of large oil-related mergers. In addition, growth in inventories and fixed capital outlays this year has rapidly enlarged business financing needs, and with the relatively wide spread between long- and short-term interest rates, credit demands have been concentrated in short-term markets. Gross bond issuance by nonfinancial corporations has been moderate in the last two months.

Treasury financing in May was disrupted by a delay in raising the debt ceiling; a \$30 billion decline in its cash balance financed the bulk of the \$35 billion combined, on- and off-budget, deficit. Tax payments in June shrank the deficit substantially, and a moderate amount of marketable borrowing in the coupon sector partially replenished the cash balance. Long-term debt issuance by state and local governments remained subdued through June as Congress did not pass legislation covering mortgage revenue bonds and IDBs until the end of the month.

In primary mortgage markets, the contract rate for new commitments on conventional fixed-rate mortgages at S&Ls extended the uptrend begun in February by 60 basis points during the intermeeting period. Commitment rates for conventional adjustable-rate mortgages also have been rising, but they remain well below those on fixed-rate loans. Despite the continued firming in rates, the pace of mortgage lending evidently picked up further in April and May. Moreover, outstanding mortgage commitments at S&Ls reached a new high in May and real estate lending remained buoyant at commercial banks in June.

Consumer credit expanded at a 19 percent annual rate in April--and probably at a comparably rapid rate in May judging from strong commercial bank figures. While interest rates on most consumer loan categories began to rise in the second quarter at major lenders, bank contacts around mid-June again indicated increased willingness to make such loans.

Outlook. Indebtedness of businesses and households is likely to expand more slowly in coming months than earlier in the year. The financing gap of nonfinancial corporations is expected to widen moderately in the second half as the increase in internally generated funds continues to lag

the expansion of inventories and purchases of fixed capital. At the same time, however, the merger-related boost to corporate financing needs in the past two quarters associated with net retirement of equity is assumed to abate. A falloff in business borrowing stemming from this factor should occur mainly in short- and intermediate-term markets, which were most affected by the previous spate of large mergers. Recent tensions in the commercial banking system may have effects on the cost and availability of credit that also would encourage slower business credit growth.

Interest rates on mortgages and consumer credit can be expected to rise further in lagged adjustment to previous increases in market rates, which should have a moderate damping effect on household demands for housing and consumer durables. The run-up that has occurred in interest rates should temper somewhat the enthusiasm of borrowers for adjustable-rate mortgage loans, and lenders can be expected to be tightening their underwriting practices under the pressure from insurance companies and governmental authorities. The staff foresees a perceptible tapering off in household debt growth in the months ahead.

The signing of the Deficit Reduction Act of 1984 is expected to call forth a surge in offerings of single-family mortgage revenue bonds (which seems already to have begun in early July) as well as of IDBs. But this heavier state and local government issuance of securities is unlikely to be large enough to keep the debt of all private domestic nonfinancial sectors from growing more slowly in the months to come.

With the Treasury likely to maintain borrowing on a seasonally adjusted basis in the neighborhood of the second quarter's figure, some slowing in growth of total domestic nonfinancial debt from the estimated 13 percent

pace of the first half also is in prospect. Nonetheless, the outlook for credit supplies and demands suggests continued upward pressures on interest rates.

## INTERNATIONAL DEVELOPMENTS

Recent developments. The dollar's trade-weighted foreign exchange value has risen 3-1/2 percent since the last FOMC meeting, falling 2 percent until early June and then rising 5-1/2 percent. The overall strengthening of the dollar, which has brought it above its mid-January peak, has been associated with a further widening of interest-rate differentials in favor of the dollar.

Over the period, the mark depreciated 3-3/4 percent against the dollar, . The mark's weakness was related in part to the German metalworkers' strike. However, despite a compromise settlement of the strike announced on June 27, the mark has continued to depreciate against major currencies. The pound has depreciated 5 percent against the dollar over the period and has also depreciated on a weighted-average basis. The continuing coal miners' strike has contributed to the pound's weakness. The Canadian dollar began to depreciate in March and has fallen 3 percent since the last FOMC meeting,

. The decline in the Canadian dollar has occurred despite a rise in Canadian short-term rates since the last FOMC that has exceeded the rise in U.S. rates.

On May 24 market conditions were disorderly in the wake of rumors that some large U.S. banks were having difficulty raising funds, and the Desk sold \$135 million equivalent of marks, divided evenly between the Treasury and Federal Reserve's account.

The pace of economic activity in most foreign industrial countries has been uneven, and in some cases, sluggish in recent months.

Japan was the major exception to this picture, real GNP grew at a 7 percent annual rate in the first quarter, and recent industrial production data point to continued strong expansion. The Canadian economy has shown continued growth, but at a slower rate than last year, and largely on the strength of exports to the United States. In Europe the pattern of recovery is weaker. While in Italy industrial production has shown modest gains, activity in the United Kingdom and Germany has slowed, partly because of labor disputes, and in France activity continues to be weak.

Inflation rates have remained steady in Germany and the United Kingdom, while they have decelerated recently in Italy, Canada and France. The CPI fell sharply in June in Japan, offsetting some acceleration in previous months.

On both July 6 and July 11 Bank of England intervention rates and London clearing bank base rates were raised a total of almost 3 percentage points in response to the weakness of the pound. In the last few weeks official lending rates have also risen, for diverse reasons, in several countries including Germany, Canada, and Sweden.

U.S.-chartered banks increased their claims on non-OPEC developing countries in the first quarter by \$1.3 billion. Claims on Brazil rose by \$2 billion reflecting a drawing in March against Brazil's just negotiated \$65. billion bank loan. Claims on the Philippines also rose, while those on most other major developing country borrowers fell.

Among the major heavily indebted countries, Mexico, Brazil, Chile, and Peru are operating in compliance with their IMF approved programs, although in all but Mexico some performance criteria may be difficult to meet later this year. Mexico's foreign bank creditors have announced their willingness to negotiate a multi-year rescheduling of public-sector debt. Argentina continues to negotiate with the IMF over an adjustment program, with disagreement over major areas of economic policy still remaining. In late June Argentina and its bank creditors announced an arrangement to clear interest arrears through early April. The IMF has renewed its negotiations with the Philippines for a new stabilization program; the authorities have taken a series of measures to reopen negotiations, although these measures remain, on balance, insufficient for a Fund program. Venezuela's bank creditors are expected to agree to a rescheduling of public sector debt in the absence of an IMF program because the IMF, which has recently completed a review of the Venezuelan economy, is expected to endorse the Venezuelan adjustment program. Colombia is continuing to lose reserves, and has announced a program to try to reschedule private sector external debt on a voluntary basis.

The U.S. merchandise trade deficit in May was substantially lower than the record April rate and smaller than the first quarter average. The May outcome reflected a sharp drop in imports from record levels and a moderate export increase. For April-May combined the trade deficit was about \$7 billion (annual rate) larger than in the first quarter. Exports continued their rise, reflecting recovery abroad, while imports



both oil and non-oil, were also higher, reflecting strong U.S. activity and the price competitiveness of foreign goods.

A continuing net inflow of funds through U.S. banking offices occurred in April and May, but a sizable outflow from U.S. offices to their own foreign offices is shown in the June data. This increased funding of affiliated foreign banking offices in June coincided with a reduction in Eurodollar holdings at those branches of U.S. nonbank residents (including bank holding companies). Foreign official reserves in the United States continued to decline in April-May, falling \$3.7 billion, due largely to a decline in OPEC reserves.

Outlook. The staff now expects that the exchange value of the dollar in the current quarter will be nearly 7 percent higher than previously projected. However, we continue to project a significant depreciation as the U.S. current account deficit continues to widen and the increase in dollar interest rates moderates. The projected depreciation by the end of 1985 is about 15 percent from the average of the second quarter. The staff expects U.S. trade deficits in 1984 and 1985 of about \$115 billion and \$125 billion, with corresponding current account deficits of about \$95 billion and \$115 billion. The upward revision in the forecast in 1985 reflects in large part the effects of the revised U.S. exchange rate forecasts and a higher projected level of U.S. activity. The outlook for continued moderate expansion in economic activity in foreign industrial countries is roughly unchanged from the last Greenbook.

JULY 10, 1984

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

|   | 1983  | ANNUAL |        | 1983  |       | 1984  |       |       |       | 1985  |       |       |       |
|---|-------|--------|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|   |       | 1984-P | 1985-P | Q3    | Q4    | Q1    | Q2-P  | Q3-P  | Q4-P  | Q1-P  | Q2-P  | Q3-P  | Q4-P  |
| <b>1. GNP EXPORTS AND IMPORTS 1/</b>        |       |        |        |       |       |       |       |       |       |       |       |       |       |
| CURRENT \$, NET                             | -9.0  | -61.4  | -76.4  | -18.3 | -26.1 | -48.2 | -57.6 | -67.2 | -72.5 | -76.2 | -77.7 | -77.8 | -73.8 |
| EXPORTS OF G+S                              | 335.4 | 371.6  | 421.8  | 341.1 | 346.5 | 358.8 | 365.8 | 375.1 | 386.7 | 399.2 | 413.4 | 428.5 | 446.3 |
| IMPORTS OF G+S                              | 344.4 | 433.0  | 498.2  | 359.4 | 372.6 | 407.0 | 423.4 | 442.3 | 459.2 | 475.3 | 491.0 | 506.3 | 520.1 |
| CONSTANT 72 \$, NET                         | 11.8  | -10.8  | -10.0  | 11.5  | 2.8   | -7.5  | -10.0 | -12.6 | -13.0 | -12.6 | -11.3 | -9.5  | -6.6  |
| EXPORTS OF G+S                              | 138.7 | 147.3  | 157.7  | 140.7 | 140.6 | 144.4 | 145.8 | 148.0 | 150.9 | 153.3 | 156.0 | 159.0 | 162.6 |
| IMPORTS OF G+S                              | 126.9 | 158.0  | 167.8  | 129.2 | 137.8 | 151.9 | 155.7 | 160.6 | 163.9 | 165.9 | 167.3 | 168.6 | 169.3 |
| <b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b> |       |        |        |       |       |       |       |       |       |       |       |       |       |
| EXPORTS                                     | 200.3 | 221.3  | 247.7  | 201.7 | 207.3 | 216.7 | 219.4 | 222.2 | 227.0 | 233.9 | 242.2 | 251.4 | 263.4 |
| AGRICULTURAL                                | 36.6  | 38.5   | 39.9   | 37.2  | 39.2  | 41.1  | 38.9  | 37.0  | 36.8  | 37.9  | 39.4  | 40.3  | 42.1  |
| NONAGRICULTURAL                             | 163.6 | 182.8  | 207.8  | 164.5 | 168.1 | 175.5 | 180.4 | 185.2 | 190.2 | 196.0 | 202.8 | 211.0 | 221.3 |
| IMPORTS                                     | 261.3 | 334.9  | 374.2  | 271.8 | 284.9 | 319.2 | 330.0 | 340.1 | 350.2 | 360.0 | 369.7 | 379.1 | 386.0 |
| PETROLEUM AND PRODUCTS                      | 53.8  | 61.3   | 69.1   | 63.7  | 57.1  | 55.4  | 60.4  | 63.7  | 65.7  | 66.5  | 68.3  | 70.2  | 71.4  |
| NONPETROLEUM                                | 207.5 | 273.6  | 305.1  | 208.1 | 227.8 | 263.8 | 269.6 | 276.4 | 284.5 | 293.6 | 301.4 | 308.9 | 316.6 |
| <b>3. U.S. CURRENT ACCOUNT BALANCE</b>      |       |        |        |       |       |       |       |       |       |       |       |       |       |
| OF WHICH: NET INVESTMENT INCOME             | 23.5  | 24.6   | 16.0   | 28.7  | 20.5  | 30.5  | 24.6  | 22.3  | 20.9  | 18.5  | 16.7  | 15.0  | 14.0  |
| <b>4. FOREIGN OUTLOOK 3/</b>                |       |        |        |       |       |       |       |       |       |       |       |       |       |
| REAL GNP--TEN INDUSTRIAL 4/                 | 1.5   | 2.9    | 2.6    | 2.3   | 4.1   | 3.9   | 1.2   | 2.5   | 2.7   | 2.6   | 2.6   | 2.7   | 2.7   |
| REAL GNP--NONOPEC LDC 5/                    | 1.8   | 3.0    | 3.6    | 2.5   | 2.8   | 3.0   | 3.2   | 3.4   | 3.5   | 3.7   | 3.8   | 3.9   | 4.0   |
| CONSUMER PRICES--TEN IND. 4/                | 5.7   | 5.2    | 5.0    | 5.3   | 5.4   | 5.3   | 5.2   | 4.7   | 4.9   | 4.9   | 5.2   | 4.9   | 4.9   |

1/ NATIONAL INCOME AND PRODUCT ACCOUNT DATA.

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ PERCENT CHANGE, ANNUAL RATES.

4/ WEIGHTED BY MULTILATERAL TRADE-WEIGHTS OF G-10 COUNTRIES PLUS SWITZERLAND.

5/ WEIGHTED BY SHARE IN NONOPEC LDC GNP.

P/ PROJECTED