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CONFIDENTIAL (FR)

September 12, 1979

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary of Recent Developments. The level of aggregate economic activity in the third quarter appears to have remained near that of the second quarter, and inflation has continued at the same rapid pace as earlier this year. However, a very substantial accumulation of inventories occurred in July and other signs of developing weakness in demands have emerged.

Employment at nonfarm establishments was virtually unchanged in August after rising only 50,000 in July. Manufacturing jobs declined again, along with construction employment, but this was offset by gains in the service-producing sector. In addition, the factory workweek declined 0.2 hour. In the household survey, total employment fell by 300,000, and the unemployment rate rose from 5.7 percent to 6.0 percent.

Industrial production is estimated tentatively to have fallen 1 percent or perhaps somewhat more in August. Declines were widespread by industry, but were particularly sharp at automobile manufacturers. A partial rebound in car assemblies from the very low August level is scheduled for September. In line with the curtailed pace of manufacturing output, the capacity utilization rate is estimated to have declined further, to a level about 2-1/2 points below the March 1979 peak.

Consumer spending at retail stores rose 0.7 percent in August, suggesting little, if any, change in real terms. Unit auto sales rebounded from the depressed July pace, as discounts and rebates

succeeded in reducing somewhat the huge stock of large cars in inventory. Total auto sales were at an 11.0 million unit annual rate in August, up almost 1 million units from the depressed June-July sales pace. Spending for major discretionary items--general merchandise, apparel, and furniture and appliances--also rose 0.7 percent in current dollars during August, from an upward revised July level. Total retail sales were revised up in both June and July, resulting in an August total that was 1.2 percent above May (less than the increase in prices).

Business outlays for fixed capital equipment rose in July, following strike- and fuel-related disruptions during the second quarter. Shipments of nondefense capital goods increased rapidly and sales of heavy trucks turned up. Nonresidential construction outlays, however, showed little growth in July following strong gains in the spring.

Indicators of investment spending continued to suggest a weakening in the months ahead. New orders for nondefense capital goods in nominal terms fell sharply further in July to a level about 10 percent below the first quarter average, and nonresidential construction contracts declined further. The Commerce Department's August survey of intended plant and equipment spending suggests a deceleration of spending in the second half of this year. Although this survey showed a small upward revision of business spending plans for 1979 as a whole, the rise reflected higher reported spending in the second quarter of the year.

The book value of business inventories rose extremely rapidly in July at a record annual rate of \$94 billion. Very large increases occurred at wholesalers, retailers and manufacturers; nevertheless, the inventory to sales ratios for all of these moved up only slightly in view of strong increases in sales. At wholesale, increases were especially large in farm product raw materials, reflecting large grain harvests and marketings, and also in the automotive component. At the retail level increases were particularly large for car dealers, but stocks were decreased significantly in August. In addition to excessive car inventories, some degree of overhang remained at general merchandise stores in July.

Housing starts fell 7 percent in July, but at a 1.8 million unit annual rate remained relatively high. Multifamily starts weakened, reversing the rise of the two previous months, and single-family starts edged down but still remained within the range experienced since March. Meanwhile mortgage credit has become more expensive and somewhat less readily available. Nevertheless demand remains strong, and sales of both new and existing homes picked up in July.

Inflation has continued at double digit rates in recent months, boosted by energy prices. Producer prices of finished goods rose at a 14 percent annual rate in August, about the same pace as in the previous month, but markedly faster than during the second quarter. In that quarter wholesale food prices had declined, while recently the prices of

vegetables, fruits, and grain products have moved up again. Consumer prices advanced at a 12 percent annual rate in July, about the pace experienced since the start of the year. Gasoline and fuel oil prices increased in a 5-6 percent range in July (not annual rate) in the same general area as during the second quarter. Outside the food and energy areas, the pace of inflation has also remained brisk in recent months.

Outlook. The staff now estimates that real GNP will rise fractionally in the third quarter, following the 2-1/2 percent annual rate drop that occurred in the second quarter. Final sales appear to be stronger in the third quarter, in large part due to increased consumption expenditures, which were responding to the disappearance of gasoline shortages. As noted earlier, auto sales picked up as the demand for cars was temporarily stimulated by discounts and rebates. Capital spending is similarly showing the effects of a recovery in purchases of motor vehicles. Although inventories rose sharply in July, ongoing curtailments in production suggest that stocks in the third quarter as a whole are likely to be accumulated at a somewhat slower pace than the high rate in the previous quarter. The gross business product fixed-weighted price index is estimated to be rising at a 10 percent annual rate in the current quarter, about the same as the first half rise.

Federal fiscal policy assumptions remain about unchanged from a month ago, and on the basis of our economic projections the Federal deficit for FY 1980 is projected at \$36 billion on a unified basis.

Assumptions for the monetary aggregates include an M1 growth rate, after adjustment for the downward effect of ATS, of somewhat over 6 percent during 1979, followed by a growth rate of 6 percent over the four quarters of 1980. Reflecting the continued recent strength of the monetary aggregates, short-term interest rates consistent with these assumptions are now projected at higher levels than in the last Greenbook.

The relative stability of real GNP currently projected for the third quarter of 1979 is projected to be followed by declines in the next three quarters, averaging 1-1/4 percent at an annual rate. Consumption expenditures are likely to deteriorate in the fall in response to continued declines in real income, and business fixed investment is expected to be adjusted downward in view of such weaker demand. Housing starts are also projected to decline from current levels, partly reflecting financial constraints, and the rate of inventory accumulation is expected to slow about in line with final sales. Most of these downward adjustments are projected to have run their course by mid-1980, thus setting the stage for a slow-paced recovery. The personal saving rate is projected to remain fairly steady, at a low level of about 5 percent, throughout the projection period.

The unemployment rate is still projected to rise to around 8 percent by the end of 1980. Despite the reduction in labor demand, hourly compensation increases during 1980 are likely to be rapid, totaling nearly 10 percent, in lagged response to the preceding inflation. Due

to an expected abatement in the rate of increase of energy prices as well as some recovery in productivity, however, the overall rate of price rise is expected to slow in the latter half of 1980. The gross business product fixed-weighted index is anticipated to increase at an annual rate of about 8-1/2 percent during that period, after remaining in a range of 9-1/2 to 10 percent from early 1979 through the spring of 1980.

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

STAFF GNP PROJECTIONS

	Percent changes, annual rate							
	Nominal GNP		Real GNP		Gross business product fixed-weight price index		Unemployment rate (percent)	
	8/8/79	9/12/79	8/8/79	9/12/79	8/8/79	9/12/79	8/8/79	9/12/79
1976 <u>1/</u>	11.3	11.3	5.9	5.9	5.3	5.3	7.7	7.7
1977 <u>I/</u>	11.6	11.6	5.3	5.3	6.2	6.2	7.0	7.0
1978 <u>I/</u>	12.0	12.0	4.4	4.4	7.6	7.6	6.0	6.0
1979	10.5	10.8	1.3	1.7	9.8	9.6	6.1	6.1
1980	8.8	8.5	-5	-7	9.6	9.5	7.6	7.8
1978-III <u>1/</u>	10.9	10.9	3.5	3.5	8.8	8.8	6.0	6.0
1978-IV <u>I/</u>	14.8	14.8	5.6	5.6	8.7	8.7	5.8	5.8
1979-I <u>1/</u>	10.6	10.6	1.1	1.1	10.0	10.0	5.7	5.7
1979-II <u>I/</u>	6.3	6.7	-3.3	-2.4	10.5	9.8	5.7	5.7
1979-III	6.9	9.5	-1.8	.7	10.2	10.0	6.1	6.0
1979-IV	8.5	7.3	-1.6	-2.7	10.0	9.8	6.8	6.9
1980-I	9.4	8.5	-.2	-.9	9.7	9.7	7.3	7.4
1980-II	9.2	8.7	.2	-.4	9.5	9.5	7.5	7.7
1980-III	10.0	9.4	1.5	.9	8.8	8.7	7.7	7.9
1980-IV	10.4	9.9	1.5	1.1	8.6	8.5	7.9	8.1
Change:								
77-IV to								
78-IV <u>1/</u>	13.4	13.4	4.8	4.8	8.6	8.6	-.8	-.8
78-IV to								
79-IV	8.0	8.5	-1.4	-.8	10.2	9.9	1.0	1.1
79-IV to								
80-IV	9.8	9.1	.7	.2	9.1	9.1	1.1	1.2
Memo:								
Growth Over Annual Policy Period:								
78-IV to								
79 IV	8.0	8.5	-1.4	-.8	10.2	9.9	1.0	1.1

1/ Actual.

September 12, 1979

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 ASS II FOMC

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			
	I	II	III	IV	Projected			
	I	II	III	IV	I	II	III	IV
Gross national product	2292.1	2329.4	2382.7	2425.2	2475.2	2527.2	2584.7	2646.5
Final purchases	2272.9	2294.7	2356.7	2414.7	2470.7	2527.7	2583.7	2643.5
Private	1812.8	1828.6	1878.6	1920.8	1967.0	2014.3	2060.4	2106.9
Excluding net exports	1808.8	1836.2	1889.4	1922.6	1957.6	1998.3	2042.3	2089.0
Personal consumption expenditures	1454.2	1475.2	1518.3	1551.8	1586.7	1623.6	1659.8	1697.8
Goods	784.9	788.9	813.0	828.0	843.5	860.5	877.1	894.8
Services	669.3	686.2	705.3	723.8	743.2	763.1	782.7	803.0
Gross private domestic investment	373.8	395.7	397.1	381.3	375.4	374.2	383.5	394.2
Residential construction	111.2	113.5	116.0	114.5	113.0	112.5	114.8	117.6
Business fixed investment	243.4	247.6	255.1	256.3	257.9	262.2	267.7	273.6
Change in business inventories	19.1	34.6	26.0	10.5	4.5	-5	1.0	3.0
Nonfarm	18.8	33.8	26.0	10.5	4.5	-5	1.0	3.0
Net exports of goods and services ^{1/}	4.0	-7.6	-10.8	-1.8	9.4	16.0	18.1	17.9
Exports	238.5	244.0	261.1	271.7	282.5	292.7	299.1	305.8
Imports	234.4	251.6	271.9	273.5	273.1	276.7	281.0	287.9
Gov't. purchases of goods and services	460.1	466.1	478.1	493.9	503.7	513.4	523.3	536.6
Federal ^{2/}	163.6	161.5	164.4	173.5	176.7	179.8	182.7	188.9
State and local	296.5	304.6	313.7	320.4	327.0	333.6	340.6	347.7
Gross national product in constant (1972) dollars	1430.6	1422.1	1424.7	1415.2	1412.0	1410.7	1414.0	1417.9
Personal income	1852.6	1892.8	1946.6	1988.3	2028.2	2074.0	2133.6	2186.7
Wage and salary disbursements	1189.3	1212.1	1234.0	1252.9	1272.9	1295.5	1323.0	1353.5
Disposable personal income	1572.2	1602.1	1646.0	1680.3	1713.7	1750.8	1800.0	1841.8
Saving rate (percent)	5.0	5.4	5.2	5.1	4.8	4.6	5.2	5.2
Corporate profits with I.V.A. and C.C. Adj	178.9	175.5	181.2	178.6	180.4	181.6	182.4	185.0
Corporate profits before tax	233.3	226.9	233.0	228.4	227.2	226.9	226.4	228.8
Federal government surplus or deficit (-) (N.I.A. basis)	-11.7	-7.5	-17.4	-28.6	-28.7	-29.3	-36.2	-35.6
High employment surplus or deficit (-)	7.9	20.2	12.1	14.4	25.5	33.2	32.2	37.9
State and local government surplus or deficit (-) (N.I.A. basis)	27.6	19.9	20.2	19.9	19.9	19.6	19.1	18.9
Excluding social insurance funds	2.6	-6.1	-6.4	-7.3	-7.9	-8.8	-9.8	-10.6
Civilian labor force (millions)	102.5	102.3	103.2	103.9	104.3	104.7	105.0	105.4
Unemployment rate (percent)	5.7	5.7	6.0	6.9	7.4	7.7	7.9	8.1
Nonfarm payroll employment (millions)	87.9	88.5	88.8	88.3	88.2	88.2	88.3	88.4
Manufacturing	20.9	20.9	20.7	20.3	20.0	19.9	19.8	19.8
Industrial production (1967=100)	152.2	151.8	150.5	148.1	146.8	146.2	146.6	147.2
Capacity utilization: all mfg. (percent)	86.7	85.9	84.4	82.1	80.6	79.5	78.9	78.5
Materials (percent)	88.0	87.2	87.4	84.6	82.9	81.8	81.3	81.0
Housing starts, private (million units, A.R.)	1.62	1.84	1.70	1.55	1.50	1.50	1.55	1.55
New autos sales, (millions, A.R.)	11.55	10.66	10.70	9.90	9.90	9.70	9.80	9.90
Domestic models	9.13	8.00	8.40	7.70	7.80	7.80	7.90	8.00
Foreign models	2.42	2.66	2.30	2.20	2.10	1.90	1.90	1.90

^{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.

September 12, 1979

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

	1979				1980			
	I	II	III	IV	Projected			
					I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	1.1	-2.4	.7	-2.7	-9	-4	.9	1.1
Final purchases	1.1	-4.1	2.2	-4	.0	.4	.7	.8
Private	1.8	-4.3	2.1	-1.2	-2	.3	.6	.8
Excluding net exports	.4	-3.1	1.3	-2.5	-1.5	-4	.4	.9
Personal consumption expenditures	.6	-3.0	1.1	-1.1	.0	.4	.6	.9
Goods	-4.4	-7.6	.3	-3.9	-1.7	-9	-4	-1
Services	7.1	2.7	2.0	2.1	2.0	1.9	1.7	1.9
Gross private domestic investment	-5	8.4	-6.8	-21.2	-13.5	-9.3	1.5	3.1
Residential structures	-14.3	-3.6	-2.4	-14.5	-14.5	-11.5	-1.4	1.0
Business fixed investment	4.8	-3.4	3.9	-6.1	-5.6	-1.6	.3	.9
Gov't. purchases of goods and services	-1.8	-3.4	2.4	2.8	.9	.7	1.1	1.0
Federal	7.2	-11.0	.4	7.0	1.6	1.1	.9	.5
State and local	-6.6	1.2	3.5	.5	.5	.5	1.2	1.2
Disposable personal income	2.1	-1.2	.4	-1.6	-1.0	-.2	2.9	1.0
<u>Current dollars</u>								
Gross national product	10.6	6.7	9.5	7.3	8.5	8.7	9.4	9.9
Final purchases	11.0	3.9	11.2	10.2	9.6	9.6	9.2	9.6
Private	12.4	3.5	11.4	9.3	10.0	10.0	9.5	9.3
Excluding net exports	10.3	6.2	12.1	7.2	7.5	8.6	9.1	9.5
Personal consumption expenditures	11.4	5.9	12.2	9.1	9.3	9.6	9.2	9.5
Goods	7.9	2.1	12.8	7.6	7.7	8.3	7.9	8.3
Services	15.8	10.5	11.6	10.9	11.2	11.1	10.7	10.8
Gross private domestic investment	3.6	25.7	1.4	-15.0	-6.0	-1.3	10.3	11.6
Residential structures	-8.5	8.4	9.1	-5.1	-5.1	-1.8	8.4	10.1
Business fixed investment	12.9	7.1	12.7	1.9	2.5	6.8	8.7	9.1
Gov't. purchases of goods and services	5.6	5.3	10.7	13.9	8.2	7.9	7.9	10.6
Federal	12.1	-5.0	7.4	24.0	7.6	7.2	6.6	14.3
State and local	2.3	11.3	12.5	8.8	8.5	8.3	8.7	8.6
Disposable personal income	13.0	7.8	11.4	8.6	8.2	8.9	11.7	9.6
Personal income	11.4	9.0	11.9	8.9	8.3	9.4	12.0	10.3
Wage and salary disbursements	12.7	7.9	7.4	6.3	6.5	7.3	8.8	9.5
Corporate profits with IVA & C.C. Adj.	-12.2	-7.4	13.6	-5.6	4.1	2.7	1.8	5.8
Corporate profits before tax	10.8	-10.5	11.2	-7.6	-2.1	-6	-8	4.3
Nonfarm payroll employment	4.2	3.0	1.1	-1.9	-.6	-.2	-.4	-.4
Manufacturing	6.1	.2	-3.3	-8.0	-5.9	-2.5	-1.3	-1.0
Nonfarm business sector								
Output per hour	-3.0	-4.3	.8	.7	1.4	.7	1.2	1.4
Compensation per hour	10.7	7.8	8.5	9.6	10.6	9.6	9.7	9.4
Unit labor costs	14.1	12.7	7.6	8.8	9.1	8.8	8.4	7.9
GNP implicit deflator ^{1/}	9.3	9.2	8.7	10.3	9.5	9.1	8.4	8.7
Gross business product fixed-weight price index ^{2/}	10.0	9.8	10.0	9.8	9.7	9.5	8.7	8.5
Industrial production	4.0	-1.0	-3.4	-6.2	-3.5	-1.5	1.2	1.7

^{1/} Excluding Federal pay increases, the rates of change are: 1979 QI, 9.3 percent; 1979 QIV, 9.6 percent; 1980 QI, 9.5 percent; 1980 QIV, 8.1 percent.

^{2/} Uses expenditures in 1972 as weights.

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CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1977				1978			
	I	II	III	IV	I	II	III	IV
Gross national product	1820.2	1876.0	1930.5	1971.3	2011.3	2104.2	2159.6	2235.2
Final purchases	1800.9	1853.6	1902.9	1952.9	1988.5	2078.4	2139.5	2214.5
Private	1420.9	1462.0	1502.4	1540.1	1569.1	1650.1	1698.6	1760.7
Excluding net exports	1430.1	1468.0	1508.7	1558.2	1591.3	1657.7	1705.4	1765.2
Personal consumption expenditures	1169.1	1190.5	1220.6	1259.7	1287.2	1331.2	1369.3	1415.4
Goods	642.0	651.2	661.9	685.6	691.2	722.1	740.2	770.2
Services	527.1	539.3	558.7	574.1	596.0	609.1	629.1	645.1
Gross private domestic investment	280.4	300.0	315.7	316.9	327.0	352.3	356.2	370.5
Residential construction	81.3	91.4	95.0	99.9	100.5	107.7	110.2	113.7
Business fixed investment	179.8	186.1	193.2	198.6	203.7	218.8	225.9	236.1
Change in business inventories	19.3	22.5	27.5	18.5	22.8	25.8	20.0	20.6
Nonfarm	20.1	21.5	25.6	15.7	22.0	25.3	18.5	19.3
Net exports of goods and services ^{1/}	-9.2	-6.0	-6.3	-18.1	-22.2	-7.6	-6.8	-4.5
Exports	170.5	178.6	180.1	174.2	184.4	205.7	213.8	224.9
Imports	179.8	184.7	186.4	192.3	206.6	213.3	220.6	229.4
Gov't. purchases of goods and services	380.0	391.6	400.5	412.8	419.4	428.3	440.9	453.8
Federal ^{2/}	138.2	142.6	145.6	151.2	150.9	148.2	152.3	159.0
State and local	241.8	249.0	254.9	261.6	268.5	280.1	288.6	294.8
Gross national product in constant (1972) dollar	1315.7	1331.2	1353.9	1361.3	1367.8	1395.2	1407.3	1426.6
Personal income	1472.5	1509.0	1548.5	1596.4	1634.8	1689.3	1742.5	1803.1
Wage and salary disbursements	945.8	971.8	995.0	1023.4	1052.0	1090.0	1116.8	1154.3
Disposable personal income	1250.1	1286.0	1323.2	1361.2	1395.0	1437.3	1476.5	1524.8
Saving rate (percent)	4.2	5.1	5.4	5.1	5.3	5.0	4.8	4.7
Corporate profits with I.V.A. and C.C. Adj.	137.1	148.9	160.8	153.0	141.2	169.4	175.2	184.8
Corporate profits before tax	168.4	176.2	180.9	183.0	177.5	207.2	212.0	227.4
Federal government surplus or deficit (-) (N.I.A. basis)	-37.2	-40.9	-53.6	-53.6	-49.4	-24.6	-20.4	-16.3
High employment surplus or deficit (-)	-5.5	-12.4	-29.8	-28.3	-20.4	-4.7	-1.0	-8
State and local government surplus or deficit (-) (N.I.A. basis)	24.2	24.2	30.1	28.8	30.2	29.6	22.7	27.1
Excluding social insurance funds	6.3	5.4	10.0	7.4	7.9	6.5	-9	3.3
Civilian labor force (millions)	96.2	97.1	97.6	98.5	99.3	100.1	100.8	101.5
Unemployment rate (percent)	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)	134.8	138.0	139.3	140.3	140.8	145.1	147.9	150.7
Capacity utilization: all mfg. (percent)	80.7	82.1	82.4	82.6	82.0	83.9	85.2	86.4
Materials (percent)	81.7	83.2	82.8	83.0	82.6	85.0	86.4	88.2
Housing starts, private (million units, A.R.)	1.81	1.93	2.02	2.09	1.91	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.

CONFIDENTIAL - FR
CLASS II FOMCPERCENT 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	8.9	4.8	7.0	2.2	1.9	8.3	3.3	5.6
Final purchases	5.5	4.2	6.0	3.9	.4	8.7	4.6	5.7
Private	6.2	4.0	6.6	4.4	.8	10.7	4.4	6.7
Excluding net exports	7.2	4.1	5.7	7.4	1.0	7.9	4.1	6.9
Personal consumption expenditures	6.2	1.9	5.0	8.2	.8	5.6	4.8	6.8
Goods	7.8	1.3	3.6	10.7	-4.7	9.2	4.2	9.9
Services	4.4	2.6	6.8	5.3	7.9	1.4	5.5	3.2
Gross private domestic investment	39.6	19.2	15.0	-6.9	12.3	15.7	-5.0	6.6
Residential structures	11.1	37.6	10.2	5.3	-4.7	11.0	-4.9	-1.1
Business fixed investment	12.6	6.8	7.8	2.7	4.6	23.2	3.9	11.3
Gov't. purchases of goods and services	2.8	4.8	4.2	1.8	-1.2	.9	5.0	1.8
Federal	5.4	7.9	6.2	-1	-7.4	-12.3	8.2	3.2
State and local	1.3	3.0	3.0	3.0	2.7	9.3	3.3	1.0
Disposable personal income	2.1	6.1	6.6	6.8	2.0	4.0	4.2	6.4
<u>Current dollars</u>								
Gross national product	15.4	12.8	12.1	8.7	8.4	19.8	10.9	14.8
Final purchases	11.0	12.2	11.1	10.9	7.5	19.3	12.3	14.8
Private	11.0	12.1	11.5	10.4	7.7	22.3	12.3	15.4
Excluding net exports	15.0	11.0	11.6	13.8	8.8	17.8	12.0	14.8
Personal consumption expenditures	13.8	7.5	10.5	13.5	9.0	14.4	11.9	14.2
Goods	14.2	5.9	6.7	15.1	3.3	19.1	10.4	17.2
Services	13.2	9.6	15.2	11.6	16.1	9.1	13.8	10.6
Gross private domestic investment	56.5	31.0	22.7	1.6	13.3	34.8	4.5	17.1
Residential structures	25.7	59.1	16.8	22.3	2.4	32.0	9.5	13.5
Business fixed investment	18.8	15.0	16.1	11.6	10.6	33.3	13.7	19.3
Gov't. purchases of goods and services	10.9	12.8	9.4	12.9	6.5	8.8	12.3	12.2
Federal	11.0	13.3	8.7	16.5	-.9	-7.0	11.7	18.7
State and local	10.8	12.5	9.8	10.8	11.1	18.5	12.6	8.9
Disposable personal income	9.3	12.0	12.1	12.0	10.3	12.7	11.4	13.8
Personal income	11.8	10.3	10.9	13.0	10.0	14.0	13.2	14.7
Wage and salary disbursements	11.4	11.5	9.9	11.9	11.7	15.3	10.2	14.1
Corporate profits with IVA & C.C. Adj.	46.6	39.1	36.0	-18.0	-27.5	107.2	14.4	23.8
Corporate profits before tax	35.4	19.9	11.1	4.7	-11.5	85.7	9.6	32.4
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	5.1	-1.5	3.8	-.8	-.2	2.4	2.9	1.3
Compensation per hour	8.7	6.9	8.5	7.9	12.3	8.0	9.1	9.4
Unit labor costs	3.4	8.5	4.5	8.7	12.5	5.5	6.0	8.0
GNP implicit deflator <u>1/</u>	6.0	7.7	4.8	6.4	6.3	10.6	7.2	8.7
Gross business product fixed-weight price index <u>2/</u>	6.9	7.1	5.2	6.5	6.6	10.5	8.8	8.7
Industrial production	7.1	9.8	3.8	2.9	1.4	12.8	7.9	7.8

1/ Excluding Federal pay increases, rates of change were: 1977:Q1, 5.9 percent; 1977:QIV, 5.6 percent; 1978:Q1, 6.3 percent; 1978:QIV, 8.1 percent.

2/ Uses expenditures in 1972 as weights.

September 12, 1979

CONFIDENTIAL - FR
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	1702.2	1899.5	2127.6	2357.3	2558.4
Final purchases	1288.6	1404.0	1539.6	1692.1	1877.6	2105.2	2334.8	2556.4
Private	1019.1	1101.3	1201.2	1330.8	1481.4	1669.6	1860.2	2037.1
Excluding net exports	1012.0	1095.3	1180.8	1322.8	1491.3	1679.9	1864.3	2021.8
Personal consumption expenditures	809.9	889.6	979.1	1089.9	1210.0	1350.8	1499.9	1642.0
Goods	457.5	498.3	541.5	601.3	660.1	730.9	803.7	869.0
Services	352.3	391.3	437.5	488.5	549.8	619.8	696.2	773.0
Gross private domestic investment	220.0	214.6	190.9	243.0	303.3	351.5	387.0	381.8
Residential construction	66.1	55.1	51.5	68.1	91.9	108.0	113.8	114.5
Business fixed investment	136.0	150.6	150.2	164.9	189.4	221.1	250.6	265.3
Change in business inventories	17.9	8.9	-10.7	10.0	21.9	22.3	22.6	2.0
Nonfarm	14.7	10.8	-14.3	12.1	20.7	21.3	22.3	2.0
Net exports of goods and services ^{1/}	7.1	6.0	20.4	8.0	-9.9	-10.3	-4.0	15.3
Exports	101.6	137.9	147.3	163.3	175.9	207.2	253.8	295.0
Imports	94.4	131.9	126.9	155.4	185.8	217.5	257.9	279.7
Gov't. purchases of goods and services	269.5	302.7	338.4	361.3	396.2	435.6	474.5	519.2
Federal ^{2/}	102.2	111.1	123.1	129.7	144.4	152.6	165.7	182.0
State and local	167.3	191.5	215.4	231.6	251.8	283.0	308.8	337.2
Gross national product in constant (1972) dollars	1235.0	1217.8	1202.3	1273.0	1340.5	1399.2	1423.2	1413.7
Personal income	1052.4	1154.9	1255.5	1381.6	1531.6	1717.4	1920.1	2105.6
Wage and salary disbursements	701.3	764.6	805.9	890.0	984.0	1103.3	1222.1	1311.2
Disposable personal income	901.7	984.6	1086.7	1184.5	1305.1	1458.4	1625.2	1776.6
Saving rate (percent)	7.8	7.3	7.7	5.8	5.0	4.9	5.2	5.0
Corporate profits with I.V.A. and C.C. Adj.	99.1	83.6	95.9	126.8	150.0	167.7	178.6	182.4
Corporate profits before tax	115.8	126.9	120.4	156.0	177.1	206.0	230.4	227.3
Federal government surplus or deficit (N.I.A. basis)	-6.7	-10.7	-70.6	-53.6	-46.3	-27.7	-16.3	-32.5
High employment surplus or deficit (-)	-1.3	14.9	-27.4	-20.2	-19.0	-6.7	13.7	32.2
State and local government surplus or deficit (-) (N.I.A. basis)	13.0	7.6	6.2	17.9	26.8	27.4	21.9	19.4
Excluding social insurance funds	4.1	-2.9	-6.2	2.3	7.3	4.2	-4.3	-9.3
Civilian labor force (millions)	88.7	91.0	92.6	94.8	97.4	100.4	103.0	104.8
Unemployment rate (percent)	4.9	5.6	8.5	7.7	7.0	6.0	6.1	7.8
Nonfarm payroll employment (millions)	76.8	78.3	76.9	79.4	82.3	85.8	88.4	88.3
Manufacturing	20.2	20.1	18.3	19.0	19.6	20.3	20.7	19.9
Industrial production (1967=100)	129.8	129.3	117.8	130.5	138.2	146.1	150.7	146.7
Capacity utilization: all manufacturing (percent)	87.6	83.8	72.9	79.5	81.9	84.4	84.8	79.4
Materials (percent)	91.8	87.1	73.4	81.1	82.7	85.6	86.8	81.8
Housing starts, private (million units, A.R.)	2.05	1.34	1.16	1.54	1.99	2.02	1.68	1.52
New auto sales, (millions, A.R.)	11.42	8.91	8.66	10.12	11.13	11.29	10.70	9.82
Domestic models	9.65	7.49	7.08	8.63	9.07	9.27	8.31	7.87
Foreign models	1.77	1.42	1.58	1.50	2.06	2.02	2.39	1.95

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.

September 12, 1979

CONFIDENTIAL - FR
CLASSIFIED BY FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974	1975	1976	1977	1978	1979	1980
<u>Constant (1972) dollars</u>								
Gross national product	5.5	-1.4	-1.3	5.9	5.3	4.4	1.7	-0.7
Final purchases	4.9	-0.7	.2	4.5	4.8	4.4	1.8	.1
Private	6.3	-1.4	-0.3	5.6	5.6	5.0	2.2	-0.1
Excluding net exports	5.1	-2.3	-1.0	6.5	6.2	5.0	1.7	-0.9
Personal consumption expenditures	4.7	-0.9	1.8	5.9	5.0	4.5	1.8	-0.1
Goods	5.0	-3.4	.7	6.9	5.1	4.1	.0	-1.9
Services	4.4	2.3	3.2	4.8	4.9	5.1	4.0	2.0
Gross private domestic investment	10.0	-11.4	-22.3	21.6	15.4	7.1	.5	-9.5
Residential structures	-3.7	-24.6	-13.9	23.3	20.7	4.2	-5.8	-9.3
Business fixed investment	12.2	-0.3	-13.0	4.8	8.6	8.4	4.4	-2.5
Gov't. purchases of goods and services	-0.2	2.1	1.9	.2	2.0	1.8	.4	1.1
Federal	-5.4	-0.8	.7	-0.2	4.4	-2.0	.8	1.3
State and local	3.2	3.8	2.6	.5	.6	4.0	.1	1.0
Disposable personal income	6.7	-1.5	2.1	3.7	4.2	4.6	2.2	-0.2
<u>Current dollars</u>								
Gross national product	11.6	8.1	8.2	11.3	11.6	12.0	10.8	8.5
Final purchases	10.9	8.9	9.7	9.9	11.0	12.1	10.9	9.5
Private	12.2	8.1	9.1	10.8	11.3	12.7	11.4	9.5
Excluding net exports	11.0	8.2	7.8	12.0	12.7	12.6	11.0	8.5
Personal consumption expenditures	10.5	9.8	10.1	11.3	11.0	11.6	11.0	9.5
Goods	11.4	8.9	8.7	11.0	9.8	10.7	10.0	8.1
Services	9.3	11.1	11.8	11.7	12.5	12.7	12.3	11.0
Gross private domestic investment	16.8	-2.5	-11.0	27.3	24.8	15.9	10.1	-1.3
Residential structures	6.6	-16.7	-6.5	32.3	35.0	17.5	5.4	.6
Business fixed investment	16.4	10.8	-0.3	9.8	14.9	16.7	13.3	5.9
Gov't. purchases of goods and services	6.5	12.3	11.8	6.8	9.7	9.9	8.9	9.4
Federal	.1	8.7	10.7	5.4	11.3	5.7	8.6	9.8
State and local	10.8	14.5	12.5	7.5	8.7	12.4	9.1	9.2
Disposable personal income	12.5	9.2	10.4	9.0	10.2	11.7	11.4	9.3
Personal income	11.7	9.7	8.7	10.0	10.9	12.1	11.8	9.7
Wage and salary disbursements	10.6	9.0	5.4	10.4	10.6	12.1	10.8	7.3
Corporate profits with IVA & C.C. Adj.	7.6	-15.6	14.7	32.2	18.3	11.8	6.5	2.1
Corporate profits before tax	20.4	9.6	-5.1	29.6	13.5	16.3	11.8	-1.3
Nonfarm payroll employment	4.3	1.9	-1.7	3.2	3.6	4.3	3.1	-0.1
Manufacturing	5.2	-0.4	-8.7	3.7	3.4	3.5	1.9	-4.1
Nonfarm business sector								
Output per hour	1.7	-2.9	1.9	3.5	1.8	1.1	-0.7	.7
Compensation per hour	7.8	9.4	9.9	8.3	8.2	9.3	9.2	9.6
Unit labor costs	6.0	12.7	7.8	4.7	6.3	8.1	10.0	8.9
GNP implicit deflator	5.9	9.7	9.6	5.2	6.0	7.3	9.0	9.2
Gross business product fixed-weighted price index ^{1/}	5.7	10.4	9.4	5.3	6.2	7.6	9.6	9.5
Industrial production	8.4	-0.4	-8.9	10.8	5.9	5.7	3.1	-2.6

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

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

September 12, 1979

	Fiscal Year 1978*	FY 1979 e/2/		FY 1980 e/2/		CY 1978*	CY79e/ F.R. Board	Calendar quarters; unadjusted data						FRB Staff Estimates			
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			1978				1979			1980		
								IV*	I*	II*	III	IV	I	II	III		
Unified budget receipts	402.0	466.5	466.6	513.8	507.6	416.9	478.3	99.5	102.1	144.4	120.6	111.1	111.0	150.5	135.0		
Unified budget outlays	450.8	496.2	493.0	542.4	543.7	460.6	504.9	123.2	122.6	123.0	124.2	135.1	133.2	136.8	138.6		
Surplus(+)/Deficit(-), unified budget	-48.8	-29.7	-26.4	-28.7	-36.1	-43.7	-26.6	-23.7	-20.5	21.4	-3.6	-24.0	-22.2	13.7	-3.6		
Surplus(+)/Deficit(-), off-budget agencies 3/	-10.3	-12.4	-12.5	-11.6 ^{9/}	-11.2	-9.1	-13.9	-0.1	-3.0	-5.1	-4.2	-1.6	-3.4	-3.5	-2.7		
Combined deficit to be financed	-59.1	-42.1	-38.9	-40.3	-47.3	-52.8	-40.5	-23.8	-23.5	16.3	-7.8	-25.6	-25.6	10.2	-6.3		
Means of financing combined deficits:																	
Net borrowing from public	59.1	29.8	33.4	38.3	38.4	53.6	31.6	15.3	10.6	-4.6	12.1	13.5	18.6	-0.2	6.5		
Decrease in cash operating balance	-3.3	7.4	0.2	0.0	7.2	-4.0	4.3	6.1	8.6	-9.8	-4.7	10.2	4.0	-8.0	1.0		
Other 4/	3.2	4.9	5.3	2.0	1.8	3.2	4.8	2.5	4.2	-1.9	0.5	2.0	3.0	-2.0	-1.2		
Cash operating balance, end of period	22.4	15.0	22.2	15.0	15.0	16.3	12.0	16.3	7.7	17.5	22.2	12.0	8.0	16.0	15.0		
Memo: Sponsored agency borrowing 5/	19.1	n.a.	22.1	n.a.	19.2	22.0	21.9	4.9	6.4	6.0	4.8	4.7	5.5	4.5	4.5		
NIA Budget 6/								Seasonally adjusted annual rates									
Receipts	414.9	480.6	476.7	525.3	519.8	432.1	489.6	463.5	475.0	485.4	496.1	502.0	512.8	523.2	535.7		
Expenditures	449.5	496.4	493.4	546.9	549.3	459.8	506.3	479.7	486.8	492.8	514.2	531.3	541.5	552.5	571.9		
Purchases (total)	150.6	164.5	162.1	178.7	178.2	152.6	165.8	159.0	163.6	161.5	164.4	173.5	176.7	179.8	182.7		
Defense	97.8	105.6	104.8	116.0	115.7	99.0	107.6	101.2	103.4	106.0	108.5	112.6	114.6	116.8	118.9		
Non-defense	52.8	58.9	57.3	62.7	62.4	53.6	58.1	57.8	60.2	55.5	55.9	60.9	62.1	63.0	63.8		
All other expenditures	298.9	331.9	331.3	368.2	371.1	307.2	340.5	320.7	323.2	331.3	349.8	357.8	364.8	372.7	389.2		
Surplus(+)/Deficit(-) 7/	-34.6	-15.8	-16.7	-21.6	-29.5	-27.7	-16.7	-16.3	-11.7	-7.4	-18.1	-29.3	-28.7	-29.3	-36.2		
High Employment Surplus(+)/ Deficit(-) (NIA basis) 8/	-13.6	n.a.	9.9	n.a.	26.3	-6.7	13.7	-0.8	7.9	20.2	12.1	14.4	25.5	33.2	32.2		
	*--actual	e--estimated		r--revised			n.a.--not available										

1/ OMB Mid-Session Review of the 1980 Budget, July 12, 1979.

2/ In the First Concurrent Resolution on the Budget Fiscal Year 1980, May 21, 1979, Congress expects FY 1979 receipts of \$461.0 billion and outlays of \$494.5 billion; and FY 1980 receipts of \$509.0 billion and outlays of \$532.0 billion.

3/ Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.

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

5/ Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives marketable debt on an offerings basis.

6/ All NIA data incorporate the Department of Commerce's July 1979 GNP revisions.

7/ The fiscal year totals are translations of the OMB Mid-Session Review of the 1980 Budget, July 1979; the translations 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.

8/ FRB staff estimates are consistent with the Council's new potential GNP series as reported in the Economic Report of the President, January 1979.

9/ Reflects recent re-estimate by OMB of Federal Financing Bank loan activity.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Credit market conditions have continued to tighten since the last FOMC meeting, responding to the further increases in the System's federal funds rate objective and to still strong credit demands, particularly in the business sector. Short-term interest rates generally have increased 100 to 145 basis points, with Treasury bill rates and bank prime rates moving to record high levels and rates on private short-term instruments posting new highs for the current cycle. Bond yields have risen 25 to 35 basis points, but remain below levels attained in the spring. Stock prices have changed little on balance over the intermeeting period, despite some declines most recently.

Business demands for funds from external sources have remained relatively strong. Corporate profits have weakened slightly in the current quarter, and the corporate financing gap has continued large. Firms issued a substantial volume of commercial paper again in August and business loans at banks expanded rapidly, though somewhat slower than in July. Borrowing in long-term markets, on the other hand, has remained relatively weak. While public offerings of bonds picked up in August, the average volume for July-August was slightly under that for the first half of this year. Corporate stock offerings in August, however, were the largest in nearly a year, as firms moved to take advantage of the relatively high level of stock prices.

Flows of mortgage credit apparently have been well maintained, but supply conditions in this market have tightened further. Deposit flows at S&Ls continued to be relatively sluggish in July and August and remained below the rate of mortgage credit expansion. Thus, S&L reliance on managed

liabilities to meet commitments has been extended, and the proportion of institutions reporting funds in short supply has moved up again to around 80 percent. Against this background, rates on new mortgages have moved higher. Consumer loan growth moderated in June and July but may have picked up in August with the rebound in auto sales.

Treasury borrowing since mid-August has been larger than expected. In addition to anticipated sales of cash management bills, the Treasury has sold \$2.5 billion of 4-year 8-month notes, added \$200 million to each weekly bill auction and issued about \$300 million of nonmarketable debt to foreign official accounts. Thus the Treasury is now expected to end the fiscal year with a cash balance in the \$21 billion area, more than \$3 billion above the level expected a month ago. State and local government bond issuance rose in August, in part reflecting a sharp rise in offerings of housing-related revenue bonds.

M-1 increased at a 7.4 percent annual rate in August, down significantly from July's rapid pace but in line with the second quarter growth rate. M-2 rose at an 11.3 percent annual rate, only a bit below July's relatively strong advance. Large time deposits included in M-2 and savings deposits increased at somewhat slower rates in August; small-time deposit expansion, on the other hand, was a bit stronger than in July. Growth in money market mutual funds and other short-term investments has remained quite rapid in recent weeks.

Commercial bank credit slowed to a 10 percent annual rate of growth in August (new series), primarily reflecting a marked decline in holdings of Treasury securities and a sharp runoff in security loans. Business loans increased at a less rapid rate than in July but about in line with the strong second quarter pace.

Outlook. Aggregate credit demands appear likely to remain relatively strong in the near term. With many market participants expecting the System to seek a further tightening of money market conditions, however, an unchanged policy might be accompanied by some downward movement of interest rates. Toward year end, more fundamental downward pressures on market rates may begin to develop, as private credit demands ease in association with the economic slowdown.

In the public sector, the Treasury has prefinanced part of the large deficit in prospect for the fourth quarter; however, the staff estimates that it will still raise an additional \$14 to \$15 billion of new money before year end. Between now and the October FOMC meeting, the Treasury is expected to issue about \$1.5 billion of 15-year bonds and to continue adding \$200 million to each weekly bill auction. State and local government issuance of long-term bonds, although sizable in the near term, may drop during the fall as offerings of mortgage revenue bonds decrease.

Credit flows to households are expected to decline a bit further in coming months. With growth in personal income weakening at a time of growing uncertainty about economic prospects, household demands for consumer credit should remain more moderate than in the first half. In addition, growth of residential mortgage credit is likely to taper off, with continued sluggish deposit growth at thrift institutions contributing to supply pressures in this market.

Business credit demands may remain strong in the near term, but they should begin to ease during the fall as the expected adjustment of inventories relieves some of the pressure on cash flows. Any slackening

in the pace of business borrowing is likely to be concentrated in short- and intermediate-term markets, as balance sheet considerations will motivate firms to stress long-term financing.

INTERNATIONAL DEVELOPMENTS

Summary. The trade-weighted average value of the dollar against major foreign currencies has declined slightly since the last greenbook on August 3. In the earlier part of the period stability in the market was supported by indications of firm U.S. monetary policy, . More recently, however, some downward pressure on the dollar has developed, partly reflecting strong demand for the German mark as interest rates in that country rose. The strength of the mark in exchange markets directly affected Germany's partners in the European Monetary System,

U.S. authorities bought about \$100 million against marks. In the last week of August and the first week and a half of September

U.S. intervention to support the dollar took the form of net sales of German marks amounting to nearly \$1 billion equivalent.

The U.S. merchandise trade deficit in July dropped sharply, and probably temporarily, to \$17.4 billion at an annual rate (international accounts basis), about half the size of the June deficit and also substantially lower than the first or second quarter averages. Exports in July continued the strong rise of the previous several months. Much of the recent increase in exports was agricultural products, which reached a record \$38.7 billion annual rate in July. Poor crops in the U.S.S.R. and Eastern Europe have resulted in increased U.S. shipments of wheat and corn to the U.S.S.R. and have contributed to higher agricultural export prices. U.S. agricultural exports are expected to remain high through next spring.

Nonagricultural exports in July continued the steady rise that began early last year; about half of the increase in value this year was attributable to rising prices. Much of the increase came in industrial supplies (particularly nonferrous metals and chemicals), with exports of machinery and civilian aircraft also rising.

The value of oil imports rose sharply in July, reaching \$61 billion at an annual rate. All of the increase from June was in price; imported oil averaged \$19.45 per barrel in July, reflecting about three quarters of the expected final impact of the earlier OPEC price increases. The volume of imported oil declined slightly in July to 3.4 million barrels per day, but U.S. petroleum stocks continued to increase and are now above the level of a year ago.

Non-oil imports declined sharply in value in July from the June rate and also from the second quarter rate. While non-oil import prices have risen sharply this year -- 9 per cent from 4Q78 to 2Q79 -- volumes have been unchanged.

Bank-reported private capital transactions in July registered a net outflow of \$1.8 billion, close to the June amount. Net outflows in these two months were in sharp contrast to net inflows totalling \$22 billion in the first five months of the year. Some of the recent outflow resulted from a rise in lending to Latin America and Japan. Within the overall figures on banking flows there was a continuation of funding of U.S. head offices from their foreign branches, with the amount raised from branches increasing by \$2.6 billion in August. U.S. nonbank deposits in foreign branches continued to grow through July.

U.S. bank lending abroad for head offices and branches combined was at a slower rate in the first half of 1979 than during 1978. The increase in claims outstanding on countries other than financial centers was about \$3 billion in the first half of the year; claims on non-oil developing countries rose by about \$3-1/2 billion, with the largest increases going to Korea, the Philippines and Taiwan, while claims on Eastern Europe and oil producers were reduced.

Economic activity in some industrial countries (Japan, Germany and the United Kingdom) was well-sustained in the second quarter, but weakness was evident in France, Italy, and Canada. On balance, GNP

growth in industrial countries is estimated at about a 3.3 per cent rate in the second quarter, after a first quarter that was weakened in some countries by strikes and weather.

Inflation rates in nearly all countries continued to rise in the latest months for which data are available. In some countries, notably Germany, authorities reacted to higher inflation rates by allowing interest rates to rise.

Trade and current account balances of major foreign industrial countries moved toward reduced surpluses or increased deficits during the first half of the year. The shift was striking for Japan, where the current account was also turning negative after a surplus of \$16.5 billion in 1978, and for Germany, where the current account was about in balance in the first half of 1979 compared with a surplus of \$4 billion in the first half of 1978.

Outlook. The staff continues to project a U.S. trade deficit of \$30 billion for 1979, with a current account deficit of about \$5 billion. A reduction of the trade deficit to \$17 billion in 1980, and a shift of the current account into a substantial surplus (about \$14 billion) is also projected. For the nearer term, some months of much larger trade deficits than was recorded for July are expected. The improvement thereafter reflects primarily the relative weakness of demand in the United States, high agricultural exports, and some remaining effect of the dollar's depreciation since 1977.

In the framework of the greenbook projections for the year ahead, the staff expects that the weighted-average foreign exchange value of the dollar in the fourth quarter of 1980 will not be significantly different from the average level in July and August of this year. However, some net depreciation against the German mark and Swiss franc is expected. In the short term, developments may generate downward pressure on the dollar, but toward the end of the projection period upward pressure may develop as the move of the U.S. current account into surplus is sustained and evidence of the Federal Reserve's resolve to restrain the growth of the monetary aggregates accumulates.

	1978	1979 ^P	1980 ^P	1978				1979				1980 ^P					
				IV	I	II	III ^P	IV ^P	I	II	III	IV	I	II	III	IV	
1. GNP Net Exports																	
Current \$, Net	-10.3	-4.0	-15.3	-4.5	4.0	-7.6	-10.8	-1.8		9.4	16.0	18.1	17.9				
Exports of G&S	207.2	253.8	295.0	224.9	238.5	244.0	261.1	271.7		282.5	292.7	299.1	305.8				
Imports of G&S	217.5	257.9	279.7	229.4	234.4	251.6	271.9	273.5		273.1	276.7	281.0	287.9				
Constant 72 \$, Net	11.0	16.4	24.8	12.9	17.0	13.4	15.8	19.5		23.1	25.1	25.7	25.4				
Exports of G&S	108.9	117.5	121.7	113.8	117.0	116.2	118.0	118.7		120.3	121.7	122.1	122.5				
Imports of G&S	97.9	101.0	96.8	101.0	100.0	102.8	102.2	99.2		97.2	96.6	96.4	97.1				
Terms of trade (1972=100) ^{2/}	85.7	84.6	84.0	87.0	87.0	85.8	83.2	83.0		83.6	84.0	84.1	84.2				
2. U.S. Merchandise Trade Balance ^{1/}	-34.2	-30.0	-17.3	-25.5	-24.4	-30.1	-35.9	-29.6		-20.8	-16.0	-15.6	-16.8				
Exports (excl. military)	141.9	178.6	207.2	157.3	165.4	171.5	185.4	192.0		199.3	206.1	209.5	213.8				
Agricultural	29.9	34.1	38.2	31.3	30.6	30.8	37.7	37.4		38.9	39.3	37.7	36.9				
Nonagricultural	112.0	144.5	169.0	126.0	134.8	140.7	147.7	154.6		160.4	166.8	171.8	176.9				
Imports	176.1	208.6	224.5	182.7	189.8	201.6	221.3	221.6		220.1	222.1	225.1	230.6				
Petroleum and Products	42.3	57.3	66.5	43.2	46.6	51.6	65.6	65.4		65.5	66.1	66.6	67.8				
Nonpetroleum	133.8	151.3	158.0	139.5	143.2	150.0	155.7	156.2		154.6	156.0	158.5	162.8				
3. U.S. Current Account Balance	-13.9	-5.4	13.5	-1.3	0.6	-7.6 ^P	-11.1	-3.4		7.4	14.4	16.2	15.8				
of which: Net Investment Income	21.6	26.0	29.7	26.4	27.1	24.5	25.7	26.6		28.1	29.5	30.2	31.0				
4. Foreign Outlook - Ten Industrial Countries ^{3/}																	
Real GNP, % change, annual rates	3.2	3.3	2.4	4.6	2.2	3.8 ^P	3.2	2.7		1.8	1.9	2.2	2.2				
Consumer Prices, ^{4/} % change, annual rates	5.0	10.0	7.5	4.2	8.7	10.1 ^P	11.9	9.3		8.2	7.8	7.3	6.8				

^{1/} International accounts basis.

^{2/} GNP export implicit deflator ÷ GNP import implicit deflator.

^{3/} Geometric weights used to aggregate foreign real GNP and consumer prices -- per cent share in ten-country total multilateral trade. Canada (9.1%), Japan (13.6%), United Kingdom (11.9%), Germany (20.8%), France (13.1%), Italy (9.0%), Belgium (6.4%), the Netherlands (8.3%), Switzerland (3.6%), Sweden (4.2%).

^{4/} Wholesale prices for Japan.

^{P/} Projected.