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September 14, 1988

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

Recent Developments

Data on labor market activity through August suggest that the economic expansion may be moderating somewhat from the robust pace of the first half of the year. However, information on spending in the current quarter is fragmentary at this point and provides no firm basis for judging whether a meaningful change in the trend in demand has yet occurred. On the inflation side, incoming information shows little change from recent trends, apart from the effect of the drought on food costs.

Nonfarm payroll employment (strike adjusted) rose about 220,000 in both July and August, well below the especially strong gains of 345,000 per month in the first half of the year. Hiring in construction and services slowed considerably over the two-month span, and in August, factory jobs edged down, ending a four-month string of sizable increases. Gains in household employment have been even smaller than in the payroll series both in recent months and on net this year, for reasons that are not fully clear from available data. Thus, the civilian jobless rate has edged back up to 5.6 percent after dipping to 5.3 percent in June.

Total industrial production is estimated to have advanced 0.2 percent in August after an upward-revised 1.0 percent jump in July. Among final products, output of consumer goods and business equipment rose 0.2 percent last month. Materials production also rose moderately after surging in July.

Capacity utilization rates changed little last month. The continued advance in production in capital goods' industries is gradually taking up available slack, while the operating rate for primary processing industries remains close to the relatively high level that prevailed at the end of last year. As a result, purchasing managers still report that industrial materials, such as various chemicals, paper, aluminum, steel products, and plastic resins, are in short supply. Further sizable price increases for these items continue to boost the producer price index for intermediate materials (excluding food and energy), which rose another 0.4 percent in August to a level 7-1/4 percent above a year earlier.

Consumer spending, in real terms, is estimated to have leveled off in July; the flatness, however, follows an especially sharp increase in June. Moreover, growth in real income appears to have been well maintained through July, and information from the August surveys indicates that consumer sentiment remains quite positive. Sales of motor vehicles held up relatively well through August, with domestic autos only a bit below the pace earlier in the year and light trucks setting another record. Sales of imported cars, however, were on the weak side for a second month.

Construction of single-family homes was little changed in July from the pace that prevailed during the first half of the year; starts were 1.08 million units. Sales of new and existing homes retreated from their near-record June mark to a level more consistent with the pace of homebuilding and with mortgage market conditions in early summer.

Multifamily construction, which turned up in July, continues to fluctuate in a low range.

In the business sector, spending for equipment increased further in July, despite a downturn in shipments of office and computing items. New orders for nondefense capital goods generally continued to rise, with the level of bookings (excluding aircraft) up 1-3/4 percent from the second-quarter average. Taken together, these early indications of third-quarter activity suggest that real outlays for producers' durable equipment will remain an area of strength in the near term, although the exceptionally rapid rates of growth of the first half of the year are not likely to be repeated. In contrast, nonresidential construction activity remained slow in July as oil drilling continued to contract and spending on industrial and commercial structures (other than offices) dropped back.

Wholesalers and retailers (other than auto dealers) sharply reduced their accumulation of inventories in the second quarter, apparently in response to uncomfortably high stock-sales ratios. In July, stockbuilding was again slow at the wholesale level. In manufacturing, inventory investment has been moderate for some time relative to shipments; as of July, stocks appeared lean at all stages of fabrication, leaving room for some pickup in accumulation, particularly in industries in which production trends remained strong through August.

Incoming data show that the drought is boosting consumer food prices noticeably. Retail food prices were up 1 percent in the July CPI. And, although the PPI for finished foods posted somewhat more moderate increases of 0.4 percent in July and August, the index for crude food jumped another 2.2 percent last month, indicating potential pressure from higher grain and livestock costs on retail prices. At the same time, a surprising runup in gasoline prices has added to inflation in recent months, as a tight inventory situation earlier this summer apparently allowed refiners and retailers to boost their margins. Excluding food and energy, consumer prices increased 0.3 percent in July, a bit below the average over the first half of the year. However, the PPI for finished consumer goods other than food and energy posted a large 0.9 percent advance in July followed by a 0.3 percent rise in August. This index has accelerated to a 4-3/4 percent rate so far this year from 2-3/4 percent in 1987.

Outlook

The monetary policy assumptions underlying the staff projection are essentially unchanged from the previous Greenbook. The staff continues to believe that additional pressures on financial markets will be required to slow the expansion in economic activity enough to avert a significant pickup in inflation. Thus, we have built into the current projection a path for interest rates that differs little from that underlying the August forecast, the only alteration being some shaving of the increase in long-term rates in light of recent market developments. Similarly, the assumed path for the foreign exchange value of the dollar associated with this projection is unchanged. Growth of M2 is expected to remain below its first-half pace through the end of this year, placing growth for the year a little below the midpoint of its annual range; next year, M2 is anticipated to be in the lower part of its range. Growth of M3, though, is projected to run higher than for M2, remaining above the midpoint of its range in 1988 and then moving to the middle of its range in 1989.

The staff's fiscal policy assumptions also are essentially unchanged from the last projection. The federal budget deficit is anticipated to be $158 billion in both FY1988 and FY1989.[1] The OMB's initial sequestration report for FY1989 estimates a deficit, on a Gramm-Rudman-Hollings (GRH) accounting basis, that is slightly below the trigger of $146 billion. And, progress on appropriations legislation, to date, would suggest that the Congress will manage to stay within the GRH limits. Thus, the staff has assumed that no automatic spending cuts will be ordered.

Updated assumptions regarding the effects of the drought account for much of the revision to the projected quarterly pattern of real GNP growth over the next year. The BEA has estimated that crop losses reduced growth in the second quarter by a percentage point, more than twice the earlier estimate. And, BEA's likely interpretation of the most recent USDA crop report, released this week, would imply effects of a similar magnitude over the second half of the year. Owing mainly to the second-quarter revision, the effect of the drought on the staff forecast is somewhat larger than in the August Greenbook; it is now expected to reduce growth of real GNP 3/4 percentage point over the four

1. An appendix to Greenbook Part 2, Nonfinancial Developments section, discusses a new fiscal indicator developed by the staff and presented on the Federal Sector table in this volume.

quarters of 1988. As in the previous projection, the drought-related output losses in GNP show up primarily as a drawdown in farm inventories and CCC stocks. Farm production is projected to rebound sharply in 1989, in part reflecting more expansive agricultural policies. This adds almost 2-1/2 percentage points to growth in the first quarter and 1 percentage point for the year as a whole.

Real GNP and the Drought
(Percent change, annual rate)

	1988			1989		
	Q2	Q3	Q4	Q1	Q2	H2
Real GNP	3.3	2.5	1.6	4.4	2.7	2.4
Real GNP excluding effects of drought	4.3	3.3	2.9	2.0	1.9	2.0

In the current quarter, the staff projection of real GNP growth excluding the effects of the drought remains relatively robust--3-1/4 percent. This is a little lower than in the August Greenbook, reflecting the weaker than anticipated August labor market report. Growth in consumer spending is expected to remain around 3 percent, about in line with the recent trend in real disposable income. Spending on business equipment and exports should continue to be the most important sources of impetus to aggregate demand this quarter.

The assumed monetary and fiscal restraints exert a broad effect on economic growth in coming quarters. The influence of higher interest rates is most obvious in the projection of homebuilding: housing starts are projected to fall from their current level of close to 1.5 million units to less than 1.4 million units by next summer. Higher interest rates, through their effects on borrowing costs and asset values, also exert some damping influence on consumer spending, which is expected to grow a bit less rapidly than disposable income next year. Business fixed investment spending should be only mildly affected, over the projection span, by an increase in financing costs of the magnitude assumed in this projection. However, concerns about a softening economy could have more powerful effects. Output already has decelerated somewhat from the pace of 1987, and with further moderation projected to become evident early next year, the boom in capital spending is expected to lose much of its momentum. Growth of real exports of goods and services is expected to slow somewhat over the projection period while growth of imports rebounds from the recent reduced pace. Nonetheless, the external sector still contributes more than 3/4 percentage point to GNP growth in 1989, compared with about 1 percentage point in 1988.

Excluding the effects of the drought, growth of real output is projected to remain around 3 percent--and thus somewhat above its longer-run potential rate of 2-1/2 percent--through year-end before slowing to 2 percent in 1989. Under the circumstances, the reduction in resource pressures is slight and does not leave a substantial mark on wage and price performance within the projection period. Hourly labor compensation is projected to accelerate gradually, and rising costs at earlier stages of processing are more likely to be passed on into final product prices.

Although the underlying inflation outlook has not changed, revised assumptions about food and energy prices have altered the quarterly pattern of inflation in the near term. The drought-related runup in consumer food prices has been accentuated, most notably in the current quarter. The decline in crude oil costs this summer has been steeper than previously anticipated, and the price of imported crude is now projected to remain somewhat below $14 per barrel through year-end, about $1-1/2 per barrel lower than in the August Greenbook.[2] Thus, retail energy prices are anticipated to drop sharply in the fourth quarter, offsetting in large part the push from food prices and from rising prices for consumer durables. As a result, the GNP fixed-weight price index is projected to rise at a 5-1/4 percent annual rate in the third quarter, about 1/2 percentage point more than in the last projection; this measure of inflation then decelerates to a 4-1/2 percent rate in the fourth quarter. The consumer price index is projected to average a 4-3/4 percent rate in both quarters.

At 4.5 percent and 3.7 percent, respectively, the 1989 projections for the GNP fixed-weight index and the GNP deflator are essentially unchanged from the previous Greenbook. A lower oil price path and slightly less rapid increases in food prices in late 1989 have only

2. Crude oil prices are projected to recover to around $15.50 per barrel in 1989. However, recent developments in the oil market once again have highlighted the volatility of factors affecting the outlook for energy prices. Depending on supply decisions by OPEC producers, prices of crude oil could, at least for some time, vary considerably from the forecast. If, for example, crude oil prices were to average $5 per barrel lower (higher) than projected next year, the <u>direct</u> effect on consumer prices would be to subtract (add) roughly 1/2 percentage point from (to) inflation over the four quarters of 1989.

Staff Price Projection
(Percent change, annual rate)

	1988		1989			
	Q3	Q4	Q1	Q2	Q3	Q4
GNP fixed-weight price index	5.2	4.4	5.0	4.4	4.3	4.3
Consumer price index	4.8	4.7	5.0	4.8	4.7	4.8

fractionally reduced the inflation projection. As has been the case for some time, the federal pay adjustment assumed to occur on January 1, 1989, accounts for an uptick in the GNP fixed-weight price measure in the first quarter. The CPI, which is not affected by the pay adjustment, shows a more stable inflation rate of around 5 percent for the year.

The details of the staff forecast are provided in the tables that follow.

September 14, 1988

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STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
	8/10/88	9/14/88	8/10/88	9/14/88	8/10/88	9/14/88	8/10/88	9/14/88	8/10/88	9/14/88
Annual changes:										
1986 <1>	5.6	5.6	2.8	2.8	2.8	2.8	2.7	2.7	7.0	7.0
1987 <1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2
1988	7.1	7.2	3.9	3.9	4.0	4.1	3.0	3.2	5.5	5.5
1989	6.7	7.0	2.7	2.9	4.7	4.6	3.9	4.0	5.6	5.6
Quarterly changes:										
1987 Q1 <1>	8.4	8.4	4.6	4.6	4.2	4.2	3.5	3.5	6.6	6.6
Q2 <1>	8.7	8.7	5.0	5.0	4.2	4.2	3.5	3.5	6.3	6.3
Q3 <1>	7.7	7.7	4.5	4.5	3.7	3.7	3.1	3.1	6.0	6.0
Q4 <1>	8.6	8.6	6.1	6.1	3.8	3.8	2.4	2.4	5.9	5.9
1988 Q1 <1>	5.4	5.4	3.4	3.4	3.5	3.5	1.7	1.7	5.7	5.7
Q2 <1>	7.2	8.3	3.1	3.3	4.7	4.7	4.1	5.1	5.5	5.5
Q3	7.3	6.5	3.1	2.5	4.6	5.2	4.0	3.8	5.4	5.5
Q4	6.1	6.1	1.8	1.6	4.6	4.4	4.2	4.4	5.4	5.5
Q1	7.7	8.5	3.6	4.4	5.1	5.0	4.0	3.9	5.4	5.5
Q2	6.4	6.6	2.5	2.7	4.6	4.4	3.8	3.8	5.5	5.6
Q3	5.8	6.2	2.0	2.4	4.4	4.3	3.7	3.6	5.6	5.7
Q4	5.8	5.9	2.0	2.4	4.3	4.3	3.6	3.4	5.7	5.7
Two-quarter changes: <2>										
1987 Q2 <1>	8.5	8.5	4.8	4.8	4.2	4.2	3.5	3.5	-.5	-.5
Q4 <1>	8.1	8.1	5.3	5.3	3.7	3.7	2.7	2.7	-.4	-.4
1988 Q2 <1>	6.3	6.8	3.3	3.3	4.0	4.0	2.9	3.4	-.4	-.4
Q4	6.7	6.3	2.4	2.0	4.6	4.8	4.1	4.1	-.1	.0
1989 Q2	7.1	7.5	3.0	3.5	4.9	4.7	3.9	3.9	.1	.1
Q4	5.8	6.0	2.0	2.4	4.4	4.3	3.7	3.5	.2	.1
Four-quarter changes: <3>										
1986 Q4 <1>	4.8	4.8	2.0	2.0	2.7	2.7	2.8	2.8	-.3	-.3
1987 Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988 Q4	6.5	6.6	2.8	2.7	4.3	4.4	3.5	3.8	-.5	-.4
1989 Q4	6.4	6.8	2.5	3.0	4.6	4.5	3.8	3.7	.3	.2

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

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1987		1988				1989			
						Projection					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	4568.0	4662.8	4724.5	4819.7	4896.6	4970.1	5072.6	5154.1	5231.8	5307.1
Real GNP	Billions of 82$	3865.3	3923.0	3956.1	3988.1	4012.5	4028.8	4072.4	4099.4	4124.1	4148.3
Nominal GNP	Percent change	7.7	8.6	5.4	8.3	6.5	6.1	8.5	6.6	6.2	5.9
Real GNP		4.5	6.1	3.4	3.3	2.5	1.6	4.4	2.7	2.4	2.4
Gross domestic product		4.7	5.8	4.2	3.1	2.6	1.8	4.4	2.8	2.4	2.3
Gross domestic purchases		4.8	5.4	1.6	1.3	2.0	1.2	3.8	1.9	1.5	1.1
Final sales		6.1	.4	3.6	6.5	2.9	2.9	2.6	2.4	2.6	3.1
Private dom. final purchases		6.6	-1.3	4.3	4.6	3.0	2.8	2.1	1.6	1.5	1.4
Personal consumption expend.		4.6	-2.1	4.5	2.7	3.1	2.5	1.7	1.3	1.3	1.3
Durables		16.5	-17.3	14.7	8.4	7.3	2.9	-.3	-.9	.7	.8
Nondurables		.9	-.6	1.0	.0	-.1	2.4	1.6	.8	.2	.2
Services		3.7	2.2	4.0	3.0	4.1	2.4	2.5	2.3	2.3	2.3
Business fixed investment		28.4	1.7	7.6	16.3	6.1	5.4	5.6	5.4	3.9	2.6
Producers' durable equipment		29.4	-2.4	21.6	17.9	10.2	8.0	7.0	6.5	5.5	4.5
Nonresidential structures		25.6	13.4	-22.4	12.1	-5.3	-1.9	1.3	1.8	-1.0	-3.2
Residential structures		-10.7	1.3	-6.5	1.1	-5.3	-.1	-2.2	-3.9	-3.3	-.7
Exports		25.7	17.7	25.7	11.6	14.0	13.0	14.5	13.3	12.9	13.5
Imports		23.4	9.9	6.9	-3.6	9.1	8.5	8.9	6.9	5.0	3.6
Government purchases		5.7	5.0	-7.9	3.6	-.1	1.4	1.9	2.1	2.3	3.0
Federal		12.6	6.7	-21.0	4.0	-3.7	.5	1.8	2.3	2.7	4.3
Defense		7.3	-1.9	-5.3	-2.1	-7.8	-5.2	-2.0	-.3	-.9	-.6
State and local		.6	3.8	3.5	3.2	2.7	2.0	2.0	2.0	2.1	2.2
Change in business inventories	Billions of 82$	13.0	67.1	66.0	36.0	32.4	19.7	37.4	40.1	38.5	31.7
Nonfarm	Billions of 82$	18.3	68.2	51.9	31.1	34.7	37.7	35.8	35.9	33.0	27.7
Net exports	Billions of 82$	-130.7	-126.0	-109.0	-90.1	-86.3	-82.7	-77.7	-70.8	-61.1	-48.1
MENT AND PRODUCTION											
m payroll employment	Millions	102.7	103.7	104.7	105.6	106.5	107.0	107.5	107.8	108.2	108.5
Unemployment rate	Percent*	6.0	5.9	5.7	5.5	5.5	5.5	5.5	5.6	5.7	5.7
Industrial production index	Percent change	8.8	7.0	3.9	4.6	6.7	4.1	3.1	2.8	2.5	2.2
Capacity utilization rate-mfg.	Percent*	81.4	82.3	82.7	83.2	83.9	84.1	84.0	83.9	83.8	83.5
Housing Starts	Millions	1.62	1.53	1.48	1.48	1.47	1.44	1.42	1.40	1.38	1.37
Auto sales	Millions	11.42	10.02	10.79	10.76	10.63	10.80	10.52	10.27	10.29	10.27
Domestic	Millions	7.84	6.63	7.64	7.57	7.59	7.62	7.42	7.22	7.27	7.27
Foreign	Millions	3.58	3.38	3.15	3.19	3.04	3.18	3.10	3.05	3.02	3.00
INCOME AND SAVING											
Nominal personal income	Percent change	7.1	11.6	4.6	7.3	6.6	8.0	9.3	6.4	5.8	6.7
Real disposable income	Percent change	4.8	6.9	5.0	.3	3.0	2.7	4.3	.8	.9	1.4
Personal saving rate	Percent*	2.3	4.3	4.4	3.9	3.9	3.9	4.5	4.4	4.2	4.2
Corp. profits with IVA & CCAdj	Percent change	23.9	-7.1	.1	21.5	-4.0	-8.8	8.4	6.9	-2.1	-2.1
Profit share of GNP	Percent*	7.0	6.8	6.7	6.9	6.7	6.5	6.5	6.5	6.3	6.2
Federal govt. surplus/deficit	Billions of $	-138.3	-160.4	-155.1	-130.9	-132.6	-141.0	-143.5	-137.8	-132.0	-136.3
State and local govt. surplus		52.9	49.7	55.8	56.2	59.4	62.9	67.2	69.5	70.6	71.7
Exc. social insurance funds		-10.1	-14.8	-10.3	-11.6	-9.5	-7.2	-4.1	-3.0	-3.1	-3.2
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.1	2.4	1.7	5.1	3.8	4.4	3.9	3.8	3.6	3.4
GNP fixed-weight price index		3.7	3.8	3.5	4.7	5.2	4.4	5.0	4.4	4.3	4.3
Cons. & fixed invest. prices		3.9	4.3	2.5	4.7	4.7	4.6	4.7	4.7	4.6	4.6
CPI		3.6	3.9	3.2	4.9	4.8	4.7	5.0	4.8	4.7	4.8
Exc. food and energy		3.6	4.2	4.4	5.0	4.4	5.3	5.1	5.1	5.2	5.3
Nonfarm business sector											
Output per hour		3.7	.9	3.4	-1.4	1.5	.9	.4	.7	.7	.8
Compensation per hour		4.5	6.4	3.5	4.2	4.5	4.7	5.1	4.9	5.1	5.2
Unit labor costs		.7	5.4	.1	5.7	3.0	3.8	4.7	4.2	4.4	4.4

t an annual rate.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1981	1982	1983	1984	1985	1986	1987	Projection 1988	Projection 1989
EXPENDITURES										
Nominal GNP	Billions of $	3052.6	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4852.7	5191.4
Real GNP	Billions of 82$	3248.8	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3996.4	4111.1
Real GNP	Percent change*	.6	-1.9	6.5	5.1	3.6	2.0	5.0	2.7	3.0
Gross domestic product		.3	-1.6	6.6	5.3	3.8	2.3	5.1	2.9	3.0
Gross domestic purchases		.8	-.8	8.4	6.4	4.3	2.4	4.4	1.5	2.1
Final sales		.1	.3	3.7	4.7	4.6	2.5	3.0	4.0	2.7
Private dom. final purchases		-.3	.8	7.7	5.6	4.6	2.8	2.4	3.7	1.6
Personal consumption expend.		.2	2.9	5.4	4.1	4.6	4.2	1.8	3.2	1.4
Durables		-3.3	9.0	14.7	10.8	7.0	11.5	-2.4	8.2	.1
Nondurables		.5	1.8	4.4	2.3	3.3	3.1	.6	.8	.7
Services		.9	2.3	3.9	3.5	5.0	2.7	4.2	3.4	2.3
Business fixed investment		5.6	-11.3	10.8	13.8	3.7	-7.3	8.8	8.8	4.4
Producers' durable equipment		2.2	-12.5	20.9	14.9	4.6	-2.4	9.6	14.3	5.9
Nonresidential structures		11.7	-9.1	-4.8	11.8	1.9	-17.4	6.7	-5.2	-.3
Residential structures		-22.4	4.9	38.1	6.1	5.8	11.3	-3.5	-2.7	-2.5
Exports		2.4	-13.8	5.8	5.9	-2.4	5.6	18.4	15.9	13.6
Imports		4.9	-5.9	23.8	17.4	4.5	7.6	10.4	5.1	6.1
Government purchases		2.9	3.8	-2.7	7.9	8.6	2.9	2.3	-.8	2.4
Federal		9.5	8.2	-8.1	13.0	13.3	.0	2.1	-5.6	2.8
Defense		7.6	8.8	5.1	6.5	7.1	4.8	6.0	-5.1	-1.0
State and local		-1.3	.6	1.5	4.4	4.9	5.3	2.5	2.9	2.1
Change in business inventories	Billions of 82$	23.9	-24.5	-6.4	62.3	9.1	15.4	34.4	38.5	36.9
Nonfarm	Billions of 82$	19.0	-23.1	-.1	57.8	13.4	17.9	36.9	38.9	33.1
Net exports	Billions of 82$	49.4	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-92.0	-64.4
Nominal GNP	Percent change*	9.3	3.1	10.4	8.6	6.6	4.8	8.3	6.6	6.8
?LOYMENT AND PRODUCTION										
nfarm payroll employment	Millions	91.2	89.6	90.2	94.5	97.5	99.5	102.3	105.9	108.0
Unemployment rate	Percent	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.6
Industrial production index	Percent change*	-1.0	-7.7	14.3	6.6	1.7	1.0	5.8	4.8	2.6
Capacity utilization rate-mfg.	Percent	78.2	70.3	73.9	80.5	80.1	79.7	81.0	83.5	83.8
Housing Starts	Millions	1.10	1.06	1.71	1.77	1.74	1.81	1.63	1.47	1.39
Auto sales	Millions	8.56	8.00	9.18	10.43	11.09	11.52	10.34	10.75	10.34
Domestic	Millions	6.24	5.77	6.77	7.97	8.24	8.28	7.14	7.60	7.30
Foreign	Millions	2.32	2.23	2.41	2.46	2.84	3.25	3.21	3.14	3.04
INCOME AND SAVING										
Nominal personal income	Percent change*	9.2	5.3	7.8	8.4	6.6	5.9	8.5	6.6	7.0
Real disposable income	Percent change*	.7	1.0	5.1	4.3	2.7	3.4	3.0	2.8	1.8
Personal saving rate	Percent	7.5	6.8	5.4	6.1	4.4	4.0	3.2	4.0	4.3
Corp. profits with IVA & CCAdj	Percent change*	2.3	-19.1	70.1	7.4	9.2	.9	7.6	1.6	2.7
Profit share of GNP	Percent	6.2	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.4
Federal govt. surplus/deficit	Billions of $	-63.8	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-139.9	-137.4
State and local govt. surplus		34.1	35.1	47.5	64.6	65.1	61.2	52.9	58.6	69.8
Exc. social insurance funds		4.1	-1.7	4.4	19.8	13.8	5.0	-9.2	-9.7	-3.3
PRICES AND COSTS										
GNP implicit deflator	Percent change*	8.7	5.2	3.6	3.4	2.9	2.8	3.1	3.8	3.7
GNP fixed-weight price index		8.5	5.0	3.9	3.7	3.3	2.7	4.0	4.4	4.5
Cons. & fixed invest. prices		8.2	4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.7
CPI		9.6	4.4	3.2	4.1	3.5	1.3	4.4	4.4	4.8
Exc. food and energy		10.2	5.2	4.2	4.8	4.3	3.9	4.3	4.8	5.2
Nonfarm business sector										
Output per hour		-.6	1.0	3.6	1.5	1.5	1.2	1.9	1.1	.7
Compensation per hour		8.3	7.3	3.3	4.2	4.5	4.2	4.1	4.2	5.1
Unit labor costs		9.0	6.2	-.3	2.6	2.9	3.0	2.1	3.1	4.4

'ercent changes are from fourth quarter to fourth quarter.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

	1987		1988		Projection								Projection	
							1989				1986	1987	1988	1989
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	42.3	57.7	33.1	32.0	24.4	16.2	43.7	26.9	24.8	24.1	72.3	188.3	105.8	119.5
Gross domestic product	43.6	54.3	40.3	30.2	25.3	18.1	43.8	27.8	24.5	23.5	83.3	188.3	113.9	119.6
Gross domestic purchases	47.0	53.0	16.1	13.1	20.7	12.6	38.6	20.1	15.1	11.1	89.4	171.9	62.5	84.9
Final sales	57.0	3.7	34.2	62.0	28.0	28.9	26.0	24.2	26.4	30.9	90.5	110.7	153.2	107.5
Private dom. final purchases	51.0	-10.7	33.4	36.2	24.4	22.6	17.2	13.2	12.1	11.9	85.8	76.2	116.6	54.3
Personal consumption expend.	28.6	-13.5	28.1	17.4	19.8	16.0	11.3	8.3	8.6	8.8	99.3	45.5	81.3	37.0
Durables	15.2	-18.9	13.5	8.2	7.3	3.0	-.4	-.9	.7	.8	40.9	-9.7	32.0	.2
Nondurables	2.1	-1.4	2.2	.0	-.2	5.3	3.6	1.8	.5	.5	27.0	5.2	7.3	6.3
Services	11.3	6.8	12.3	9.3	12.7	7.7	8.0	7.4	7.5	7.5	31.4	50.0	42.0	30.4
Business fixed investment	28.0	2.0	8.6	18.2	7.3	6.6	6.9	6.7	5.0	3.4	-33.6	37.5	40.7	22.0
Producers' durable equipment	20.9	-2.0	16.7	14.7	8.9	7.2	6.5	6.2	5.3	4.4	-7.6	29.2	47.5	22.4
Nonresidential structures	7.1	4.1	-8.1	3.6	-1.7	-.6	.4	.6	-.3	-1.0	-26.1	8.3	-6.8	-.4
Residential structures	-5.5	.6	-3.2	.5	-2.5	.0	-1.1	-1.8	-1.5	-.3	20.3	-7.0	-5.3	-4.7
Change in business inventories	-14.8	54.1	-1.1	-30.0	-3.6	-12.7	17.7	2.7	-1.6	-6.8	-18.2	77.6	-47.4	12.0
Nonfarm	-6.7	49.9	-16.3	-20.8	3.6	3.0	-1.9	.1	-2.9	-5.3	-22.0	67.0	-30.5	-10.0
Farm	-8.0	4.2	15.2	-9.1	-7.3	-15.7	19.6	2.6	1.3	-1.5	3.8	10.6	-16.9	22.0
Net exports	-4.7	4.7	17.0	18.9	3.8	3.6	5.1	6.9	9.6	13.1	-17.1	16.4	43.3	34.7
Exports	24.5	18.3	27.0	13.5	16.6	16.1	18.4	17.4	17.5	18.9	20.4	71.4	73.2	72.3
Imports	29.3	13.6	9.9	-5.4	13.0	12.4	13.3	10.6	7.9	5.8	37.6	55.0	29.9	37.6
Government purchases	10.7	9.7	-16.2	6.9	-.1	2.7	3.7	4.2	4.6	6.0	21.8	18.1	[illegible]7	18.6
Federal	10.0	5.6	-19.9	3.2	-3.1	.4	1.4	1.9	2.2	3.5	-.1	7.2	-19.4	9.1
Defense	4.7	-1.3	-3.6	-1.4	-5.3	-3.4	-1.3	-.2	-.6	-.4	11.7	15.1	-13.7	-2.5
Nondefense	5.3	6.9	-16.3	4.6	2.2	3.8	2.7	2.1	2.8	3.9	-11.8	-7.9	-5.7	11.6
State and local	.7	4.1	3.8	3.6	3.0	2.3	2.3	2.3	2.4	2.5	21.9	10.9	12.7	9.5

September 14, 1988

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1987a	FY1988p Admin[1]	FY1988p CBO[2]	FY1988p FRB Staff	FY1989p Admin[1]	FY1989p CBO[2]	FY1989p FRB Staff	1987 IVa	1988 Ia	1988 IIa	FRB Staff Projection 1988 III	FRB Staff Projection 1988 IV	FRB Staff Projection 1989 I	FRB Staff Projection 1989 II	FRB Staff Projection 1989 III
BUDGET								Not seasonally adjusted							
Budget receipts[3]	854	913	908	905	974	980	975	205	208	268	224	212	229	285	249
Budget outlays[3]	1005	1066	1063	1063	1097	1127	1133	287	245	268	263	283	283	281	286
Surplus/deficit(-) to be financed[3]	-150	-152	-155	-158	-123	-148	-158	-82	-37	1	-39	-71	-53	4	-37
(On-budget)	-170	-192	-194	-197	-174	-199	-205	-68	-64	-18	-48	-78	-67	-14	-46
(Off-budget)	20	40	39	39	51	52	47	-14	27	18	9	6	14	18	9
Means of financing:															
Borrowing from public	152	133	n.a.	164	118	n.a.	153	61	43	19	42	50	49	19	35
Cash balance decrease	-5	16	n.a.	-3	0	n.a.	-6	14	0	-17	0	26	-7	-15	-10
Other[4]	4	3	n.a.	-3	5	n.a.	11	7	-5	-3	-3	-5	11	-7	12
Cash operating balance, end of period	36	20	n.a.	40	20	n.a.	46	23	23	40	40	14	21	36	46
NIPA FEDERAL SECTOR								Seasonally adjusted annual rates							
Receipts	895	973	966	966	1042	1037	1037	944	951	984	985	1002	1030	1052	1066
Expenditures	1058	1102	1103	1111	1147	1171	1176	1105	1106	1115	1118	1143	1173	1190	1199
Purchases	376	375	381	382	396	396	394	391	378	382	379	383	393	398	402
Defense	290	289	298	298	295	306	297	299	298	298	295	293	297	299	300
Nondefense	86	86	83	85	101	91	97	92	79	83	85	91	96	99	102
All other expend.	682	727	722	728	751	775	782	714	728	733	739	760	781	792	797
Surplus/deficit(-)	-164	-129	-137	-145	-105	-134	-139	-160	-155	-131	-133	-141	-143	-138	-132
FISCAL INDICATORS[5]															
High-employment surplus/deficit(-), (HEB)	-140	n.a.	n.a.	-153	n.a.	n.a.	-154	-163	-162	-143	-145	-151	-160	-155	-148
Change in HEB, percent of potential GNP	-1.1	n.a.	n.a.	.3	n.a.	n.a.	0	.8	0	-.4	0	.1	.2	-.1	-.1
Fiscal impetus measure, (FI), percent	4.5 *	n.a.	n.a.	-.3 *	n.a.	n.a.	-3.6 *	-.5	.1	-.2	-1.4	-1.5	-1.4	-.2	-.3

a--actual p--projection *--calendar year n.a.--not available

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

1. Mid-Session Review of the Fiscal 1989 Budget (July 28, 1988).
2. The Ecomonic and Budget Outlook: An Update (August, 1988).
3. Includes social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law.
4. Checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Recent Developments

Although federal funds have continued to trade around the 8-1/8 percent level reached shortly before the August FOMC meeting, most other market interest rates have declined on balance over the intermeeting period. Market participants generally interpreted the August employment report, in particular, as portending somewhat less economic strength than previously had been anticipated, which--combined with softer oil prices--suggested to many a less worrisome outlook for inflation and diminished prospects for further monetary tightening. Interest rates are down as much as 3/8 of a percentage point for the period--with the notable exception of the three-month Treasury bill rate, which appears to have been boosted by recent increases in the supply of bills. Broad stock price indexes have increased about 2 percent, aided by the declines in interest rates.

The monetary aggregates continued to slow in August. Growth of M2 fell to around a 2 percent annual rate, as depositors reacted to increasing opportunity costs of holding monetary assets, while M3 expansion dropped to about a 4 percent rate, as banks adjusted to slowing core deposit inflows in part by increasing their reliance on managed liabilities not included in the monetary aggregates--especially borrowings from their foreign branches. M2 and M3 are estimated to have expanded at 6-1/4 and 7 percent annual rates from the fourth quarter through August, leaving these aggregates, respectively, near and somewhat above the midpoints of their 4-to-8 percent target ranges.

The composition of monetary growth was somewhat more consistent in August than in recent months with the steepening deposit yield curve, as growth in small time deposits picked up and liquid household deposits contracted slightly. Over the summer, the composition of deposit growth by type of depository institution has changed as well. In particular, small time deposit growth at thrift institutions has been much weaker than at commercial banks--a reversal of the experience over much of the post-deregulation period--and may reflect less aggressive bidding for funds by troubled thrifts as a result of pressure by regulators.

Bank credit growth remained moderate last month as a rebound in holdings of government securities was partly offset by slower growth of business loans. To some extent, this slowing likely reflected a shift in bookings away from domestic offices to foreign branches of U.S. banks as the prime-LIBOR spread widened after the August prime rate increase, as well as a rebound in commercial paper outstanding, which had dropped sharply in July. Public bond offerings by nonfinancial corporations picked up a little in August, but remained relatively light. A sizable share of bond issuance in this quarter has been in the junk bond market, which appears to have been little affected by the charges recently brought by the SEC against Drexel Burnham Lambert, although the market has not yet been tested by any large new issues.

The apparent moderation in overall business borrowing in recent months in the face of what is estimated to be an appreciable financing gap likely is due in part to some slackening in the pace of net share retirements from the record pace of the second quarter. In contrast to the uptick in bond issuance, new equity offerings by nonfinancial corporations again fell off appreciably in August, likely in response to the dropoff in share prices early in the month.

Issuance of municipal bonds slowed in August, as offerings of bonds for new capital fell off and refunding bonds remained near the weak July rate. However, sales of short-term notes surged, primarily reflecting a large offering by the state of California.

After being near balance in the second quarter, the federal deficit is estimated to be deepening to about $39 billion in the third quarter, bringing the figure for the fiscal year to about $158 billion. Net cash borrowing from the public is likely to total about $42 billion for the quarter, with the increase from the second quarter largely accounted for by a swing from net runoffs of bills last quarter to net issuance of about $16-1/2 billion. (An accelerated pace of special note issuance by the FSLIC also is adding to outlays and borrowing this quarter.)

Limited available evidence suggests that households have cut back their pace of borrowing in the third quarter. Residential mortgage originations appear to have slowed in July, as new home sales and turnover of existing homes have been curtailed by rising mortgage interest costs, although the effects of rising rates may have been moderated by the availability of ARMs. The proportion of conventional mortgages closed with adjustable rates at FSLIC-insured institutions has continued to climb, reaching 61 percent in early August. Lenders appear to have been pricing ARMs even more aggressively in recent months, in attempts to increase market share. Consumer installment credit expanded at less than a 5 percent annual rate in July, down from an average 9-1/2 percent pace in the second quarter, mirroring a sharp slowing in auto loans and revolving credit; commercial bank figures for August, although a bit stronger than in July, suggest continued subdued consumer borrowing.

Outlook

The staff's economic and financial forecast is similar to that presented in August. The projection once again assumes that the Federal Reserve will continue to tighten money market conditions over the next few quarters to contain inflationary pressures. Bond rates, too, are expected to rise appreciably in response to the firming stance of monetary policy, which seems to be largely unanticipated in the current structure of rates--owing perhaps to a more optimistic view than the staff's of what degree of restraint likely will be required to damp aggregate demand.

Expansion of domestic nonfinancial sector debt is expected to pick up to an annual rate of about 9 percent over the balance of the year, reflecting an acceleration of federal borrowing. For the year, the debt aggregate is projected to expand about 8-3/4 percent, slightly below the center of its monitoring range. Debt growth is projected to edge down to an average 8 percent rate over 1989.

Net Treasury borrowing in the fourth quarter of this year is expected to be about equally divided between bills and coupon securities; if the Treasury does not receive renewed authority to issue long-term bonds, still more funds likely will be raised in the bill sector, and this pattern will tend to sustain the flatter yield curve that has emerged recently. In addition to stepping up its borrowing in the fourth quarter, the Treasury is expected to draw down its cash balance by about $26 billion to help finance a widening deficit. Growth of federal debt is expected to slow a bit in 1989 from this year's pace. Borrowing by state and local governments is projected to remain relatively subdued over the projection horizon.

The corporate financing gap is forecast to widen further over the next few quarters as internal funds slip below the record pace reached in the first half of 1988, while capital expenditures continue to rise, albeit at a somewhat slower pace. Aggregate needs for external funds are expected to moderate, however, in response to an appreciable slowing in net equity retirements as fewer deals look attractive in an environment of higher interest rates and slower growth. The expected rising trend of interest rates is likely to encourage continued reliance on bank loans and commercial paper, and the ratio of short-term to total business debt is projected to continue to rise.

The pace of household borrowing is expected to drift lower over the projection period. Mortgage borrowing should continue to subside as housing activity weakens further in response to rising mortgage rates. In addition, higher interest rates and sluggish growth in personal disposable income are expected to restrain expenditures on consumer durables and consumer borrowing.

Recent Developments

The trade-weighted foreign exchange value of the dollar against other G-10 currencies rose in response to the favorable July merchandise trade figures, and on balance has been little changed since the August FOMC meeting. The dollar declined slightly against the mark and other EC currencies, while showing little net change against the yen. The dollar's advance after the August 9 discount rate increase persisted into late August, but slowed as the Bundesbank and other European central banks raised discount rates by 1/2 percentage point and Bank of England dealing rates rose by a full percentage point. The release in early September of softer-than-expected U.S. employment data for August added to downward pressure on the dollar, as market participants seemed to revise their views on the likelihood of further tightening by the Federal Reserve.

. Pressures within the EMS intensified during the intermeeting period, particularly as the mark strengthened against the dollar.

After a very strong first quarter, economic activity in major foreign industrial countries slackened in the second quarter, and economic performance diverged. In Germany, real GNP declined slightly in the second quarter, while French growth slowed to a moderate pace. Industrial production, housing starts and export volume fell in Japan and comments by government officials indicate that real GNP is expected to have fallen in the second quarter. In contrast, real GNP accelerated in Canada and the United Kingdom in the second quarter. Germany recorded another large trade surplus in June, bringing the cumulative surplus for the first half considerably above the year-earlier rate. Japan's cumulative surplus (through August) is down somewhat from last year's rate, despite an upturn in export volume during the summer. In the United Kingdom there were record trade and current account deficits in July, and the cumulative deficits so far this year (not annualized) substantially exceed the totals for the full year 1987.

Final IMF Executive Board approval of a new stand-by arrangement for Brazil has occurred following successful syndication to creditor banks of a financing package, and the first of six tranches has been drawn. However, the new Brazilian constitution to be promulgated October 5 requires that all major budgetary and financial decisions and international financial agreements be approved by the congress, greatly increasing the difficulty of achieving future agreements. The incomes policy implemented in Argentina in early August appears likely to reduce the rate of inflation, at least temporarily; it still remains uncertain whether the government will achieve necessary fiscal reforms. Postponement of disbursement dates for World Bank loans has led to delays in disbursement of the $500 million U.S. Treasury and BIS bridge loans agreed to in principle in August.

Preliminary data for July show a nominal U.S. merchandise trade deficit of $9.5 billion on a CIF basis, down significantly from the favorable second-quarter rate. Details will be included in the Greenbook Supplement. The U.S. merchandise trade deficit in the second quarter was $120 billion at a seasonally adjusted annual rate (balance of payments basis), substantially smaller than in the previous quarter.

Real merchandise exports rose in the second quarter at a 17 percent annual rate with notable increases in civilian aircraft, industrial supplies and consumer goods. Agricultural exports also rose. The volume of non-oil imports declined in the second quarter, reflecting in particular lower imports of automotive products and consumer goods, while imports of capital goods rose strongly (largely due to increases in Airbuses and semiconductors). The rise in oil imports in the second quarter was due to a greater than normal build-up of inventories in anticipation of higher prices. However, with improved prospects for peace in the Persian Gulf, prices have fallen sharply in recent weeks.

Receipts on both travel and passenger fares increased for the eighth consecutive quarter, helping to boost net services receipts by

$3.5 billion, while direct investment income, excluding capital gains and losses, rose by $4.3 billion.

Foreign official reserve assets in the United States were essentially unchanged in July, after declining in June.

Partial information for August indicates additional reductions in G-10 official holdings at the FRBNY. Private foreign residents (mainly Japanese, but also German and British) added $2.9 billion net to their holdings of U.S. Treasuries and $4.4 billion net to portfolios of U.S. corporate bonds and stocks, in both cases these net purchases were well above the pace in the first half of the year.

Outlook

The staff projection for the foreign exchange value of the dollar against other G-10 currencies is unchanged from the August Greenbook. After remaining around recent levels for the balance of 1988, the dollar is expected to decline moderately in 1989.

Economic activity in major industrial countries is expected to rebound from its second-quarter lull, and to grow to an annual rate of around 2 percent over the forecast horizon. This page is somewhat below the unexpectedly strong average for the first half of the year, and reflects in part policies to restrain expansion implemented in several countries. In developing countries, economic activity is expected to recover somewhat in 1989.

The staff expects oil import prices to recover from the depressed level in the third quarter, and to average about $15.50 in 1989. There is a substantial band of uncertainty around this projection, related to the ending of hostilities between Iran and Iraq, and the projection is well within the band. To illustrate the margin of uncertainty, if Iran and Iraq should add another 2 mb/day of oil to the market without comparable reductions from other OPEC states, the oil price might well drop to around $10 during 1989.

The U.S. trade deficit is projected to narrow to close to $90 billion at an annual rate by the fourth quarter of 1989. More than half of the projected improvement of $75 billion, measured from the fourth quarter of 1987, has already been realized in the second quarter, as non-agricultural exports have expanded strongly, and both oil and non-oil imports have changed relatively little. The slower rate of improvement projected for the trade deficit over the balance of this year and next reflects mainly an expected resumption of growth in non-oil imports in both nominal and real terms, together with some gradual slowing in the growth of non-agricultural exports from the exceptional pace of the past two years.

The U.S. current account deficit is expected to decline to an annual rate of about $105 billion by the fourth quarter of 1989. The expected improvement is about the same as for the trade account; rising net U.S. interest payments, resulting from the upward movement in dollar intere^t rates that underlies the forecast, are expected to be offset by increases in net receipts from U.S. direct investments abroad and other services.

Improvement in the nominal trade and current account positions is expected to be accompanied by a larger improvement in real net exports of goods and services, as import prices rise faster than export prices in 1989.

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Outlook for U.S. Net Exports and Related Items
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1987		1988				1989			
	1987-	1988-P	1989-P	Q3-	Q4-	Q1-	Q2-	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-123.1	-90.2	-67.0	-125.2	-125.7	-112.1	-88.6	-80.7	-79.6	-76.6	-72.5	-64.3	-54.6
Exports of G+S	428.1	518.8	607.5	440.4	459.7	487.8	508.0	530.0	549.5	573.9	596.1	618.5	641.3
Imports of G+S	551.1	609.1	674.5	565.6	585.4	599.9	596.6	610.7	629.1	650.5	668.6	682.8	695.9
Constant 82 $, Net	-128.9	-92.1	-64.5	-130.7	-126.0	-109.0	-90.1	-86.4	-82.8	-77.8	-70.9	-61.2	-48.2
Exports of G+S	427.8	508.6	577.3	440.9	459.2	486.2	499.7	516.3	532.4	550.8	568.2	585.7	604.6
Imports of G+S	556.7	600.6	641.7	571.6	585.2	595.1	589.7	602.7	615.1	628.4	639.0	646.9	652.7
2. U.S. Merchandise Trade Balance 2/	-160.3	-121.5	-101.0	-158.7	-164.8	-140.7	-119.7	-114.0	-111.4	-109.2	-105.3	-98.5	-91.0
Exports	249.6	322.2	375.7	259.6	272.1	301.2	318.7	328.1	340.8	355.2	368.3	382.1	397.4
Agricultural	29.5	38.5	46.3	33.1	30.5	36.1	38.8	38.5	40.7	43.6	44.7	46.6	50.1
Non-Agricultural	220.1	283.6	329.5	226.5	241.6	265.1	279.9	289.6	300.0	311.6	323.6	335.5	347.3
Imports	409.9	443.6	476.8	418.3	436.8	441.9	438.4	442.1	452.2	464.4	473.6	480.6	488.4
Petroleum and Products	42.9	39.3	44.1	51.0	45.2	39.8	40.9	38.0	38.5	42.2	43.8	44.1	46.2
Non-Petroleum	367.0	404.3	432.7	367.2	391.7	402.1	397.5	404.0	413.6	422.2	4[illegible]8	436.5	442.2
3. U.S. Current Account Balance	-154.0	-135.5	-114.2	-167.9	-134.1	-147.8	-133.3	-136.0	-124.7	-121.2	-118.5	-112.2	-104.8
Of Which: Net Investment Income	20.4	-5.3	-5.7	4.3	50.2	4.6	-7.0	-15.4	-3.4	-2.9	-5.3	-6.7	-8.0
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	2.9	3.2	2.1	5.2	3.5	4.6	1.2	2.2	2.1	2.2	2.2	2.2	2.1
Real GNP--NonOPEC LDC 5/	4.2	3.4	3.7	3.6	3.3	3.1	3.3	3.5	3.8	3.9	3.8	3.7	3.5
Consumer Prices--Ten Ind. 4/	2.1	2.5	3.0	1.7	2.4	1.5	4.0	2.7	3.1	2.5	3.4	2.6	3.4

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; prices are not seasonally adjusted.
5/ Weighted by share in NonOPEC LDC GNP.
P/ Projected