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December 15, 1982

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent developments. Incoming data suggest that economic activity in the fourth quarter continued to weaken. Industrial production and employment declined further in November. Although consumer demand rose slightly and housing activity has continued to firm, business spending apparently still is contracting. At the same time, further progress has been made in slowing the rise in labor costs, and inflation generally remains at a moderate rate.

Total retail sales rose more than 2 percent in November. The rise was largely concentrated in autos, which, because of interest rate concessions and year-end cleanup sales, climbed to a 9.4 million unit annual rate. This was the best selling pace for both domestics and imports since the first quarter of 1981 and helped dealers reduce excess stocks of 1982 models. In early December domestic car sales slipped back to a 5.8 million unit annual rate from a 6.8 million unit rate in November. Nonauto retail sales improved a bit in November, with purchases at stores selling general merchandise, apparel, and furniture apparently posting a small increase in real terms for the first time since July.

Residential construction indicators continued to move up in October, extending the improvement in housing activity that began a year earlier. Starts of single-family homes edged up, and starts of multifamily units were almost as high as in the third quarter when the final surge in HUD-subsidized units occurred. Home sales also improved again in October; purchases of new houses remained close to September's high for the year, and existing home sales advanced for a second month.

Nonfarm payroll employment dropped another 165,000 in November-- about equal to the average monthly decline during the current recession. Much of the weakness in labor demand again was concentrated in the metals, machinery, and transportation equipment industries. But employment also declined in nondurable manufacturing industries, and hiring by trade establishments was unseasonably weak. The unemployment rate climbed to 10.8 percent in November. In addition to further job losses, weak labor markets failed to absorb a spurt of job seekers who previously had been out of the labor force.

The index of industrial production declined 0.4 percent in November, following somewhat larger cutbacks in the preceding two months. Auto manufacturers reduced assemblies further to a 4-1/2 million unit annual rate from an already low 4-3/4 million rate in October. Production of raw steel sank to a new low, and output of business equipment continued to contract, but less sharply than in previous months partly because the number of oil rigs in operation has turned up. The only major category of output that has risen in the past three months is defense and space equipment.

The weakness in production in recent months has been associated with further efforts by businesses to control inventories in the face of sluggish sales. At the end of October, the book-value inventory sales ratio for all manufacturing and trade was 1.55, slightly higher than its cyclical peak last January. In October, overhangs persisted in the metals and machinery industries and had reappeared at retail outlets selling general merchandise, apparel, and furniture. In contrast, auto inventories were down in October and had declined substantially further by the end of November.

Business capital spending continues to fall, and the contraction shows no sign of ending in the near term. Although spending on structures has held up, shipments of nondefense capital goods dropped 4-1/2 percent in October, with weakness widespread within the machinery category. Sales of heavy-weight trucks also were down sharply. Advance indicators of capital spending remain weak, with the October data on new orders for nondefense capital goods and construction contracts showing little strength. The Commerce Department's recent survey indicates that businesses have continued to revise down 1982 spending totals throughout the year and expect to reduce outlays further in real terms in the first half of next year.

The trend toward smaller increases in labor costs has extended into the fourth quarter of 1982. Wage rates for production workers have increased very little in recent months, bringing the rise in the index of average hourly earnings to a 5-3/4 percent annual rate over the first 11 months of the year. The rise in labor productivity this year also has been an important factor in holding down labor costs. Productivity in the nonfarm business sector grew at a 4 percent annual rate in the third quarter, and, with the sharp cutback in hours of work in recent months, likely will post another sizable gain in the current quarter.

This year's moderation in inflation continues to be widespread. Consumer prices in October rose at a 5-3/4 percent annual rate, only a bit above the average rate so far in 1982 and well below the 9 percent rate during 1981. The November producer price index showed a temporary spurt in energy prices; but over 1982 as a whole a marked deceleration

in prices has occurred in the producer area, owing largely to weak goods markets and a strong dollar. Capital equipment prices have increased at only a 3-3/4 percent annual rate this year, and the average rise in prices of intermediate nonfood materials is close to zero.

Outlook. The staff expects that real GNP will decline at a 1-3/4 percent annual rate in the current quarter. The drop reflects, in large part, a resumption of inventory liquidation; final sales are projected to be about unchanged from the preceding quarter. Consumer outlays, buoyed by the surge in auto sales, are expected to rise at a 3 percent annual rate in real terms. In addition, outlays for residential construction are rising, and federal spending has been bolstered by Commodity Credit Corporation payments and other farm subsidies. Offsetting these gains, business fixed investment and exports are projected to continue to fall sharply. Inflation, as measured by the Gross Domestic Business Product fixed-weighted price index, is expected to remain at around a 5-1/2 percent annual rate.

The monetary policy assumptions underlying the staff projection for 1983 are little changed from the last Greenbook. Abstracting from the impact of the new deposit accounts, M2 is assumed to grow somewhat above the midpoint of the 6 to 9 percent range tentatively set by the FOMC. Short-term interest rates are expected to stay around their current levels throughout 1983. But, as inflation expectations improve, long-term interest rates should move somewhat lower next year.

The principal change in the staff's fiscal policy assumptions is the introduction of a hike of 5 cents per gallon in the federal excise tax on gasoline effective April 1, 1983. These tax receipts are expected

to total around \$5-1/2 billion annually and will be used with some lag to finance highway repair and for construction grants. On balance, the change has only a small impact on the staff estimate of the federal deficit for FY 1983. The deficit is now estimated to total around \$180 billion.

A slow turnaround in economic activity is projected for early 1983, as outlays for residential building rise further and the drawdown in inventories comes to an end. Increases in consumer spending are expected to be constrained by weak income growth and a slowing in auto sales from the advanced rate this quarter. Business investment spending and exports are projected to remain weak in the first half of 1983.

Real GNP is projected to rise at a 4 percent annual rate over the second half of next year. Consumer outlays should be boosted by the final stage of the personal tax cut, and the uptrend in homebuilding is expected to continue as mortgage interest rates fall further. Although business spending on commercial and industrial structures is likely to decline throughout 1983, equipment purchases should begin to pick up as demand firms and corporate borrowing costs decline. With the value of the dollar receding and the beginning of economic recovery abroad, export demand is expected to firm in the second half. The growth in final demands also should bring with it some cautious rebuilding of inventories.

With the recovery in economic activity beginning very slowly, the unemployment rate is projected to rise a bit further in early 1983 to above 11 percent, and to recede only gradually in the second half of the year. Businesses are expected to rebuild their work forces gradually in an attempt to extend productivity gains and to improve profits. The continued slack in labor markets is expected to lead to a further reduction

in the rate of increase in hourly compensation from 6-1/2 percent over the four quarters of 1982 to just under 5 percent next year.

The combination of slower growth in hourly compensation and continued gains in productivity should sustain the downward momentum of inflation. Moreover, with substantial slack persisting in product markets, businesses will be constrained in their attempts to widen markups. However, cyclical rebounds in some commodity prices seem likely; food prices, in particular, are expected to rise a bit faster in 1983 than in 1982. More important, the depreciation of the dollar will raise import prices and could put upward pressure on domestic prices. The Gross Domestic Business Product fixed-weighted price index is projected to decelerate to a 4-1/4 percent annual rate in 1983 from a 5 percent rate in 1982. This measure of inflation dropped 4 percentage points between 1981 and 1982.

STAFF GNP PROJECTIONS

Percent changes, annual rate										
	Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)	
	11/10/82	12/15/82	11/10/82	12/15/82	Total		Excluding food and energy		11/10/82	12/15/82
Annual changes:										
1980 <1>	8.9	8.9	-4	-4	10.1	10.1	8.6	8.6	7.1	7.1
1981 <1>	11.6	11.6	1.9	1.9	9.6	9.6	9.4	9.4	7.6	7.6
1982	4.4	4.1	-1.7	-1.9	6.0	6.0	7.0	6.9	9.7	9.7
1983	6.6	6.1	1.8	1.4	4.8	4.7	4.8	4.5	10.5	11.0
Quarterly changes:										
1981 Q1 <1>	19.6	19.6	7.9	7.9	10.4	10.4	8.4	8.4	7.4	7.4
Q2 <1>	5.3	5.3	-1.5	-1.5	8.6	8.6	9.4	9.4	7.4	7.4
Q3 <1>	11.4	11.4	2.2	2.2	9.3	9.3	11.0	11.0	7.4	7.4
Q4 <1>	3.0	3.0	-5.3	-5.3	7.4	7.4	8.6	8.6	8.3	8.3
1982 Q1 <1>	-1.0	-1.0	-5.1	-5.1	4.4	4.4	5.3	5.3	8.8	8.8
Q2 <1>	6.8	6.8	2.1	2.1	3.8	3.8	5.9	5.9	9.5	9.5
Q3 <1>	6.2	4.7	.8	.0	6.1	5.5	5.8	5.0	9.9	9.9
Q4	5.4	4.0	-6	-1.8	5.4	5.6	5.6	5.7	10.6	10.7
1983 Q1	7.0	6.4	1.9	1.9	4.8	4.3	4.8	4.4	10.6	11.1
Q2	6.2	6.3	2.0	2.0	4.5	4.8	4.2	4.0	10.6	11.1
Q3	8.0	8.0	4.4	3.9	4.2	4.1	3.7	3.4	10.5	11.0
Q4	8.3	8.7	4.3	4.6	4.1	3.9	3.7	3.2	10.3	10.8
Two-quarter changes: <2>										
1981 Q2 <1>	12.2	12.2	3.1	3.1	9.5	9.5	8.9	8.9	-1	-1
Q4 <1>	7.1	7.1	-1.6	-1.6	8.3	8.3	9.8	9.8	.9	.9
1982 Q2 <1>	2.8	2.8	-1.6	-1.6	4.2	4.2	5.6	5.6	1.2	1.2
Q4	5.8	4.4	.1	-.9	5.8	5.6	5.7	5.4	1.1	1.2
1983 Q2	6.6	6.4	1.9	1.9	4.6	4.5	4.5	4.2	.0	.4
Q4	8.2	8.4	4.4	4.3	4.2	4.0	3.7	3.3	-.3	-.3
Four-quarter changes: <3>										
1980 Q4 <1>	9.4	9.4	-.7	-.7	10.3	10.3	9.4	9.4	1.5	1.5
1981 Q4 <1>	9.6	9.6	.7	.7	8.9	8.9	9.3	9.3	.8	.8
1982 Q4	4.3	3.6	-.7	-1.2	5.0	4.9	5.7	5.5	2.3	2.4
1983 Q4	7.4	7.4	3.1	3.1	4.4	4.3	4.1	3.8	-.3	.1

<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
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2575.9	2573.4	2643.7	2739.4	2864.9	2901.8	2980.9	3003.2
Final purchases	2576.6	2573.9	2664.8	2757.1	2852.7	2877.2	2949.1	2989.9
Private	2057.4	2037.9	2126.3	2197.3	2274.6	2294.0	2348.9	2363.6
Excluding net exports	2043.4	2013.7	2087.3	2173.8	2243.4	2270.3	2323.0	2340.1
Personal consumption expenditures	1618.7	1622.2	1682.0	1745.8	1799.9	1819.4	1868.8	1884.5
Goods	871.4	855.7	886.4	925.2	957.5	960.0	982.5	976.1
Services	747.3	766.6	795.6	820.6	842.4	859.4	886.3	908.3
Gross private domestic investment	424.0	391.0	384.1	410.3	455.7	475.5	486.0	468.9
Residential structures	113.5	91.2	97.6	110.5	113.6	109.5	101.2	95.5
Business fixed investment	311.2	300.2	307.8	317.5	330.0	341.3	353.0	360.2
Change in business inventories	-.7	-.4	-21.2	-17.7	12.2	24.6	31.8	13.2
Nonfarm	.7	4.0	-15.4	-12.3	10.0	19.3	24.6	6.0
Net exports of goods and services <1>	14.0	24.2	39.0	23.5	31.2	23.7	25.9	23.5
Exports	335.7	337.3	337.2	346.7	365.4	368.9	367.2	367.9
Imports	321.7	313.1	298.2	323.2	334.2	345.1	341.3	344.4
Gov't. purchases of goods and services	519.2	536.0	538.5	559.8	578.1	583.2	600.2	626.3
Federal <2>	189.6	198.8	193.3	207.0	217.0	218.2	230.0	250.5
State and local	329.6	337.2	345.2	352.8	361.1	365.0	370.1	375.7
Gross national product in constant (1972) dollars	1494.9	1457.8	1463.8	1479.4	1507.8	1502.2	1510.4	1490.1
Personal income	2086.8	2109.6	2185.3	2260.0	2330.0	2380.6	2458.2	2494.6
Wage and salary disbursements	1319.7	1332.1	1360.5	1412.2	1452.8	1479.4	1512.3	1531.2
Disposable personal income	1766.9	1781.0	1845.5	1902.9	1958.7	1996.5	2060.0	2101.4
Saving rate (percent)	5.5	6.1	6.1	5.5	5.4	6.1	6.5	7.5
Corporate profits with I.V.A. and C.C. Adj.	195.3	172.2	177.8	181.2	200.3	185.1	193.1	183.9
Corporate profits before tax	268.2	217.6	238.1	245.9	253.1	225.4	233.3	216.5
Federal government surplus or deficit (-) (N.I.A. basis)	-39.7	-67.5	-73.1	-65.2	-39.7	-40.5	-58.0	-101.7
High employment surplus or deficit (-) <3>	-18.4	-20.3	-19.3	-10.6	10.4	22.0	5.9	-20.3
State and local government surplus or deficit(-) (N.I.A. basis)	29.1	23.3	27.1	33.0	31.3	32.9	33.5	29.1
Excluding social insurance funds	3.3	-2.8	-1.0	3.9	1.1	1.7	1.2	-4.2
Civilian labor force (millions)	106.5	106.8	107.2	107.5	108.1	108.8	108.7	109.2
Unemployment rate (percent)	6.3	7.3	7.6	7.5	7.4	7.4	7.4	8.3
Nonfarm payroll employment (millions)	90.9	90.3	89.9	90.5	90.9	91.2	91.4	91.0
Manufacturing	20.9	20.3	19.9	20.1	20.2	20.3	20.3	19.9
Industrial production (1967=100)	152.7	144.5	142.3	148.8	151.8	152.5	153.0	146.3
Capacity utilization: all manufacturing (percent)	83.4	77.9	75.9	79.1	79.9	79.8	79.2	74.8
Materials (percent)	85.8	78.9	75.2	80.1	82.2	81.2	81.2	75.2
Housing starts, private (million units, A.R.)	1.25	1.06	1.39	1.50	1.40	1.17	.96	.87
New auto sales (millions, A.R.)	10.65	7.68	8.80	9.04	9.96	7.89	9.04	7.36
Domestic models	7.87	5.53	6.51	6.57	7.31	5.63	6.90	5.13
Foreign models	2.77	2.14	2.29	2.47	2.66	2.25	2.14	2.23

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

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

<3> Estimates in table are evaluated at a 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$30.9 billion in 1980-Q4, and a deficit of \$43.3 billion in 1981-Q4.

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

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	1.5	-9.6	1.6	4.3	7.9	-1.5	2.2	-5.3
Final purchases	1.6	-9.6	3.3	3.7	5.4	-4.0	1.0	-2.3
Private	.8	-12.4	5.4	4.7	5.5	-4.0	.4	-4.4
Excluding net exports	-1.3	-13.7	5.7	7.6	4.7	-2.8	2.2	-3.6
Personal consumption expenditures	-7	-8.7	5.4	5.7	4.4	-2.7	2.9	-3.3
Goods	-2.3	-16.1	5.7	8.6	6.9	-5.1	4.0	-6.2
Services	1.2	.4	5.1	2.6	1.5	.1	1.7	.0
Gross private domestic investment	-4.5	-32.5	-5.1	22.6	25.0	14.9	6.9	-22.6
Residential structures	-21.6	-61.7	20.4	59.8	1.0	-17.4	-31.9	-25.3
Business fixed investment	2.5	-20.4	3.5	6.6	8.0	1.1	9.3	.6
Gov't. purchases of goods and services	5.2	3.1	-4.7	-.3	5.2	-4.1	3.6	7.0
Federal	12.3	10.5	-12.5	-2.6	12.2	-3.2	14.8	20.4
National defense	13.2	.5	-2.5	-2.1	8.0	11.5	7.6	10.1
State and local	1.2	-1.1	.3	1.0	1.3	-4.6	-2.7	-.8
Disposable personal income	1.1	-6.6	5.2	3.0	3.7	.6	4.8	1.2
<u>Current Dollars</u>								
Gross national product	12.2	-.4	11.4	15.3	19.6	5.3	11.4	3.0
Final purchases	11.8	-.4	14.9	14.6	14.6	3.5	10.4	5.7
Private	10.2	-3.7	18.5	14.0	14.8	3.5	9.9	2.5
Excluding net exports	9.5	-5.7	15.4	17.6	13.4	4.9	9.6	3.0
Personal consumption expenditures	10.7	.9	15.6	16.1	13.0	4.4	11.3	3.4
Goods	9.4	-7.0	15.1	18.7	14.7	1.0	9.7	-2.6
Services	12.3	10.7	16.0	13.2	11.1	8.3	13.2	10.3
Gross private domestic investment	7.1	-27.6	-6.8	30.1	52.2	18.5	9.2	-13.3
Residential structures	-14.0	-58.2	31.0	64.5	11.5	-13.4	-27.0	-20.8
Business fixed investment	13.3	-13.3	10.4	13.3	16.7	14.5	14.3	8.4
Gov't. purchases of goods and services	18.5	13.6	1.9	16.8	13.7	3.6	12.2	18.6
Federal	29.5	20.8	-10.5	31.3	20.9	2.2	23.5	40.7
National defense	28.8	10.4	1.7	25.3	15.4	22.1	10.8	36.7
State and local	12.7	9.6	9.8	9.2	9.7	4.4	5.7	6.2
Disposable personal income	12.7	3.2	15.3	13.0	12.3	7.9	13.4	8.3
Personal income	10.7	4.4	15.1	14.4	13.0	9.0	13.7	6.1
Wage and salary disbursements	11.4	3.8	8.8	16.1	12.0	7.5	9.2	5.1
Corporate profits with I.V.A. and C.C. Adj.	29.4	-39.6	13.7	7.9	49.3	-27.1	18.4	-17.7
Corporate profits before tax	34.2	-56.7	43.4	13.8	12.2	-37.1	14.8	-25.8
Nonfarm payroll employment	1.8	-2.3	-1.8	2.7	1.8	1.0	.8	-1.8
Manufacturing	-1.2	-10.4	-7.5	4.2	1.3	2.8	.1	-8.1
Nonfarm business sector								
Output per hour	-.4	-4.6	3.4	3.1	4.9	-1.3	-.3	-3.5
Compensation per hour	11.9	10.2	10.4	9.8	11.8	7.1	9.0	7.3
Unit labor costs	12.4	15.5	6.8	5.5	6.6	8.6	9.3	11.2
GNP implicit deflator <1>	10.5	10.1	9.6	10.5	10.9	6.8	9.0	8.8
Gross domestic business product								
fixed-weighted price index <2>	11.0	10.4	9.9	10.0	10.4	8.6	9.3	7.4
Excluding food and energy	8.7	9.6	9.7	9.7	8.4	9.4	11.0	8.6
Consumer price index (all urban)	16.5	13.5	7.7	12.8	11.0	7.8	11.8	7.7
Industrial production	.4	-19.8	-5.8	19.3	8.4	1.9	1.4	-16.6

<1> Excluding Federal pay increases, rates of change were: 1980-Q1, 10.5 percent; 1980-Q4, 9.4 percent; 1981-Q1, 10.8 percent; 1981-Q4, 7.8 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.)

	1982				Projected 1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2995.5	3045.2	3080.7	3111.2	3159.9	3208.6	3270.8	3340.1
Final purchases	3031.1	3061.4	3077.8	3124.4	3163.5	3202.6	3262.4	3328.1
Private	2401.0	2430.5	2428.6	2455.3	2487.7	2521.0	2568.4	2617.0
Excluding net exports	2369.7	2395.6	2425.9	2463.4	2501.4	2545.7	2595.1	2649.2
Personal consumption expenditures	1919.4	1947.8	1987.5	2030.5	2061.0	2095.8	2135.7	2178.2
Goods	987.0	995.7	1008.0	1023.3	1032.0	1049.0	1069.0	1091.3
Services	932.4	952.1	979.5	1007.2	1029.0	1046.8	1066.7	1086.9
Gross private domestic investment	414.8	431.5	441.3	419.7	436.8	455.9	467.8	483.0
Residential structures	93.4	95.5	97.2	100.2	109.2	117.2	123.7	129.7
Business fixed investment	357.0	352.2	341.2	332.7	331.2	332.7	335.7	341.3
Change in business inventories	-35.6	-16.2	2.9	-13.2	-3.6	6.0	8.4	12.0
Nonfarm	-36.0	-15.0	2.9	-13.2	-3.6	6.0	8.4	12.0
Net exports of goods and services <1>	31.3	34.9	2.7	-8.1	-13.7	-24.7	-26.7	-32.2
Exports	359.9	365.8	347.0	331.0	324.2	324.1	333.5	342.3
Imports	328.6	330.9	344.2	339.1	337.9	348.8	360.2	374.5
Gov't. purchases of goods and services	630.1	630.9	649.2	669.1	675.8	681.6	694.0	711.1
Federal <2>	249.7	244.3	256.4	271.5	273.8	274.4	282.0	294.3
State and local	380.4	386.6	392.7	397.6	402.0	407.2	412.0	416.8
Gross national product in constant (1972) dollars	1470.7	1478.4	1478.4	1471.6	1478.6	1485.9	1500.3	1517.2
Personal income	2510.5	2552.7	2596.0	2630.1	2657.1	2692.8	2741.8	2789.5
Wage and salary disbursements	1541.6	1556.6	1569.9	1571.0	1590.4	1611.7	1638.1	1670.4
Disposable personal income	2117.1	2151.5	2201.7	2236.6	2269.2	2296.5	2345.0	2390.8
Saving rate (percent)	6.6	6.7	7.0	6.5	6.5	6.1	6.3	6.3
Corporate profits with I.V.A. and C.C. Adj.	157.1	155.4	165.9	169.7	174.9	177.5	188.9	202.7
Corporate profits before tax	171.6	171.7	179.9	176.0	175.0	170.4	175.5	181.0
Federal government surplus or deficit (-) (N.I.A. basis)	-118.4	-119.6	-153.1	-185.8	-177.9	-167.9	-187.2	-199.5
High employment surplus or deficit (-) <3>	-17.0	-8.1	-32.5	-50.8	-34.1	-18.4	-38.3	-52.8
State and local government surplus or deficit (-) (N.I.A. basis)	27.7	32.1	32.5	34.3	34.8	36.1	38.9	42.4
Excluding social insurance funds	-6.8	-3.6	-4.3	-3.8	-4.5	-4.4	-2.8	-5
Civilian labor force (millions)	109.1	110.2	110.7	110.9	111.4	111.7	112.0	112.3
Unemployment rate (percent)	8.8	9.5	9.9	10.7	11.1	11.1	11.0	10.8
Nonfarm payroll employment (millions)	90.4	90.0	89.4	88.7	88.8	89.0	89.3	89.9
Manufacturing	19.4	19.1	18.7	18.2	18.0	18.1	18.2	18.5
Industrial production (1967=100)	141.7	139.4	138.2	135.8	137.1	139.1	142.1	145.2
Capacity utilization: all manufacturing (percent)	71.6	70.3	69.7	67.9	68.2	68.8	69.9	71.0
Materials (percent)	72.0	69.6	68.2	66.6	67.5	68.5	70.3	72.1
Housing starts, private (million units, A.R.)	.92	.95	1.11	1.20	1.30	1.40	1.45	1.50
New auto sales (millions, A.R.)	8.12	7.53	7.78	8.40	8.20	8.40	9.00	9.20
Domestic models	5.90	5.53	5.56	6.00	5.90	6.30	6.70	6.80
Foreign models	2.22	1.99	2.22	2.40	2.30	2.10	2.30	2.40

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

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

<3> Estimates in table are evaluated at a 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$75.5 billion in 1982-Q4, and a deficit of \$78.7 billion in 1983-Q4.

CONFIDENTIAL - FR
CLASS II FOMC

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

	1982				Projected 1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	-5.1	2.1	.0	-1.8	1.9	2.0	3.9	4.6
Final purchases	.2	-.9	-1.8	.3	.8	.9	3.7	4.2
Private	1.0	.2	-3.3	-.7	1.2	1.4	3.9	4.4
Excluding net exports	.9	.6	-.5	1.0	1.3	1.9	3.3	4.2
Personal consumption expenditures	2.5	2.5	1.1	3.1	.9	1.3	3.0	3.7
Goods	2.0	2.5	-.4	2.8	-.5	1.4	3.6	4.5
Services	3.0	2.4	2.9	3.4	2.4	1.1	2.3	3.0
Gross private domestic investment	-36.5	14.9	5.4	-22.1	12.3	13.6	6.8	9.6
Residential structures	-10.2	12.9	6.3	9.6	36.0	27.3	19.1	16.5
Business fixed investment	-5.0	-11.8	-10.8	-12.9	-4.2	-1.0	.7	3.6
Gov't. purchases of goods and services	-2.9	-5.3	6.8	4.3	-.9	-.9	2.8	3.2
Federal	-5.5	-13.5	18.6	12.8	-.4	-2.2	7.3	8.0
National defense	-7.9	21.4	12.0	5.6	5.5	8.4	10.1	9.4
State and local	-1.1	.4	-.2	-1.0	-1.3	-.1	-.2	.0
Disposable personal income	-1.9	3.1	2.3	.8	.7	-.6	3.8	3.6
<u>Current Dollars</u>								
Gross national product	-1.0	6.8	4.7	4.0	6.4	6.3	8.0	8.7
Final purchases	5.6	4.1	2.2	6.2	5.1	5.0	7.7	8.3
Private	6.5	5.0	-.3	4.5	5.4	5.5	7.7	7.8
Excluding net exports	5.2	4.4	5.2	6.3	6.3	7.3	8.0	8.6
Personal consumption expenditures	7.6	6.1	8.4	8.9	6.1	6.9	7.8	8.2
Goods	4.5	3.6	5.0	6.2	3.4	6.8	7.8	8.6
Services	11.0	8.7	12.0	11.8	8.9	7.1	7.8	7.8
Gross private domestic investment	-38.8	17.1	9.4	-18.2	17.3	18.7	10.9	13.6
Residential structures	-8.4	9.4	7.0	12.9	41.1	32.7	24.1	20.9
Business fixed investment	-3.5	-5.3	-11.9	-9.6	-1.8	1.8	3.7	6.8
Gov't. purchases of goods and services	2.4	.6	12.1	12.9	4.1	3.5	7.5	10.2
Federal	-1.4	-8.3	21.4	25.7	3.4	.9	11.5	18.6
National defense	-1.8	26.4	14.3	16.7	10.5	12.9	15.0	20.3
State and local	5.0	6.7	6.5	5.1	4.5	5.3	4.8	4.7
Disposable personal income	3.0	6.7	9.7	6.5	6.0	4.9	8.7	8.0
Personal income	2.6	6.9	7.0	5.4	4.2	5.5	7.5	7.1
Wage and salary disbursements	2.7	3.9	3.5	.3	5.0	5.5	6.7	8.1
Corporate profits with I.V.A. and C.C. Adj.	-46.7	-4.3	29.9	9.4	12.9	5.9	28.5	32.6
Corporate profits before tax	-60.5	.2	20.5	-8.0	-2.2	-10.2	12.7	13.1
Nonfarm payroll employment	-2.4	-1.7	-2.9	-2.8	.1	1.0	1.7	2.6
Manufacturing	-9.0	-7.2	-7.8	-10.6	-2.8	.3	3.6	5.5
Nonfarm business sector								
Output per hour	.6	.8	4.0	3.4	1.9	1.4	2.2	2.3
Compensation per hour	7.7	6.1	6.6	5.8	5.5	4.6	4.6	4.5
Unit labor costs	7.1	5.2	2.6	2.4	3.5	3.1	2.4	2.2
GNP implicit deflator <1>	4.3	4.6	4.7	6.0	4.4	4.2	3.9	4.0
Gross domestic business product fixed-weighted price index <2>	4.4	3.8	5.5	5.6	4.3	4.8	4.1	3.9
Excluding food and energy	5.3	5.9	5.0	5.7	4.4	4.0	3.4	3.2
Consumer price index (all urban)	3.2	4.6	7.7	3.1	5.3	5.8	4.9	4.6
Industrial production	-11.8	-6.5	-3.4	-6.8	3.9	6.0	8.9	9.0

<1> Excluding Federal pay increases, the rates of change are: 1982-Q1, 4.2 percent; 1982-Q4, 5.5 percent;
1983-Q1, 4.4 percent; 1983-Q4, 3.5 percent.

<2> Uses expenditures in 1972 as weights.

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of current dollars.)

	1976	1977	1978	1979	1980	1981	---Projected---	
							1982	1983
Gross national product	1718.0	1918.3	2163.9	2417.8	2633.1	2937.7	3058.1	3244.8
Final purchases	1706.2	1895.3	2137.4	2403.5	2643.1	2917.3	3073.7	3239.1
Private	1344.1	1501.5	1705.5	1929.1	2104.7	2320.4	2428.8	2548.5
Excluding net exports	1330.3	1505.5	1706.6	1915.9	2079.5	2294.3	2413.6	2572.8
Personal consumption expenditures	1084.3	1204.4	1346.5	1507.2	1667.2	1843.2	1971.3	2117.7
Goods	598.5	657.0	728.5	813.5	884.7	969.1	1003.5	1060.3
Services	485.7	547.4	618.0	693.7	782.5	874.1	967.8	1057.3
Gross private domestic investment	257.9	324.1	386.6	423.0	402.3	471.5	426.8	460.9
Residential construction	72.0	95.8	111.2	118.6	103.2	104.9	96.6	119.9
Business fixed investment	174.1	205.2	248.9	290.2	309.2	346.1	345.8	335.2
Change in business inventories	11.8	23.0	26.5	14.3	-10.0	20.5	-15.5	5.7
Nonfarm	13.9	21.9	25.4	8.6	-5.7	15.0	-15.3	5.7
Net exports of goods and services <1>	13.8	-4.0	-1.1	13.2	25.2	26.1	15.2	-24.3
Exports	170.9	182.7	218.7	281.4	339.2	367.3	350.9	331.0
Imports	157.1	186.7	219.8	268.1	314.0	341.3	335.7	355.3
Gov't. purchases of goods and services	362.1	393.8	431.9	474.4	538.4	596.9	644.8	690.6
Federal <2>	129.2	143.4	153.6	168.3	197.2	228.9	255.5	281.1
State and local	232.9	250.4	278.3	306.0	341.2	368.0	389.3	409.5
Gross national product in constant (1972) dollars	1298.2	1369.7	1438.6	1479.4	1474.0	1502.6	1474.8	1495.5
Personal income	1391.2	1540.4	1732.7	1951.2	2160.4	2415.8	2572.3	2720.3
Wage and salary disbursements	889.9	983.2	1106.3	1237.6	1356.1	1493.9	1559.8	1627.6
Disposable personal income	1194.4	1314.0	1474.0	1650.2	1824.1	2029.1	2176.7	2325.4
Saving rate (percent)	6.9	5.9	6.1	5.9	5.8	6.4	6.7	6.3
Corporate profits with I.V.A. and C.C.Adj.	138.1	167.3	192.4	194.8	181.6	190.6	162.0	186.0
Corporate profits before tax	166.3	194.7	229.1	252.7	242.4	232.1	174.8	175.5
Federal government surplus or deficit(-) (N.I.A. basis)	-53.1	-45.9	-29.5	-16.1	-61.4	-60.0	-144.2	-183.1
High employment surplus or deficit(-)	-16.5	-20.5	-16.0	-2.0	-17.1	4.5	-27.1	-35.9
State and local government surplus or deficit (-) (N.I.A. basis)	16.6	28.0	30.3	30.4	28.1	31.7	31.6	38.0
Excluding social insurance funds	.9	10.1	10.0	6.6	.9	-.1	-4.7	-3.1
Civilian labor force (millions)	96.2	99.0	102.3	105.0	106.9	108.7	110.2	111.8
Unemployment rate (percent)	7.7	7.1	6.1	5.8	7.1	7.6	9.7	11.0
Nonfarm payroll employment (millions)	79.4	82.5	86.7	89.8	90.4	91.1	89.6	89.2
Manufacturing	19.0	19.7	20.5	21.0	20.3	20.2	18.8	18.2
Industrial production (1967=100)	130.4	138.1	146.1	152.5	147.0	150.9	138.8	140.9
Capacity utilization: all manufacturing (percent)	79.5	81.9	84.4	85.6	79.1	78.4	69.9	69.5
Materials (percent)	81.1	82.7	85.6	87.4	80.0	79.9	69.1	69.6
Housing starts, private (million units, A.R.)	1.54	1.96	2.00	1.72	1.30	1.10	1.05	1.41
New auto sales (millions, A.R.)	10.12	11.13	11.29	10.68	9.04	8.56	7.96	8.70
Domestic models	8.63	9.07	9.29	8.36	6.62	6.24	5.75	6.43
Foreign models	1.49	2.06	2.00	2.32	2.42	2.32	2.21	2.28

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

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

CONFIDENTIAL - FR
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1976	1977	1978	1979	1980	1981	--Projected--	
							1982	1983
<u>Constant (1972) Dollars</u>								
Gross national product	5.4	5.5	5.0	2.8	-.4	1.9	-1.9	1.4
Final purchases	4.2	5.1	4.9	3.5	.5	1.0	-.9	.9
Private	5.3	6.0	5.6	4.0	.0	1.0	-1.3	.7
Excluding net exports	6.2	6.5	5.5	2.9	-1.1	1.8	-.3	1.5
Personal consumption expenditures	5.6	5.0	4.5	2.7	.3	1.8	1.0	1.9
Goods	6.7	5.1	4.2	1.9	-1.5	1.9	.0	1.5
Services	4.3	4.9	4.8	3.7	2.4	1.7	2.0	2.4
Gross private domestic investment	19.2	16.1	10.5	-.2	-11.8	8.3	-11.9	3.6
Residential structures	21.3	18.6	2.8	-5.3	-20.1	-4.9	-10.2	20.5
Business fixed investment	5.3	11.7	12.8	7.3	-2.2	3.6	-4.5	-5.7
Gov't. purchases of goods and services	.0	1.5	2.0	1.3	2.3	.9	.8	1.4
Federal	-.6	3.7	-.1	1.8	4.3	3.7	3.8	4.4
National defense	-2.3	.8	.4	2.6	4.0	4.9	7.1	8.6
State and local	.4	.2	3.3	1.1	1.1	-.8	-1.1	-.6
Disposable personal income	3.6	4.0	4.9	2.7	.2	2.5	1.3	1.4
<u>Current Dollars</u>								
Gross national product	10.9	11.7	12.8	11.7	8.9	11.6	4.1	6.1
Final purchases	9.6	11.1	12.8	12.4	10.0	10.4	5.4	5.4
Private	10.5	11.7	13.6	13.1	9.1	10.2	4.7	4.9
Excluding net exports	11.8	13.2	13.4	12.3	8.5	10.3	5.2	6.6
Personal consumption expenditures	11.0	11.1	11.8	11.9	10.6	10.6	7.0	7.4
Goods	10.9	9.8	10.9	11.7	8.8	9.5	3.6	5.7
Services	11.2	12.7	12.9	12.2	12.8	11.7	10.7	9.3
Gross private domestic investment	25.1	25.7	19.3	9.4	-4.9	17.2	-9.5	8.0
Residential structures	30.2	33.1	16.1	6.6	-13.0	1.7	-8.0	24.2
Business fixed investment	10.4	17.9	21.3	16.6	6.5	12.0	-.1	-3.1
Gov't. purchases of goods and services	6.5	8.8	9.7	9.8	13.5	10.9	8.0	7.1
Federal	5.3	11.0	7.1	9.6	17.1	16.1	11.6	10.0
National defense	3.6	8.0	8.0	11.5	17.5	17.0	16.1	14.7
State and local	7.2	7.5	11.2	9.9	11.5	7.9	5.8	5.2
Disposable personal income	9.0	10.0	12.2	12.0	10.5	11.2	7.3	6.8
Personal income	10.0	10.7	12.5	12.6	10.7	11.8	6.5	5.8
Wage and salary disbursements	10.4	10.5	12.5	11.9	9.6	10.2	4.4	4.4
Corporate profits with I.V.A. and C.C.Adj.	25.0	21.1	15.0	1.3	-6.8	5.0	-15.0	14.8
Corporate profits before tax	25.9	17.1	17.7	10.3	-4.0	-4.3	-24.7	.4
Nonfarm payroll employment	3.2	3.9	5.1	3.6	.6	.8	-1.6	-.4
Manufacturing	3.7	3.6	4.2	2.6	-3.6	-.6	-6.6	-3.4
Nonfarm business sector								
Output per hour	3.2	2.2	.6	-1.3	-.9	1.4	.2	2.3
Compensation per hour	8.1	7.5	8.6	9.3	10.2	9.7	7.2	5.4
Unit labor costs	4.7	5.2	8.0	10.7	11.2	8.1	7.0	3.0
GNP implicit deflator	5.2	5.8	7.4	8.6	9.3	9.4	6.1	4.6
Gross domestic business product								
fixed-weighted price index <1>	5.5	6.1	8.0	9.9	10.1	9.6	6.0	4.7
Excluding food and energy	6.1	6.3	7.8	8.6	8.6	9.4	6.9	4.5
Consumer price index (all urban)	5.7	6.5	7.7	11.3	13.5	10.3	6.2	5.1
Industrial production	10.7	5.9	5.8	4.4	-3.6	2.6	-8.0	1.5

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS

	Fiscal Year 1981*	Fiscal Year 1982*	FY1983e/2/		CY 1981*	CY1982e/ F.R. Board	FRB Staff Estimates								
			Admin. 1/	F.R. Board			Calendar quarters; unadjusted data								
							1981	1982				1983			
			IV*	I*			II*	III*	IV	I	II	III			
Unified budget receipts	599.3	617.8	646.5	609.4	619.1	604.9	146.0	143.6	178.9	149.3	133.1	138.5	183.0	154.8	
Unified budget outlays	657.2	728.4	761.5	790.0	691.6	736.9	194.2	167.3	181.4	185.5	202.7	194.5	192.4	200.4	
Surplus/deficit(-), unified budget	-57.9	-110.7	-115.0	-180.6	-72.5	-132.0	-48.2	-23.7	-2.5	-36.2	-69.6	-56.0	-9.4	-45.6	
Surplus/deficit(-), off-budget agencies ³	-21.0	-17.3	-14.9	-14.6	-22.4	-16.0	-3.6	-2.0	-5.8	-6.0	-2.3	-3.7	-4.4	-4.2	
Combined deficit to be financed	-78.9	-128.0	-129.9	-195.2	-94.9	-148.0	-51.8	-25.7	-8.3	-42.3	-71.9	-59.7	-13.8	-49.8	
Means of financing combined deficit:															
Net borrowing from public	79.4	134.9	126.0	188.7	87.3	155.0	35.6	32.8	9.0	57.5	55.7	59.8	25.0	48.2	
Decrease in cash operating balance	2.3	-10.7		10.4	0.3	-3.3	6.7	-1.0	2.0	-18.4	14.1	5.2	-13.2	4.3	
Other ⁴	-2.8	3.8	3.9	-3.9	7.3	-3.7	9.5	-6.1	-2.8	3.2	2.0	-5.2	2.0	-2.7	
Cash operating balance, end of period	18.7	29.4	n.a.	19.0	12.0	15.3	12.0	13.0	11.0	29.4	15.3	10.1	23.3	19.0	
Memo: Sponsored agency borrowing ⁵	35.7	20.5	50.1	10.3	30.0	14.8	4.0	1.6	9.1	5.8	-1.8	1.0	5.1	5.9	
NIA Budget															
							Seasonally adjusted annual rates								
Receipts	615.5	616.5	n.a.	627.4	628.2	613.4	625.7	609.9	617.0	613.4	613.1	622.2	635.4	638.7	
Expenditures	666.3	739.7	n.a.	807.0	688.2	757.6	727.4	728.3	736.6	766.5	798.9	800.1	803.3	825.9	
Purchases	218.1	250.2	n.a.	275.4	228.9	255.5	250.5	249.7	244.3	256.4	271.5	273.8	274.4	282.0	
Defense	146.5	172.9	n.a.	197.8	153.7	178.5	166.9	166.2	176.2	162.2	189.4	194.2	200.2	207.3	
Nondefense	71.5	77.4	n.a.	77.6	75.2	77.0	83.6	83.5	68.2	74.3	82.1	79.6	74.2	74.7	
All other expenditures	448.2	489.5	n.a.	531.6	459.3	502.1	476.9	478.6	492.3	510.1	527.4	526.3	528.9	543.9	
Surplus/deficit(-)	-50.9	-123.2	n.a.	-179.7	-60.0	-144.2	-101.7	-118.4	-119.6	-153.1	-185.8	-177.9	-167.9	-187.2	
High Employment (H.E.) surplus/deficit(-) evaluated at H.E. unemployment rate of:															
5.1 percent	6.9	-19.5	n.a.	-35.4	4.5	-27.1	-20.3	-17.0	-8.1	-32.5	-50.8	-34.1	-18.4	-38.3	
6.1 percent	-14.7	-43.9	n.a.	-60.5	-17.8	-51.9	-43.3	-41.4	-33.3	-57.5	-75.5	-58.9	-43.7	-63.9	
	*--actual			e--estimated			n.a.--not available								

1. OMB Mid-Session Review of the 1983 Budget, July 1982.
2. In the First Concurrent Resolution on the Budget -- Fiscal Year 1983, the Congress recommended revenues of \$665.9 billion and outlays of \$769.8 billion.
3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the Strategic Petroleum Reserve.

4. Checks issued less checks paid, accrued items and other transactions.
5. FRB staff estimates and actuals include Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage backed securities), Federal Land Banks, Federal Intermediate Credit Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis. FRB and Administration estimates are not strictly comparable.

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

DOMESTIC FINANCIAL DEVELOPMENTS

Recent developments. Short-term interest rates generally have fallen around one-half to one full percentage point since the last FOMC meeting in association with two reductions of a half point each in the discount rate to 8-1/2 percent, a slight easing in bank reserve positions, and a net contraction in private short-term paper outstanding. Despite these recent decreases, however, many short-term market rates are little changed on balance from the levels reached following their steep declines in July and August. Bond yields were unchanged or rose a little in the early part of the intermeeting period even as short-term rates moved lower, reflecting in part the extraordinary volume of new issues. The bond markets strengthened immediately after the latest discount rate reduction, however, and yields on taxable bonds are now slightly below their mid-November levels.

M2 growth picked up to a 11-1/4 percent annual rate in November. This aggregate apparently continued to be bolstered by the impact of economic and financial uncertainties on the demand for liquid assets, and with a smaller volume of ASCs maturing, diversion of these deposits to market instruments was reduced. Previous declines in market rates likely contributed to the continued very rapid growth of savings deposits and NOW accounts in November, as did efforts by the public and depository institutions to position themselves in advance of the introduction of the new deposit accounts. Demand deposits also expanded last month, and M1 increased at a 16 percent annual rate in November. With two-thirds of the quarter behind us, it seems likely that the average level of M2 in the fourth quarter of 1982 will be nearly 10 percent above its level in the fourth quarter of 1981, somewhat

above the 6 to 9 percent range set by the FOMC; M1 appears likely to expand around 8-1/2 percent in 1982 as compared to its 2-1/2 to 5-1/2 percent range.

M3 growth in November continued at around the 9 percent pace of October as a runoff in commercial bank CDs prompted by slower bank credit expansion offset the pickup in M2. Bank credit expanded at only a 1-3/4 percent rate in November, its slowest pace in 2-1/2 years. Total loans actually contracted a little in November, led by a substantial decline in business loans at large banks. This was accompanied by a further runoff in commercial paper issued by nonfinancial corporations last month, signalling both an apparent reduction in overall business external financing and a continuing effort to fund short-term debt in long-term markets. Public offerings of corporate bonds remained at October's advanced pace, and equity issuance rose substantially last month.

Household borrowing has remained sluggish. Consumer installment credit outstanding declined in October, but it likely rebounded somewhat in November with the pickup in auto sales. The most recent data still show very little net mortgage lending by banks and thrifts, but signs of a revival in primary mortgage market activity continue to accumulate: new mortgage commitments at S&Ls in October were maintained at the somewhat higher September pace; bank loan officers in November reported that demands for mortgage credit had increased over the previous three months; and applications for FHA/VA mortgage loans increased further last month.

Public sectors continue to place unusually strong demands on credit markets. The Treasury raised about \$25 billion by borrowing from the public in November and ran down its cash balance by \$9 billion in the course

of financing a record quarterly deficit. State and local borrowing rose to a new record, spurred in part by declines in interest rates over recent months and by the requirement that tax-exempt bond ownership be registered after year-end. Individual investors reportedly took down an important share of the new tax-exempt bond issuance, acting in part through mutual funds and investment trusts, as the ratio of tax-exempt to taxable yields rose to near-record levels.

Outlook. With economic activity expected to strengthen a little over the near term, credit demands by households and businesses should rise somewhat in coming months although remaining relatively weak. In the household sector, consumer installment borrowing might actually moderate a bit, since some car sales and related borrowing probably were shifted to late 1982 from early 1983 by the below-market rates offered by auto company finance subsidiaries. Mortgage credit takedowns, however, should increase with the further rise in housing activity; the strengthening of mortgage lending by banks and thrifts may be especially marked, as loans made earlier by home sellers are rolled over into more conventional instruments. The increase in business borrowing is expected to be relatively small, as the modest pace of investment spending continues to hold down external financing needs. With bond and stock yields near current levels, businesses are likely to continue to stress longer-term financing in order to strengthen balance sheet structures. Credit from banks and the commercial paper market, although perhaps not continuing to contract, should remain weak. Among government borrowers, state and local bond issuance is projected to drop off sharply in the new year, but borrowing by the Treasury is likely to remain close to its very rapid fourth-quarter pace.

In the aggregate, credit usage by domestic nonfinancial borrowers in the first quarter is unlikely to be greatly different from the total in the fourth quarter, and probably can be accommodated at interest rates around current levels or a little lower, as private spending remains relatively weak, freeing up savings to finance the huge federal deficit. As the rebound in economic activity strengthens over the balance of 1983, borrowing is expected to pick up considerably, paced by substantial further increases in credit demands by the Treasury and in the mortgage market. Business needs to tap financial markets, on the other hand, may remain close to first-quarter levels, as rising profits boost internal fund flows sufficiently to finance a modest increase in capital spending.

INTERNATIONAL DEVELOPMENTS

Recent developments. Since the November FOMC meeting the dollar has depreciated by 4 percent on a trade-weighted average basis. Declines against the yen and the EMS currencies were greater than average, while there was little net change against sterling or the Canadian dollar. Though the dollar's average value has fallen about 5 percent since it peaked early in November, it is about 15 percent above its value a year ago.

The dollar's weakness over the period appears to be related to the reported steep increase in the U.S. trade deficit, plus official and private projections of major deficits in the trade and current accounts in the year ahead. Interest rates in continental Europe have moved down with dollar rates over the past month as a number of European countries cut their official rates. However, Japan has held interest rates steady in part to support the strengthening of the yen, and U.K. authorities supported sterling by tightening liquidity and raising interest rates as well as by substantial sales of dollars.

The new administration in Mexico has announced an economic program in tune with the recommendations of the IMF, and is establishing

a two-tier exchange rate for the peso, allowing part of international transactions to take place in a free market. Also, Mexico has proposed a major stretch-out of outstanding public-sector debt to foreign banks, and Argentina has also made such a proposal. Brazil has reached agreement in principle with the IMF for a large drawing, and is negotiating for credits to deal with near-term liquidity problems.

In October the U.S. trade deficit jumped to \$65 billion (SAAR); for the July-October period the deficit rate was \$54 billion, more than double the \$23 billion rate in the first half. A drop in agricultural exports was especially pronounced as that sector faces ample supplies worldwide that are depressing world prices; other exports felt the continuing effects of very weak demand abroad and an expensive dollar. Imports have risen since mid-year, partly reflecting a higher volume of oil imports, and slightly higher oil prices, as well as rising imports of other goods (except steel), much of it from developing countries. The stimulus of a strong dollar offset the usual depressing effect on imports of declining domestic economic activity.

Private banking flows were generally inward in October and November, mainly reflecting renewed funding from foreign offices. There has been very little change in recent months in lending to U.S. nonbanks from the foreign offices of U.S. banks. Other data for private capital flows show relatively weak foreign demand for U.S. corporate stocks and bonds, including a slowdown in purchases of offshore corporate issues.

U.S. official reserve assets rose more than \$3 billion in October and November as the Treasury and the Federal Reserve made short-term advances to Mexico and Brazil, and as the U.S. reserve position with the IMF increased, reflecting Fund advances of dollars to members.

Economic activity in the major industrial countries continued to contract on balance during the third quarter, and October data on industrial production show declines in Germany, Japan, Italy, and probably the United Kingdom. Unemployment rates tended to rise further in October. However, the deceleration of consumer prices that began early in the year continued into October, and the abatement of wholesale price increases was even more pronounced. Reacting to these developments, and the reductions in dollar interest rates, several countries eased monetary conditions, as noted above.

Outlook. With the world economy showing no signs of a near-term recovery, the projection of real GNP growth in foreign industrial countries next year (Q4-Q4) has been scaled down to less than 2 percent. Moreover, growth in the non-OPEC developing countries is down sharply to an estimated 1-1/2 percent this year, and even slower growth is likely next year as bank financing slows. The dollar has so far declined only moderately despite large actual and expected trade and current account deficits, but is likely to decline substantially further in the months ahead as the evidence of very large deficits accumulates. The trade deficit for 1983 is projected to reach about

\$80 billion (about the same as a month ago, but including a worsening outlook for agricultural exports that is offset by some reduction in imports) after a \$40 billion deficit this year. The projected 1983 current account deficit is little changed at around \$50 billion, up from a \$10 billion deficit this year.

DECEMBER 14, 1982

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

	1981 ANN.	1982-P ANN.	1983-P ANN.	1982 Q1	1982 Q2	1982 Q3	1982-P Q4	1983-P Q1	1983-P Q2	1983-P Q3	1983-P Q4
1. GNP NET EXPORTS											
CURRENT \$, NET	26.1	15.2	-24.3	31.3	34.9	2.8	-8.0	-13.8	-24.7	-26.6	-32.2
EXPORTS OF G+S	367.3	350.9	331.0	359.9	365.8	347.0	331.0	324.2	324.1	333.5	342.3
IMPORTS OF G+S	341.2	335.7	355.4	328.6	330.9	344.2	339.1	337.9	348.8	360.2	374.5
CONSTANT 72 \$, NET	42.0	29.8	20.9	37.0	35.7	25.7	20.9	20.8	19.3	21.3	22.0
EXPORTS OF G+S	158.4	148.0	136.0	151.7	154.4	146.6	139.5	135.5	133.9	136.4	138.1
IMPORTS OF G+S	116.4	118.2	115.1	114.7	118.7	120.9	118.6	114.7	114.5	115.1	116.1
TERMS OF TRADE (1972=100) 1/	79.1	83.5	78.9	82.8	85.0	83.1	83.0	81.2	79.5	78.2	76.9
2. U.S. MERCHANDISE TRADE BALANCE 2/											
EXPORTS (EXCL. MILITARY)	236.3	212.6	192.7	223.1	220.4	209.7	197.0	191.0	189.2	192.5	198.3
AGRICULTURAL	44.3	38.0	33.9	42.0	42.7	33.6	33.8	33.2	32.8	34.4	35.3
NONAGRICULTURAL	192.0	174.5	158.8	181.1	177.7	176.1	163.2	157.8	156.4	158.1	162.9
IMPORTS	264.1	252.0	273.7	246.6	243.5	259.5	258.4	259.2	268.6	277.4	289.5
PETROLEUM AND PRODUCTS	77.6	61.7	67.2	62.6	53.7	65.9	64.6	64.5	66.1	67.5	70.6
NONPETROLEUM	186.6	190.3	206.5	184.0	189.8	193.7	193.8	194.7	202.5	209.9	218.8
3. U.S. CURRENT ACCOUNT BALANCE											
OF WHICH: NET INVESTMENT INCOME	4.5	-11.1	-49.1	4.4	8.2	-24.3 ^P	-32.9	-37.3	-48.6	-51.8	-58.7
	33.0	28.2	31.0	27.4	30.7	26.9 ^P	27.7	29.9	29.4	32.4	32.4
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	.5	.2	1.0	-.2	.3	-1.3	1.2	1.6	1.3	1.2	2.2
CONSUMER PRICES, % CHANGE, ANNUAL RATES	9.7	8.2	6.9	7.9	9.0	6.0	7.4	7.2	6.5	6.1	6.2

1/ GNP EXPORT IMPLICIT DEFLATOR DIVIDED BY GNP IMPORT IMPLICIT DEFLATOR
 2/ INTERNATIONAL ACCOUNTS BASIS
 3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES
 -- PERCENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE.
 GERMANY (20.8%), JAPAN (13.6%), FRANCE (13.1%), UNITED KINGDOM (11.8%) CANADA
 (9.1%), ITALY (9.0%), THE NETHERLANDS (8.3%), BELGIUM (6.4%)
 SWEDEN (4.2%), SWITZERLAND (3.6%)
 P/ PROJECTED