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CONFIDENTIAL (FR)

April 11, 1979

SUMMARY AND OUTLOOK

**By the Staff
Board of Governors
of the Federal Reserve System**

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary of Recent Developments. Production and total retail sales showed some rebound in March from the weather-affected levels of the previous two months, and employment growth continued to be strong. But on balance so far this year growth of economic activity has slowed significantly from the accelerated pace in late 1978. At the same time inflation has intensified, especially in the food, energy, and homeownership sectors.

Nonfarm payroll employment expanded strongly again in March--up 325,000 after a 300,000 gain in February. In the goods-producing sector, there was a sharp pick-up in construction employment following a small decline over the preceding two months, and further large gains were reported at manufacturers of durable goods. The expansion of service-producing jobs was led for a third consecutive month by sizable hiring at retail stores.

Total employment, as measured by the household survey, increased almost 200,000 in March, and the unemployment rate was unchanged at 5.7 per cent. Jobless rates for groups who traditionally have strong attachments to the workforce remained at the relatively low levels reached last fall.

Industrial production appears to have advanced by about 3/4 per cent in March, partly because output in many sectors recovered from the effects of two months of adverse weather. Auto assemblies increased more

than 5 per cent during the month, returning to about the fourth quarter rate, and a significant rise evidently occurred in the output of major materials. Capacity utilization rates probably moved higher among both manufacturing and materials industries. Among materials capacity pressures have emerged in some specific areas, such as aluminum mill products, cement, and some machinery components. Nonetheless the average operating rate for materials is still estimated at 88 per cent, significantly below the previous cyclical peak.

Personal income in nominal terms increased a bit faster in February than in January, but the rate remained well below that of last year. Slower nominal income growth combined with accelerating prices is estimated to have dampened the growth in real disposable income in the first quarter, despite the Federal income tax cut effective at the beginning of the year.

Total retail sales were relatively sluggish during the first quarter. Unit auto sales, however, were exceptionally strong with particular emphasis on the smaller, fuel-efficient models. In March, sales of domestic units reached a 9-1/2 million unit annual rate while purchases of foreign cars surged to a record pace of 2-3/4 million units. Excluding autos and nonconsumer items, nominal retail sales increased only slightly in March, and for the quarter as a whole these sales were about 1-1/2 per cent above the advanced fourth quarter level, a smaller increase than the rate of inflation.

Recent trends in new orders for nondefense capital goods continue to suggest strong business capital spending over the near-term. The new orders data for February, however, tend to overstate such strength because of the importance of aircraft orders. Total nondefense orders rose 5.9 per cent in February, but excluding the aircraft component such orders declined 2.5 per cent. Production and delivery of these aircraft is likely to spread into the 1980's and have relatively modest effects on activity in the short-run. Bookings for machinery--a good indicator of underlying demand for capital equipment--were off in February, but were about 3 per cent above the fourth quarter level.

The book value of manufacturers' inventories rose at an annual rate of more than \$30 billion in February--the second consecutive month of rapid stock building. Wholesale trade inventories also rose strongly at about an average annual rate of \$15 billion in January and February combined. The high rate of inventory accumulation appear to be related mainly to the effects of rapid price increases which tend to swell book values, some rebuilding of stocks after the surge of sales in the fourth quarter, and delays in shipments due to adverse weather. While there have also been scattered reports of advance buying due to inflation and strike hedging, an unusual degree of speculative stockbuilding does not appear evident.

Housing starts fell in February from the already reduced January rate. The degree of the two-month decline no doubt reflects the effects of adverse weather during the period. At the same time, however, other

indicators suggest that underlying housing activity has weakened. Scattered market reports suggest that the rebound of housing activity in March may be limited.

Inflation accelerated early this year, led by particularly sharp price increases for food, energy, and homeownership. Outside of these areas prices continued to rise at a rapid pace. Tighter meat supplies have been a major factor affecting food prices both at the producer and consumer levels. In March, cattle prices continued to rise substantially, but declines for hogs, wheat, and fresh vegetables resulted in much smaller increases in farm product prices. In the energy area, gasoline prices have spurted up at a 25 per cent annual rate so far this year.

Wage rates, as measured by the index of average hourly earnings, rose at an annual rate of 8-3/4 per cent in the first quarter, in part reflecting the January hike in the minimum wage. Excluding the effect of the minimum wage, earnings in the first quarter are estimated to have risen at about the same 8-1/4 per cent annual rate as in the preceding quarter. Collective bargaining activity in the first quarter of 1979 was light, but beginning with the recent Teamsters' contract negotiations, bargaining activity will be heavy for the rest of the year.

Outlook. The staff estimate of real GNP growth during the first quarter of 1979 was trimmed back further this month to an annual rate of about 1-1/4 per cent. This represents a substantial slowing from the nearly 7 per cent pace of the previous quarter and the 4-1/2 per cent

average increase over the four quarters of last year. A part of the recent weakness stemmed from weather-related disruptions to private and public construction activity. However, the deceleration in real GNP growth also reflects to an important extent the slowing of personal consumption from its unsustainable fourth quarter pace, which partly may have resulted from the recent substantial acceleration of prices and its effects on real incomes. The gross business product fixed-weight price index for the first quarter now is estimated to have increased at an annual rate of about 10-1/2 per cent, 3/4 percentage point higher than in the previous Greenbook.

Monetary and fiscal assumptions underlying the staff projection over the remainder of 1979 and in 1980 are largely unchanged from a month ago. Growth of M-1 is assumed to be about 6 per cent in both years, after adjustment for the downward effects of ATS. Short-term interest rates are expected to remain around their current levels during this year and then to gradually recede in 1980. Assumptions in regard to Federal budgetary policy remain unchanged, but the slightly increased nominal GNP projection and larger corporate profits are estimated to increase receipts and to reduce the unified deficits a bit to \$33 billion in FY 1979 and \$30 billion in FY 1980. The projection incorporates gradual decontrol of oil prices; in addition it assumes a fairly prompt settlement of the Teamsters' strike with little disruption of economic activity.

Projected economic activity over the remainder of 1979 and in 1980 remains basically unchanged from the pattern indicated in the last Greenbook. Growth of real GNP in the second quarter of 1979 is now

projected slightly higher than earlier, at about a 2-1/2 per cent annual rate, largely reflecting some make-up from weather-related delays during the winter. By the second half of 1979 real GNP is projected to grow at around a 1 per cent annual rate, and output growth in 1980 is projected to remain sluggish.

The staff continues to project declines in residential construction for several quarters ahead, and a slowing in the growth of business investment and government spending. As a result, household real income and consumption are projected to rise quite slowly over the next year and a half. The personal saving rate is projected to remain in an historically low area of around 5 per cent. Weaker employment growth would result, and the unemployment rate is expected to rise by about 1-1/2 percentage points through the end of 1980 to about 7 per cent.

Inflation in the second half of this year is anticipated to slow to an 8-1/4 per cent annual rate as measured by the gross business product fixed weight price index. This moderation largely reflects an expected improvement in the food sector, as supply conditions improve for pork and several other agricultural commodities. Price hikes to date for imported crude oil have been slightly larger than we had previously assumed. We still are assuming an OPEC oil price level at the end of 1980 only a bit higher than last month's assumption, but about 25 per cent above the price that prevailed at the end of 1978. The gradual decontrol of domestic oil prices, announced by the President, is estimated to raise the level of prices in general by about 1/2 percentage point by the end of the projection period.

Hourly compensation increases over the next two years are expected to average nearly 9-1/2 per cent, down only a little from 1978. Given the projected sluggish performance of productivity, increases in unit labor cost will continue to be sizable. As a result, we expect little further slowing of prices during 1980, despite the projected easing of labor demand. On the basis of these considerations, the gross business product fixed-weight price index is projected to rise about 8 per cent during the four quarters of 1980.

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

STAFF GNP PROJECTIONS

	Per cent changes, annual rate							
	Nominal GNP		Real GNP		Gross business product fixed-weighted price index		Unemployment rate (per cent)	
	3/14/79	4/11/79	3/14/79	4/11/79	3/14/79	4/11/79	3/14/79	4/11/79
1976 <u>1/</u>	11.2	11.2	5.7	5.7	5.4	5.4	7.7	7.7
1977 <u>1/</u>	11.0	11.0	4.9	4.9	6.2	6.2	7.0	7.0
1978 <u>1/</u>	11.6	11.7	4.0	4.0	7.7	7.7	6.0	6.0
1979	11.8	11.8	3.3	3.1	8.9	9.2	6.0	6.0
1980	9.1	9.4	1.3	1.2	7.9	8.3	6.8	6.8
1978-III <u>1/</u>	9.6	9.6	2.6	2.6	8.0	8.0	6.0	6.0
1978-IV <u>1/</u>	15.0	15.7	6.4	6.9	8.0	8.0	5.8	5.8
1979-I	12.2	10.8	3.0	1.3	9.6	10.4	5.7	5.7
1979-II	10.4	11.3	1.9	2.4	9.2	9.7	5.9	5.9
1979-III	8.2	8.6	1.0	1.0	7.9	8.3	6.1	6.1
1979-IV	9.2	9.8	1.0	1.1	8.0	8.3	6.3	6.3
1980-I	9.4	9.2	1.4	1.1	8.1	8.4	6.5	6.5
1980-II	9.2	9.4	1.4	1.2	7.8	8.2	6.7	6.7
1980-III	8.8	9.2	1.4	1.4	7.3	7.7	6.9	6.9
1980-IV	9.5	9.7	1.5	1.4	7.3	7.7	7.1	7.1
Change:								
77-IV to								
78-IV <u>1/</u>	13.0	13.1	4.3	4.4	8.7	8.7	-.8	-.8
78-IV to								
79-IV	10.0	10.1	1.7	1.4	8.7	9.2	.5	.5
79-IV to								
80-IV	9.2	9.4	1.4	1.3	7.6	8.0	.8	.8
Memo:								
Growth Over Annual Policy Period:								
78-IV to								
79 IV	10.0	10.1	1.7	1.4	8.7	9.2	.5	.5

1/ Actual.

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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.)

	1979				1980			
	Projected							
	I	II	III	IV	I	II	III	IV
Gross national product	2272.2	2334.1	2382.8	2438.9	2493.4	2550.0	2606.9	2667.7
Final purchases	2246.3	2310.2	2359.9	2417.0	2471.5	2529.1	2587.0	2648.8
Private	1786.1	1840.4	1879.3	1924.0	1968.9	2016.9	2065.2	2113.7
Excluding net exports	1794.6	1846.9	1886.8	1928.4	1971.0	2015.3	2059.1	2104.3
Personal consumption expenditures	1439.9	1482.7	1517.4	1552.2	1587.0	1622.6	1657.9	1694.9
Goods	778.5	802.3	818.6	835.1	850.4	866.8	883.1	900.2
Services	661.4	680.4	698.8	717.1	736.6	755.8	774.8	794.7
Gross private domestic investment	380.6	388.1	392.3	398.1	405.9	413.6	421.1	428.3
Residential construction	111.6	112.1	110.6	111.2	112.9	115.7	118.5	121.5
Business fixed investment	243.1	252.1	258.8	265.0	271.1	277.0	282.7	287.9
Change in business inventories	25.9	23.9	22.9	21.9	21.9	20.9	19.9	18.9
Nonfarm	25.9	23.9	22.9	21.9	21.9	20.9	19.9	18.9
Net exports of goods and services ^{1/}	-8.5	-6.5	-7.5	-4.4	-2.1	1.6	6.1	9.4
Exports	229.4	240.5	250.8	260.4	268.5	277.8	287.5	296.0
Imports	237.9	247.0	258.3	264.8	270.6	276.2	281.4	286.6
Gov't. purchases of goods and services	460.2	469.8	480.6	493.0	502.6	512.2	521.8	535.1
Federal ^{2/}	165.7	164.6	168.9	174.8	177.6	180.1	182.5	188.5
State and local	294.5	305.2	311.7	318.2	325.0	332.1	339.3	346.6
Gross national product in constant (1972) dollars	1419.2	1427.5	1431.0	1434.9	1438.8	1443.1	1448.2	1453.2
Personal income	1832.5	1882.1	1936.9	1986.6	2028.3	2072.7	2126.9	2173.9
Wage and salary disbursements	1183.5	1210.1	1234.6	1263.4	1290.6	1316.3	1343.1	1373.0
Disposable personal income	1559.3	1599.7	1645.4	1685.5	1719.9	1756.0	1801.0	1838.1
Saving rate (per cent)	5.2	4.8	5.3	5.4	5.1	5.0	5.3	5.1
Corporate profits with I.V.A. and C.C. Adj.	174.0	181.7	180.6	183.1	183.5	188.8	193.0	198.8
Corporate profits before tax	236.2	234.4	233.8	236.5	237.6	242.1	245.5	251.1
Federal government surplus or deficit (-) (N.I.A. basis)	-18.1	-14.7	-25.1	-26.5	-21.2	-17.6	-21.6	-19.1
High employment surplus or deficit (-)	6.6	12.0	7.1	9.4	20.6	29.0	29.6	36.0
State and local government surplus or deficit (-) (N.I.A. basis)	30.0	26.7	26.3	26.8	26.3	25.3	24.6	24.5
Excluding social insurance funds	6.5	2.6	1.6	1.5	0.4	-1.2	-2.4	-3.1
Civilian labor force (millions)	102.5	103.1	103.7	104.2	104.8	105.3	105.8	106.3
Unemployment rate (per cent)	5.7	5.9	6.1	6.3	6.5	6.7	6.9	7.1
Nonfarm payroll employment (millions)	87.8	88.2	88.5	88.8	89.1	89.4	89.6	89.9
Manufacturing	20.9	21.0	21.1	21.1	21.0	21.0	21.0	20.9
Industrial production (1967=100)	151.4	153.2	154.0	154.5	154.9	155.2	155.6	156.0
Capacity utilization: all mfg. (per cent)	86.2	86.6	86.2	85.6	85.0	84.4	83.8	83.2
Materials (per cent)	87.8	87.8	87.6	87.2	86.8	86.3	85.9	85.5
Housing starts, private (million units, A.R.)	1.70	1.85	1.65	1.60	1.65	1.70	1.75	1.80
New autos sales, (millions, A.R.)	11.55	11.20	10.90	10.70	10.60	10.55	10.50	10.50
Domestic models	9.13	9.15	8.90	8.80	8.75	8.75	8.75	8.80
Foreign models	2.42	2.05	2.00	1.90	1.85	1.80	1.75	1.70

^{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.

April 11, 1979

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

	1979				1980			
	I	II	III	Projected				
				IV	I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	1.3	2.4	1.0	1.1	1.1	1.2	1.4	1.4
Final purchases	- .8	2.7	1.1	1.4	1.1	1.4	1.7	1.6
Private	- .4	3.1	- .7	1.4	1.0	1.4	1.8	1.6
Excluding net exports	- .4	2.5	- .6	- .8	- .7	1.0	1.2	1.3
Personal consumption expenditures	.2	2.6	1.4	1.2	.8	1.0	1.3	1.5
Goods	-3.2	1.9	.0	.1	- .6	- .1	.4	.8
Services	4.6	3.4	2.9	2.6	2.5	2.2	2.3	2.5
Gross private domestic investment	11.2	- .3	-3.2	-2.6	.1	- .5	-1.1	-1.1
Residential structures	-14.7	-8.7	-15.0	-8.4	-3.4	1.2	1.4	1.9
Business fixed investment	2.4	6.5	2.5	1.7	1.3	.9	.5	- .4
Gov't. purchases of goods and services	-2.2	1.5	2.9	1.3	1.4	1.4	1.4	1.4
Federal	1.9	-7.1	5.7	1.9	1.4	.9	.9	1.0
State and local	-4.5	6.8	1.3	1.0	1.4	1.7	1.7	1.7
Disposable personal income	1.9	1.1	3.4	1.8	.0	.4	2.8	.8
<u>Current dollars</u>								
Gross national product	10.8	11.3	8.6	9.8	9.2	9.4	9.2	9.7
Final purchases	8.4	11.9	8.9	10.0	9.3	9.7	9.5	9.9
Private	9.3	12.7	8.7	9.9	9.7	10.1	9.9	9.7
Excluding net exports	9.5	12.2	8.9	9.1	9.1	9.3	9.0	9.1
Personal consumption expenditures	10.7	12.4	9.7	9.5	9.3	9.3	9.0	9.2
Goods	8.7	12.8	8.4	8.3	7.5	7.9	7.7	8.0
Services	13.1	12.0	11.3	10.9	11.3	10.8	10.4	10.7
Gross private domestic investment	19.5	8.1	4.4	6.0	8.1	7.8	7.5	7.0
Residential structures	-6.2	1.8	-5.2	2.2	6.3	10.3	10.0	10.5
Business fixed investment	10.5	15.7	11.1	9.9	9.5	9.0	8.5	7.6
Gov't. purchases of goods and services	5.1	8.6	9.5	10.7	8.0	7.9	7.7	10.6
Federal	8.1	-2.6	10.9	14.7	6.6	5.8	5.4	13.8
State and local	3.5	15.3	8.8	8.6	8.8	9.0	9.0	8.9
Disposable personal income	12.6	10.8	11.9	10.1	8.4	8.7	10.7	8.5
Personal income	10.1	11.3	12.2	10.7	8.7	9.0	10.9	9.1
Wage and salary disbursements	12.4	9.3	8.3	9.7	8.9	8.2	8.4	9.2
Corporate profits with IVA & C.C. Adj.	-6.6	18.9	-2.4	5.7	.9	12.1	9.2	12.6
Corporate profits before tax	20.7	-3.0	-1.0	4.7	1.9	7.8	5.8	9.5
Nonfarm payroll employment	4.1	1.7	1.3	1.5	1.4	1.2	1.1	1.0
Manufacturing	6.2	2.6	1.1	- .6	-1.0	- .7	- .4	- .2
Nonfarm business sector								
Output per hour	-2.3	1.6	.5	.6	.6	.9	1.1	1.0
Compensation per hour	11.0	8.9	8.9	9.0	10.3	9.0	8.9	8.8
Unit labor costs	13.7	7.2	8.3	8.3	9.6	8.0	7.7	7.7
GNP implicit deflator ^{1/}	9.4	8.8	7.6	8.6	8.1	8.1	7.7	8.2
Gross business product fixed-weighted price index ^{2/}	10.4	9.7	8.3	8.3	8.4	8.2	7.7	7.7
Industrial production	4.6	4.8	2.1	1.3	1.0	.8	1.0	1.1

^{1/} Excluding Federal pay increase rates of change are: 1979 QI, 9.4 per cent; 1979 QIV, 8.0 per cent; 1980 QI, 8.1 per cent; 1980 QIV, 7.7 per cent.

^{2/} Using 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.)

	1977				1978			
	I	II	III	IV	I	II	III	IV
Gross national product	1806.8	1867.0	1916.8	1958.1	1992.0	2087.5	2136.1	2214.8
Final purchases	1796.5	1850.0	1894.9	1945.0	1975.3	2067.4	2122.5	2201.3
Private	1421.5	1461.2	1495.4	1532.5	1558.6	1642.7	1682.7	1746.8
Excluding net exports	1430.0	1467.1	1502.4	1555.7	1582.7	1648.2	1693.4	1754.4
Personal consumption expenditures	1167.7	1188.6	1214.5	1255.2	1276.7	1322.9	1356.9	1403.9
Goods	639.1	649.2	657.1	684.1	684.9	717.1	731.2	762.5
Services	528.6	539.4	557.5	571.1	591.8	605.8	625.8	641.4
Gross private domestic investment	272.5	295.6	309.7	313.5	322.7	345.4	350.1	364.0
Residential construction	81.6	91.4	94.3	100.2	100.3	105.3	109.0	113.4
Business fixed investment	180.6	187.2	193.5	200.3	205.6	220.1	227.5	237.1
Change in business inventories	10.3	17.0	21.9	13.1	16.7	20.1	13.6	13.5
Nonfarm	11.1	16.5	22.0	10.4	16.9	22.1	14.6	13.4
Net exports of goods and services ^{1/}	-8.5	-5.9	-7.0	-23.2	-24.1	-5.5	-10.7	-7.6
Exports	170.9	178.1	180.8	172.1	181.7	205.4	210.1	221.9
Imports	179.4	184.0	187.8	195.2	205.8	210.9	220.8	229.5
Gov't. purchases of goods and services	375.0	388.8	399.5	412.5	416.7	424.7	439.8	454.5
Federal ^{2/}	138.3	142.9	146.8	152.2	151.5	147.2	154.0	162.5
State and local	236.7	245.9	252.7	260.3	265.2	277.6	285.8	292.0
Gross national product in constant (1972) dollar	1306.7	1325.5	1343.9	1354.5	1354.2	1382.6	1391.4	1414.7
Personal income	1470.7	1508.6	1543.7	1593.0	1628.9	1682.4	1731.7	1789.0
Wage and salary disbursements	946.4	973.4	993.6	1021.2	1050.8	1090.2	1113.2	1149.4
Disposable personal income	1248.0	1285.3	1319.1	1359.6	1391.6	1433.3	1468.4	1513.9
Saving rate (per cent)	4.2	5.3	5.6	5.4	5.9	5.3	5.2	4.8
Corporate profits with I.V.A. and C.C. Adj.	129.9	143.7	154.8	148.2	132.6	163.4	165.2	177.0
Corporate profits before tax	164.8	175.1	177.5	178.3	172.1	205.5	205.4	225.3
Federal government surplus or deficit (-) (N.I.A. basis)	-37.3	-40.3	-56.4	-58.6	-52.6	-23.6	-22.8	-20.6
High employment surplus or deficit (-)	-2.4	-10.3	-29.5	-31.1	-19.0	.1	2.3	-4
State and local government surplus or deficit (-) (N.I.A. basis)	29.5	28.5	31.2	29.0	31.5	29.8	23.4	28.8
Excluding social insurance funds	12.5	10.8	12.8	9.9	11.5	9.3	1.8	5.9
Civilian labor force (millions)	96.2	97.1	97.6	98.5	99.3	100.1	100.8	101.5
Unemployment rate (per cent)	7.4	7.2	6.9	6.6	6.2	6.0	6.0	5.8
Nonfarm payroll employment (millions)	80.8	82.0	82.7	83.5	84.3	85.7	86.1	87.0
Manufacturing	19.4	19.6	19.7	19.9	20.1	20.3	20.3	20.6
Industrial production (1967=100)	133.6	137.0	138.4	139.3	139.6	144.0	147.0	149.7
Capacity utilization: all mfg. (per cent)	81.2	82.7	83.0	82.9	82.1	84.0	85.0	85.9
Materials (per cent)	80.4	82.6	82.3	82.2	81.7	84.5	86.0	87.6
Housing starts, private (million units, A.R.)	1.81	1.93	2.02	2.09	1.80	2.10	2.04	2.08
New autos sales, (millions, A.R.)	11.12	11.70	10.92	10.75	10.80	12.12	11.16	11.07
Domestic models	9.28	9.34	8.88	8.77	8.80	10.01	9.19	9.06
Foreign models	1.84	2.36	2.04	1.98	2.00	2.11	1.98	2.00

^{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.

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

	1977				1978			
	I	II	III	IV	I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	7.3	5.9	5.7	3.2	-1	8.7	2.6	6.9
Final purchases	5.3	4.6	5.0	4.7	-1.6	8.6	3.7	7.2
Private	6.1	3.7	4.8	4.8	-1.1	11.0	2.8	8.0
Excluding net exports	6.9	3.8	4.3	8.7	-1.0	7.7	3.7	7.7
Personal consumption expenditures	5.1	1.4	4.1	9.0	-1.4	6.0	4.1	7.6
Goods	5.2	1.2	2.4	13.5	-8.1	9.7	2.6	11.5
Services	4.9	1.5	6.1	3.9	7.0	1.9	5.9	3.1
Gross private domestic investment	32.8	25.7	9.7	-2.9	11.3	15.2	-5.1	5.8
Residential structures	10.2	37.8	5.2	11.1	-5.2	2.7	-1.6	4.0
Business fixed investment	19.0	7.5	5.3	5.3	4.2	21.3	3.5	9.5
Gov't. purchases of goods and services	2.4	8.0	5.8	4.2	-3.5	-.2	7.2	4.0
Federal	5.1	10.7	6.4	2.9	-8.9	-15.3	14.3	8.8
State and local	.7	6.3	5.4	5.1	-.1	9.6	3.4	1.3
Disposable personal income	1.7	6.2	5.9	7.8	1.1	3.5	3.6	6.1
<u>Current dollars</u>								
Gross national product	13.7	14.0	11.1	8.9	7.1	20.6	9.6	15.6
Final purchases	11.0	12.5	10.1	11.0	6.4	20.0	11.1	15.7
Private	11.3	11.6	9.7	10.3	7.0	23.4	10.1	16.1
Excluding net exports	14.9	10.8	10.0	15.0	7.1	17.6	11.4	15.2
Personal consumption expenditures	12.5	7.3	9.0	14.1	7.0	15.3	10.7	14.6
Goods	12.1	6.5	5.0	17.5	.5	20.2	8.1	30.7
Services	13.1	8.4	14.1	10.1	15.3	9.8	13.9	10.3
Gross private domestic investment	48.0	38.5	20.5	5.1	12.2	31.3	5.5	16.9
Residential structures	25.1	57.8	13.5	27.3	.5	21.0	14.9	17.3
Business fixed investment	25.9	15.3	14.1	14.8	11.1	31.2	14.3	18.0
Gov't. purchases of goods and services	9.9	15.5	11.5	13.7	4.1	7.9	15.0	14.1
Federal	11.5	14.0	11.3	15.7	-2.0	-10.9	20.0	23.9
State and local	9.0	16.4	11.6	12.5	7.8	19.9	12.4	9.0
Disposable personal income	9.0	12.5	10.9	12.9	9.8	12.5	10.2	13.0
Personal income	11.7	10.7	9.6	13.4	9.3	13.8	12.2	13.9
Wage and salary disbursements	12.0	11.9	8.6	11.6	12.1	15.9	8.7	13.7
Corporate profits with IVA & C.C. Adj.	26.4	49.8	34.7	-16.0	-35.9	130.6	4.5	31.8
Corporate profits before tax	29.1	27.5	5.6	1.8	-13.2	103.3	-.2	44.8
Nonfarm payroll employment	3.9	5.6	3.6	4.0	3.8	6.9	2.1	4.0
Manufacturing	5.2	5.7	1.5	3.2	5.7	3.1	-.2	6.0
Nonfarm business sector								
Output per hour	2.4	-1.4	3.7	.5	-3.1	1.7	2.3	2.3
Compensation per hour	8.3	6.5	8.1	7.6	12.2	8.2	9.6	9.0
Unit labor costs	5.8	8.0	4.2	7.1	15.7	6.4	7.1	6.5
GNP implicit deflator <u>1/</u>	6.0	7.7	5.1	5.5	7.2	11.0	6.9	8.2
Gross business product fixed-weighted price index <u>2/</u>	6.7	7.9	4.7	6.3	6.7	12.1	8.0	8.0
Industrial production	6.2	10.6	4.2	2.6	.9	13.2	8.6	7.6

1/ Excluding Federal pay increase rates of change are: 1977:Q1, 5.9 per cent; 1977:QIV, 4.8 per cent; 1978:Q1, 7.2 per cent; 1978:QIV, 7.6 per cent.2/ Using expenditures in 1972 as weights.

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

	1973	1974	1975	1976	1977	1978	Projected	
							1979	1980
Gross national product	1306.6	1412.9	1528.8	1700.1	1887.2	2107.6	2357.0	2579.5
Final purchases	1288.6	1404.0	1539.6	1689.9	1871.6	2091.6	2333.3	2559.1
Private	1019.1	1101.3	1201.2	1330.4	1477.6	1657.7	1857.4	2041.2
Excluding net exports	1012.0	1095.3	1180.8	1323.0	1488.7	1669.7	1864.2	2037.4
Personal consumption expenditures	809.9	889.6	979.1	1090.2	1206.5	1340.1	1498.0	1640.6
Goods	457.5	498.3	541.5	599.2	657.4	724.0	808.6	875.1
Services	352.3	391.3	437.5	491.0	549.2	616.2	689.4	765.5
Gross private domestic investment	220.0	214.6	190.9	243.0	297.8	345.6	389.8	417.2
Residential construction	66.1	55.1	51.5	68.2	91.9	107.0	111.4	117.1
Business fixed investment	136.0	150.6	150.2	164.6	190.4	222.6	254.7	279.7
Change in business inventories	17.9	8.9	-10.7	10.2	15.6	16.0	23.6	20.4
Nonfarm	14.7	10.8	-14.3	12.2	15.0	16.7	23.6	20.4
Net exports of goods and services ^{1/}	7.1	6.0	20.4	7.4	-11.1	-12.0	-6.7	3.8
Exports	101.6	137.9	147.3	163.2	175.5	204.8	245.3	282.4
Imports	94.4	131.9	126.9	155.7	186.6	216.8	252.0	278.7
Gov't. purchases of goods and services	269.5	302.7	338.4	359.5	394.0	433.9	475.9	517.9
Federal ^{2/}	102.2	111.1	123.1	129.9	145.1	153.8	168.5	182.2
State and local	167.3	191.5	215.4	229.6	248.9	280.2	307.4	335.7
Gross national product in constant (1972) dollars	1235.0	1217.8	1202.3	1271.0	1332.7	1385.7	1428.1	1445.8
Personal income	1052.4	1154.9	1255.5	1380.9	1529.0	1708.0	1909.5	2100.5
Wage and salary disbursements	701.3	764.6	805.9	890.1	983.6	1100.9	1222.9	1330.7
Disposable personal income	901.7	984.6	1086.7	1184.4	1303.0	1451.8	1622.5	1778.8
Saving rate (per cent)	7.8	7.3	7.7	5.7	5.1	5.3	5.2	5.1
Corporate profits with I.V.A. and C.C. Adj.	99.1	83.6	95.9	127.0	144.2	159.6	179.9	191.0
Corporate profits before tax	115.8	126.9	120.4	155.9	173.9	202.1	235.2	244.1
Federal government surplus or deficit (N.I.A. basis)	-6.7	-10.7	-70.6	-53.8	-48.1	29.9	-21.1	-19.9
High employment surplus or deficit (-)	-1.3	14.9	-26.5	-19.1	-18.3	-4.3	8.8	28.8
State and local government surplus or deficit (-) (N.I.A. basis)	13.0	7.6	6.2	20.7	29.6	28.3	27.4	25.2
Excluding social insurance funds	4.1	-2.9	-6.2	5.5	11.5	7.1	3.0	-1.6
Civilian labor force (millions)	88.7	91.0	92.6	94.8	97.4	100.4	103.4	105.5
Unemployment rate (per cent)	4.9	5.6	8.5	7.7	7.0	6.0	6.0	6.8
Nonfarm payroll employment (millions)	76.8	78.3	76.9	79.4	82.3	85.8	88.4	89.5
Manufacturing	20.2	20.1	18.3	19.0	19.6	20.3	21.0	21.0
Industrial production (1967=100)	129.8	129.3	117.8	129.8	137.1	145.2	153.3	155.4
Capacity utilization: all manufacturing (per cent)	87.5	84.2	73.6	80.2	82.5	84.3	86.2	84.1
Materials (per cent)	92.4	87.7	73.6	80.4	81.9	85.0	87.6	86.1
Housing starts, private (million units, A.R.)	2.05	1.34	1.16	1.54	1.99	2.02	1.70	1.72
New auto sales, (millions, A.R.)	11.42	8.91	8.66	10.12	11.13	11.29	11.09	10.54
Domestic models	9.65	7.49	7.08	8.63	9.07	9.27	9.00	8.76
Foreign models	1.77	1.42	1.58	1.50	2.06	2.02	2.09	1.77

^{1/} Balance of payments data underlying these estimates are shown in the International Developments section of this part of the Greenbook.

^{2/} Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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CONFIDENTIAL - FR
CLASS II FOMCPER CENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974	1975	1976	1977	1978	Projected	
							1979	1980
<u>Constant (1972) dollars</u>								
Gross national product	5.5	-1.4	-1.3	5.7	4.9	4.0	3.1	1.2
Final purchases	4.9	-.7	.2	4.3	4.7	3.9	2.8	1.4
Private	6.3	-1.4	-.3	5.5	5.3	4.3	3.1	1.4
Excluding net exports	5.1	-2.3	-1.0	6.4	6.0	4.5	2.8	1.0
Personal consumption expenditures	4.7	-.9	1.8	5.8	4.7	4.0	3.1	1.2
Goods	5.0	-3.4	.7	6.4	5.0	3.4	2.5	.1
Services	4.4	2.3	3.2	5.0	4.4	4.6	3.7	2.5
Gross private domestic investment	10.0	-11.4	-22.3	21.6	13.2	7.3	3.4	-1.2
Residential structures	-3.7	-24.6	-13.9	23.4	20.5	3.8	-7.2	-4.5
Business fixed investment	12.2	-.3	-13.0	4.7	9.1	8.1	5.6	1.6
Gov't. purchases of goods and services	-.2	2.1	1.9	.1	2.4	2.2	1.7	1.6
Federal	-5.4	-.8	.7	.1	5.2	-1.3	2.1	1.3
State and local	3.2	3.8	2.6	.1	.8	4.2	1.6	1.8
Disposable personal income	6.7	-1.5	2.1	3.5	4.1	4.3	3.0	1.3
<u>Current dollars</u>								
Gross national product	11.6	8.1	8.2	11.2	11.0	11.7	11.8	9.4
Final purchases	10.9	8.9	9.7	9.8	10.8	11.8	11.6	9.7
Private	12.2	8.1	9.1	10.8	11.1	12.2	12.1	9.9
Excluding net exports	11.0	8.2	7.8	12.0	12.5	12.2	11.6	9.3
Personal consumption expenditures	10.5	9.8	10.1	11.4	10.7	11.1	11.8	9.5
Goods	11.4	8.9	8.7	10.7	9.7	10.1	11.7	8.2
Services	9.3	11.1	11.8	12.2	11.8	12.2	11.9	11.0
Gross private domestic investment	16.8	-2.5	-11.0	27.3	22.6	16.0	12.8	7.0
Residential structures	6.6	-16.7	-6.5	32.5	34.8	16.4	4.1	5.2
Business fixed investment	16.4	10.8	-.3	9.6	15.7	16.9	14.5	9.8
Gov't. purchases of goods and services	6.5	12.3	11.8	6.2	9.6	10.1	9.7	8.8
Federal	.1	8.7	10.7	5.5	11.7	6.0	9.6	8.1
State and local	10.8	14.5	12.5	6.6	8.4	12.6	9.7	9.2
Disposable personal income	12.5	9.2	10.4	9.0	10.0	11.4	11.8	9.6
Personal income	11.7	9.7	8.7	10.0	10.7	11.7	11.8	10.0
Wage and salary disbursements	10.6	9.0	5.4	10.4	10.5	11.9	11.1	8.8
Corporate profits with IVA & C.C. Adj.	7.6	-15.6	14.7	32.4	13.5	10.7	12.7	6.2
Corporate profits before tax	20.4	9.6	-5.1	29.5	11.5	16.2	16.4	3.8
Nonfarm payroll employment	4.3	1.9	-1.7	3.2	3.6	4.3	3.0	1.3
Manufacturing	5.2	-.4	-8.7	3.7	3.4	3.5	3.4	-.2
Nonfarm business sector								
Output per hour	1.7	-2.9	1.9	3.5	1.3	.5	.6	.8
Compensation per hour	7.8	9.4	9.9	8.4	8.1	9.3	9.4	9.3
Unit labor costs	6.0	12.7	7.8	4.7	6.7	8.7	8.8	8.4
GNP implicit deflator	5.9	9.7	9.6	5.2	5.9	7.4	8.5	8.1
Gross business product fixed-weighted price index ^{1/}	5.7	10.4	9.4	5.4	6.2	7.7	9.2	8.3
Industrial production	8.4	-.4	-8.9	10.2	5.6	5.9	5.6	1.4

^{1/} Using expenditures in 1972 as weights.

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FEDERAL SECTOR ACCOUNTS
(billions of dollars)

	Fiscal Year 1978*	FY 1979 e/		FY 1980 e/		CY 1978*	CY 79e/ F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data								
								1978		1979		1980				
								III*	IV*	I	II	III	IV	I	II	III
Unified budget receipts	402.0	461.8	460.2	503.9	509.2	416.9	472.1	106.8	99.5	102.1	138.8	119.8	111.3	110.2	152.3	135.4
Unified budget outlays	450.8	495.0	493.7	532.3	539.1	460.6	503.8	114.9	123.2	122.1	123.2	125.2	133.3	133.1	135.2	137.5
Surplus(+)/Deficit(-), unified budget	-48.8	-33.2	-33.5	-28.4	-29.9	-43.7	-31.7	-8.1	-23.7	-20.0	15.6	-5.4	-22.0	-22.9	17.1	-2.1
Surplus(+)/Deficit(-), off-budget agencies 2/	-10.3	-12.0	-11.3	-12.0	-11.5	-9.1	-12.2	-3.1	-0.1	-3.3	-4.4	-3.5	-1.0	-3.0	-4.0	-3.5
Combined deficit to be financed	-59.1	-45.2	-44.8	-40.4	-41.4	-52.8	-43.9	-11.2	-23.8	-23.3	11.2	-8.9	-23.0	-25.9	13.1	-5.6
Means of financing combined deficits:																
Net borrowing from public	59.1	35.8	31.8	38.4	40.0	53.6	34.6	15.1	15.2	10.6	-1.2	7.2	18.0	19.3	-3.1	5.8
Decrease in cash operating balance	-3.3	7.4	7.4	0.0	0.0	-4.0	4.3	-4.9	6.1	8.6	-8.3	1.0	3.0	4.0	-8.0	1.0
Other 3/	3.2	2.0	5.5	2.0	1.4	3.2	4.9	1.0	2.6	4.1	-1.7	0.5	2.0	2.6	-2.0	-1.2
Cash operating balance, end of period	22.4	15.0	15.0	15.0	15.0	16.3	12.0	22.4	16.3	7.7	16.0	15.0	12.0	8.0	16.0	15.0
Memo: Sponsored agency borrowing 4/	19.1	n.a.	22.2	n.a.	14.7	22.0	21.0	6.1	4.9	7.3	5.6	4.4	3.7	3.0	4.0	4.0
<u>NIA Budget</u>								<u>Seasonally adjusted annual rates</u>								
Receipts 5/	413.8	470.1	473.4	515.9	524.2	431.5	486.9	441.7	463.2	470.9	481.0	491.6	504.0	516.6	528.9	541.7
Expenditures 5/	450.6	496.3	496.3	540.8	544.6	461.4	508.0	464.5	483.8	489.0	495.7	516.7	530.5	537.9	546.5	563.3
Purchases (total)	151.1	166.2	165.4	178.8	178.8	153.8	168.5	154.0	162.5	165.7	164.6	168.9	174.8	177.6	180.1	182.5
Defense	98.1	105.3	105.2	116.0	115.0	99.5	107.7	99.6	102.1	104.3	106.2	108.2	112.0	113.9	116.0	118.1
Non-Defense	53.0	60.9	60.2	62.8	63.8	54.3	60.8	54.5	60.4	61.4	58.4	60.7	62.8	63.7	64.1	64.4
All other expenditures	299.5	330.1	330.9	362.0	365.8	307.6	339.5	310.5	321.3	323.3	331.1	347.8	355.7	360.3	366.4	380.8
Surplus(+)/Deficit(-) 5/	-36.8	-26.2	-22.9	-24.9	-20.4	-29.9	-21.1	-22.8	-20.6	-18.1	-14.7	-25.1	-26.5	-21.2	-17.6	-21.6
High Employment Surplus(+)/ Deficit(-) (NIA basis) 6/	-11.9	n.a.	6.3	n.a.	22.1	-4.3	8.8	2.3	-0.4	6.6	12.0	7.1	9.4	20.6	29.0	29.6

*--actual e--estimated r--revised n.a.--not available

- 1/ The Budget of the United States Government: Fiscal Year 1980, January 1979, and Current Budget Estimates: March 1979, Office of Management and Budget.
- 2/ Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.
- 3/ Checks issued less checks paid, accrued items and other transactions.
- 4/ Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.
- 5/ The fiscal year totals as published by the BEA "Fiscal Year 1980 Budget Translation," January 1979, are based on unadjusted data and do not conform to the average of four seasonally adjusted quarters. The FRB staff estimates, therefore, have been adjusted in order to make the BEA and staff estimates comparable.
- 6/ FRB staff estimates are consistent with the Council's new potential GNP series as reported in the Economic Report of the President, January 1979.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Total funds raised in credit markets by nonfinancial sectors declined in the first quarter. Foreigners are estimated to have paid down debt in U.S. markets, reflecting the strengthening of the dollar in foreign exchange markets. And, while the Federal government's combined unified and off-budget agency deficit was roughly unchanged from the fourth quarter, the Treasury's issuance of marketable debt declined markedly, as a large proportion of the deficit was met by a run-down of the cash balance. A series of Treasury debt auctions was postponed at the end of March, as Congress delayed until April 2 the passage of legislation to raise the Federal debt ceiling. The Treasury subsequently has issued a total of \$26 billion of debt (of which \$13 billion was for new money) mainly through the sale of regular cycle and cash management bills.

Growth of household indebtedness also moderated. Net residential mortgage formation dropped further in February and apparently again in March. Primary mortgage rates have edged up further recently to reach a record high of 10.48 per cent, and field reports from S&Ls indicate that they have continued to tighten other lending terms. Consumer installment credit in February remained at about January's reduced pace. The harsh winter weather and related sluggish sales activity likely was responsible in part for the slowing of household debt expansion. Despite a pickup in bond issuance by state and local

governments in March--reflecting a surge in offerings of mortgage revenue bonds--gross offerings over the first quarter were somewhat reduced from the fourth quarter pace.

Nonfinancial businesses stepped up their borrowing in the first quarter, primarily in short- and intermediate-term markets, as spending on inventories and plant and equipment sharply increased the need for external funds. Commercial banks accounted for a relatively large share of this credit flow in the first two months of the quarter. In March, on the other hand, the bulk of such funds were obtained through an exceptionally sharp increase in issuance of commercial paper, as growth in business loans at banks slowed markedly. The volume of bonds offered publicly by nonfinancial corporations rose a bit in March, but the quarterly total was the smallest since 1973. Funds raised through private placements of longer-term debt in the first quarter are estimated to have remained at about the fourth quarter level, while business mortgage indebtedness is estimated to have increased rapidly.

Short-term market rates of interest are unchanged to somewhat higher than at the time of the mid-March FOMC meeting. Since the beginning of the year, yields on private short-term instruments have declined 30 to 100 basis points. Rates on shorter-term Treasury issues, on the other hand, have increased substantially over this period--almost 50 basis points in the case of the 3-month bill. This divergent movement reflects the effects of heavy foreign official sales of short-term

Treasury debt as a counterpart to their intervention to support their currencies in exchange markets. In bond markets, yields on corporate and Treasury securities are about unchanged from the March FOMC meeting, but remain a bit higher than at the turn of the year. Municipal yields declined in March and are down over the first quarter.

M-1 growth resumed in March, but only at a 1-3/4 per cent annual rate, and over the quarter M-1 contracted at about 2-1/4 per cent rate. Transfers into ATS accounts and NOW accounts in New York are estimated to have reduced the first quarter growth rate by about 2-3/4 percentage points. The weakness of M-1 in the face of rapid nominal GNP growth seems to reflect some further downward drift in money demand.

Growth in M-2 picked up to a 3-3/4 per cent annual rate in March, and for the first quarter was at a 1-1/2 per cent annual rate. Outflows from savings accounts slowed significantly in March, but small time deposits expanded at February's advanced pace, apparently reflecting, in part, aggressive bank promotion of MMC's following the elimination on March 15 of the ceiling differential between banks and thrift institutions. Deposit flows at thrift institutions increased at about a 9.5 per cent annual rate in March, in line with the growth of the entire quarter.

Commercial banks are estimated to have obtained a large volume of funds from domestic nondeposit sources and from their foreign branches in March; over the first quarter banks raised roughly \$17-1/2 billion

(monthly average basis). Given this large supply of funds, banks reduced large time deposits by \$3.6 billion in March, leaving the increase for the first quarter as a whole at only \$4 billion, well below last year's average quarterly rate of advance.

Outlook. Aggregate credit flows to domestic nonfinancial sectors over the second quarter are expected to be roughly in line with those in the first. The corporate financing gap is projected to change little, and business borrowing probably will be at about the first quarter pace. Firms may continue to raise a substantial amount of funds in short-term markets. Bank loan commitments apparently increased significantly further in the first quarter, and nonfinancial corporations still do not appear inclined to increase appreciably the proportion of funds obtained through public bond offerings. To accommodate these and other credit demands, banks will have to rely to a greater extent than in March on managed liabilities.

In the household sector, demand for consumer installment credit may strengthen a bit, as consumer spending on durable goods is expected to bounce back from the weather-related weakness early in the first quarter. But, with flows into thrift institutions expected to slow in the months ahead, the availability of mortgage credit may well continue to be reduced and lending terms tightened. This development in combination with a possible diminishing of demands will tend to reduce mortgage credit growth.

Demands on credit markets by government entities are expected to be fairly moderate in the near term. Borrowing by state and local governments will probably remain about in line with the first quarter, unless issuance of

mortgage revenue bonds is sharply curtailed by Federal regulation. The Treasury will be running off about \$14 billion of cash management bills in late April, but is expected to raise about \$5.0 billion of new money in the coupon sector of the market over the remainder of the quarter.

Market interest rates generally appear to have adjusted to the changes in credit flows since year-end. Thus, barring a shift in monetary policy, short- and long-term interest rates appear likely to change little on average over coming months. However, rates may tend to fluctuate rather widely around this trend. Participants' views on the likely course of the economy and the System's probable reaction to such developments appear quite volatile and are likely to dominate market developments in the near term.

INTERNATIONAL DEVELOPMENTS

Summary. Following six weeks of little net change, the trade-weighted average value of the dollar has strengthened since the end of March. Over the past four weeks, the trade-weighted average value of the dollar has increased by about 1 per cent, accompanied by sizable intervention by : U.S. authorities. An appreciation of the dollar against the yen, the Swiss franc and the mark (by 2.7, 2.4 and 2.2 per cent respectively) was offset partially by a strengthening of sterling and the Canadian dollar (by 3 and 2 per cent respectively) over this period. The recent shift in market sentiment in favor of the dollar reflects the market's continuing favorable reaction to the slow growth of monetary aggregates in the United States, a larger-than-anticipated acceleration of inflation rates abroad during the past few months, and the sharp reduction of the Japanese current-account surplus. The relatively favorable oil-supply position of Canada and the United Kingdom helps to account for the recent strength of those countries' currencies.

. U.S. authorities made net purchases of about \$2.9 billion equivalent of foreign currencies,

. The purchases of DM were used to repay \$2.8 billion of post-November 1 drawings on the German swap. The repayments reduced the outstanding System swap commitment to the Bundesbank to \$628 million (as of April 11). The acquisition of Swiss francs was used to make final repayment on the pre-1971 Swiss franc swap debt and Roosa bond debt with the Swiss National Bank.

The U.S. trade deficit in February of \$20.5 billion at an annual rate was about half the size of the large deficit recorded in January. The average deficit for January-February was nearly \$30 billion, about \$3 billion above the rate in the fourth quarter of 1978. Exports in January-February rose by about 2 per cent from the fourth-quarter rate, with agricultural exports declining somewhat as expected, while non-agricultural exports continued to increase. Imports in January-February were about four per cent above the fourth-quarter rate, with non-oil imports accounting for more than half the increase.

. In January-February combined, bank reported capital transactions resulted in a net private capital inflow of nearly \$10 billion, and partial data indicate a substantial further net inflow in March. Some of the inflow reflected funds placed with foreign branches of U.S. banks by U.S. residents and recirculated to head offices in the United States.

The recent rise in metals and other commodity prices that began in the latter half of 1978 has contributed to an intensification of inflation rates in most foreign countries in the past few months. The recent depreciation against the dollar of the yen and the currencies belonging to the EMS (following a previous appreciation of these currencies last year), as well as the increased price for OPEC oil, also is worsening the prospects for inflation abroad. In response to recent price developments, monetary authorities in Germany, Japan, and Italy appear to be moving toward more restrictive policies. The Bundesbank at the end of March raised its discount rate by 1 per cent.

Outlook. The staff now projects a somewhat smaller U.S. trade deficit for 1979 than was presented in last month's green book. We project a trade deficit of \$27 billion this year, (compared with last year's \$34 billion deficit), with a further narrowing to about \$22 billion next year. Correspondingly, we now project a \$10 billion current-account deficit for 1979, and we anticipate the current account to be near balance next year.

The higher oil price announced by OPEC effective April 1 was largely incorporated in last month's projections. We still are assuming that average real GNP growth in major foreign industrial countries will be faster than growth in the United States during the projection period, but possible policy responses to the recent intensification of price inflation abroad cloud somewhat the sustainability of the moderate expansion in economic activity that is now in progress abroad.

The staff expects that the weighted-average value of the dollar a year from now will not be significantly different from its recent levels. However, the recent upward pressure on the dollar may persist for the next several months.

April 11, 1979

OUTLOOK FOR U.S. NET EXPORTS AND RELATED ITEMS
(billions of dollars, seasonally adjusted annual rates)

	1978	1979 ^P	1980 ^P	1978		1979 ^P				1980 ^P			
				III	IV	I	II	III	IV	I	II	III	IV
1. <u>U.S. Current Account Balance</u>	-16.0	-9.7	1.1	-14.8	-5.3	-10.9	-9.7	-10.7	-7.8	-5.2	-1.2	3.5	7.3
2. <u>GNP Net Exports of Goods & Services</u> 1/	-11.2	-1.6	8.9	-10.0	-2.5	-3.4	-1.4	-2.4	0.7	3.0	6.7	11.2	14.5
3. (using GNP account data) 2/	(-12.0)	(-6.7)	(3.8)	(-10.7)	(-7.6)	(-8.5)	(-6.5)	(-7.5)	(-4.4)	(-2.1)	(1.6)	(6.1)	(9.4)
4. a) Merchandise Trade Balance	-34.1	-27.1	-22.3	-32.0	-25.5	-27.8	-25.7	-28.3	-26.6	-25.7	-23.8	-21.1	-18.8
5. Exports (excl. military)	141.9	172.5	198.8	145.9	157.3	160.5	169.3	176.7	183.4	189.2	195.2	202.1	208.5
6. Agricultural	29.9	30.6	31.7	31.7	31.3	29.6	30.9	31.1	30.8	30.8	31.1	32.1	32.7
7. Nonagricultural	112.0	141.9	167.1	114.2	126.0	130.8	138.4	145.5	152.7	158.4	164.1	170.0	175.8
8. Imports	176.0	199.6	221.4	177.9	182.7	188.3	195.1	204.9	210.1	214.8	219.1	223.2	227.3
9. Petroleum and petrol. products	42.3	49.7	57.9	43.5	43.2	44.3	46.6	53.3	54.5	55.6	56.3	56.9	57.7
10. Nonpetroleum	133.7	149.9	163.5	134.4	139.5	144.0	148.5	151.6	155.6	159.2	162.8	166.3	169.6
11. b) Other Transactions, net	22.9	25.5	31.2	22.0	23.0	24.4	24.3	25.9	27.3	28.7	30.5	32.3	33.3
12. Selected Invest. Income, net 3/	20.0	25.8	31.6	22.4	23.3	24.7	24.8	26.3	27.6	29.0	31.0	32.6	33.7
13. Other, net 4/	2.9	-.3	-.4	-.4	-.3	-.3	-.5	-.4	-.3	-.3	-.5	-.3	-.4
<u>Merchandise Trade in 1972 \$</u>													
14. Merchandise exports (excl. military)	71.9	78.7	83.9	73.1	75.4	75.5	77.9	79.9	81.5	82.3	83.2	84.5	85.6
15. (% change, annual rates)	(7.4)	(9.5)	(6.6)	(-.8)	(13.0)	(0.8)	(13.4)	(10.4)	(8.2)	(4.1)	(4.5)	(6.6)	(5.3)
16. Merchandise imports	75.8	79.2	82.0	76.3	76.7	77.6	78.0	80.3	80.9	81.2	81.7	82.2	82.8
(% change, annual rates)	(7.0)	(4.5)	(3.5)	(10.0)	(2.4)	(4.5)	(2.0)	(12.6)	(2.8)	(1.6)	(2.0)	(2.8)	(2.8)
<u>Foreign Outlook - Ten Industrial Countries</u> 5/													
18. Real GNP, % change, annual rates	3.5	3.8	3.7	2.6	4.7	3.2	4.2	4.1	3.7	3.6	3.6	3.6	3.6
19. Consumer Prices, 6/ % change, A.R.	4.4	5.8	5.6	2.8	3.3	8.4	6.7	6.1	5.7	5.4	5.6	5.2	5.4

1 - 25

1/ Using data from the international accounts.
2/ Lines 2 and 3 are defined identically but, data in line 3 differ from Int'l. Acct. data (line 2) in that they usually lag the Int'l Acct. data in publication of revisions and new information.
3/ Excluding U.S. Govt. interest payments to foreigners, and reinvested earnings of incorporated affiliates.
4/ Includes travel, transportation, fees and royalties, miscellaneous other service transactions, and military transactions.
5/ Weighted by the shares of Canada, France, Germany, Italy, Japan, United Kingdom, Netherlands, Sweden, Belgium and Switzerland in the sum of the real GNP of the ten countries in dollar terms.

6/ Wholesale prices for Japan.

p/ Projected.
e/ Estimated.
*/ Published data.

NOTE: A revised methodology for seasonally adjusting merchandise exports and imports was introduced with the January data. Data for 1978 have been revised accordingly. The new seasonal pattern results in a smaller 1978-IV trade deficit and a larger 1978-I deficit; there is no change in the annual figures. These changes will be incorporated in the published GNP data in July 1979.