

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

October 12, 1979

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee
FROM: Murray Altmann

Attached for your information is a brief review of recent and prospective economic and financial developments and of the latest GNP projections, prepared by the staff of the Board.

Attachment

CONFIDENTIAL (FR)

October 12, 1979

**CURRENT AND PROSPECTIVE ECONOMIC
AND FINANCIAL CONDITIONS**

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

TABLE OF CONTENTS

Page

DOMESTIC NONFINANCIAL DEVELOPMENTS

Review of recent developments	1
Outlook	5

TABLES:

Selected domestic nonfinancial data	8
Gross national product and related items	9
Federal sector accounts	16

DOMESTIC FINANCIAL DEVELOPMENTS

Review of recent developments	17
Outlook	20

TABLES:

Selected domestic financial data	22
Selected interest rates; measures of risk premia	23
Monetary aggregates	24
Commercial bank credit	25

INTERNATIONAL DEVELOPMENTS

Review of recent developments	28
Outlook	31

TABLES:

Outlook for U.S. net exports and related items	26
U.S. international transactions	27

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent economic indicators have been stronger than expected. The pickup in final demand during the third quarter appears to have been based in considerable part on a makeup of spending shortfalls in the spring associated with fuel shortages and strikes, and inventory accumulation has been large in some sectors. However, the underlying sources of weakness in aggregate demand, most notably the erosion of real spendable income by rapid inflation, have persisted and are likely to result in significant production and employment adjustments in the months ahead.

The impact of the System's recent policy actions is difficult to assess at this juncture; the current pervasive mood of uncertainty clearly has prompted some reassessment of spending plans. The staff has assumed the uncertainty will dissipate in coming weeks, but even so, financial markets will be tauter in the near term than had been assumed earlier. This will contribute to a somewhat deeper decline in economic activity over the next couple of quarters than previously had been projected; however, the staff continues to expect that the decline will bottom out by the middle of 1980.

Review of Recent Developments. Information on economic developments now available suggests that real GNP in the third quarter expanded at around a 1-1/2 percent annual rate, somewhat faster than the staff had anticipated a month ago. At the same time inflation remained intense, and the gross business product fixed-weighted price index is projected to

have risen at an annual rate of about 10-1/4 percent. All of the hard information on the nonfinancial economy predates the monetary policy actions announced October 6.

Based on partial data, industrial production appears to have increased about 1/2 percent in September following a decline of about 1 percent in the preceding month. A significant factor in the pickup in production was the increase in automobile assemblies, following substantial reductions earlier in the quarter. Output of other sectors appears to have changed relatively little over the last few months. For the quarter as a whole, industrial production averaged about 1/4 percent below the high reached in the first quarter.

Labor demand in September also was a little stronger than earlier in the quarter. Employment at nonfarm establishments increased by about 135,000, after no change in August. As in most recent months, employment growth was concentrated in the service sector; manufacturing employment changed little, and the factory workweek declined slightly. The unemployment rate fell 0.2 percentage point to 5.8 percent, the decline reflecting mainly decreased jobless rates for adult women.

Consumer spending appears to have increased appreciably during the third quarter, probably related importantly to the improved availability of gasoline--shortages of which had depressed sales in the spring and early summer. Purchases of durable goods in real terms recovered much of the drop registered in the second quarter, reflecting higher auto sales and through August (latest data) increased outlays for

furniture and appliances as well. Consumer demand for automobiles also was encouraged by sizable rebates and dealer discounts. In September and the third quarter as a whole, domestic auto sales were at an 8.5 million unit annual rate, up substantially from the 7-1/4 million rate in June, but still below the pace early in the year. At the same time, a decline in foreign car sales offset a part of the increase in domestic car purchases.

Increased consumer spending last quarter occurred despite further declines in real personal income, and the savings rate likely fell to around 4-1/2 percent. For July and August combined, total personal income in real terms averaged about 1-1/2 percent less at an annual rate than during the quarter earlier.

In the housing market, new and existing home sales rose appreciably in July and August, and inventories of new homes for sale remained only a little above the level in 1978. To some extent the higher levels of sales reflected purchases delayed during the gasoline shortage. Housing starts in August were close to 1.8 million units at an annual rate; starts have fluctuated within a narrow range since March, about 10 percent below the average in 1978. Industry and field reports, however, suggest a slowdown of private construction activity in September and early this month.

Business outlays for capital equipment appear to have rebounded in the third quarter. Shipments of nondefense capital goods increased sharply in August for the second month in a row, the first back-to-back

monthly increases since year-end 1978. Indicators of future investment spending, however, have been weakening for a number of months. While new orders for nondefense capital goods increased about 6 percent in August, this rise followed a sizable decline in the previous month, and in real terms the level of such orders was about 9 percent below that of the first quarter. Contracts for business construction in real terms also have tended to weaken since early 1979; public utilities in particular appear to have reduced capital spending plans.

The book value of manufacturers' inventories continued to increase at a fairly rapid pace in August; but shipments increased enough to hold the inventory-to-sales ratio at its July level of 1.54. The August inventory rise was concentrated in materials, particularly at manufacturers of transportation equipment, primary metals, and petroleum products. While book value inventory-to-sales ratios generally have remained low in comparison with historical experience, ratios calculated in constant dollars have been moving up since early this year to levels that suggest some degree of involuntary accumulation, particularly in the retail sectors for automobiles and general merchandise. By the end of September, however, progress had been made in reducing the overhang of unsold new cars. In the two months ending in September, dealers pared their stocks of cars by about 1/4 of a million units; but inventories at the end of September, representing about 66 days of sales, were still somewhat high by past standards.

Purchases of goods and services by the federal government and state and local governments appear to have changed little during the third quarter. In the federal sector, a sharp rise in Commodity Credit Corporation loan repayments (a negative outlay in the federal budget accounts) appears to have offset an increase in defense spending.

In recent months inflation has accelerated further. In September the producer price index increased 1.4 percent, and the August consumer price index rose 1.1 percent. Energy prices rocketed upward at both the producer and consumer levels. In addition, rapid recent increases in wholesale food prices point to a reacceleration in retail food prices, following a three-month period in which these prices were little changed. At the same time, price increases for intermediate materials were quite large in September. In the last half of September and the first week of October, prices of metals, such as copper, increased sharply, apparently reflecting a spillover of speculative activity from the market for precious metals.

Outlook. The unsettled financial conditions of the past several days have obscured somewhat the economic outlook, but the System's recent actions seem likely to reinforce the tendencies toward weakness in economic activity in the months ahead. Prior to the October 6 announcement, incoming data suggested that the fundamental tendencies in the economy toward reduced aggregate demand remained intact. Moreover,

with inventory overhangs apparently not cleared up in the third quarter, some of the expected production and employment adjustments had effectively been delayed until late 1979 and early 1980. In addition, mounting speculative activity in commodities markets toward the end of the quarter suggested the danger of further imbalances and distortions.

At this time, market uncertainties regarding the System's intentions and the ultimate impact of its actions on the cost and availability of credit appear to be significantly disrupting normal lending activities--especially in the mortgage market--and leading to a hesitation in spending decisions. It is the staff's assumption that this uncertainty, per se, will diminish before long, but that the shift in System policy will imply a substantially higher average level of short-term interest rates in the near term than had previously been assumed. However, given the unchanged assumption for M-1 growth--that is, a bit faster than 6 percent in 1979 and 6 percent in 1980 (in each instance, adjusted for ATS)--the staff has anticipated that money market rates will start returning early in 1980 to the path that was associated with the September Greenbook projection. Assumptions for federal fiscal policy are unchanged from September, but based on the weaker outlook for economic activity, the FY 1980 unified budget deficit is now projected at \$39 billion.

Under these assumptions, the marginal impact of the System's recent actions is likely to be rather limited. Residential construction

activity probably will fall off more than it otherwise might have, as builders and homebuyers react to sharply higher interest rates and some greater stringency in nonprice terms of lending. Businessmen are likely to be more aggressive in curtailing inventory growth, given the higher carrying costs and the prospect of weaker sales, and some fixed investment may be deferred. Consumer spending also may be damped, not only by the impact of employment cutbacks on income but also by tighter credit conditions and the wealth effects associated with recent declines in asset values. The impact of these developments should be moderate--and concentrated in the next few quarters--so long as the disruptions of financial markets prove short-lived and there are no widespread and lingering credit availability constraints.

The staff's economic projection at this time continues to show a decline in real GNP over the next three quarters, with growth resuming at a sluggish pace by mid-1980. Upward changes in the growth rate for the third quarter of 1979 since the previous projection are virtually offset by downward changes for the fourth quarter; during 1980, real GNP is now expected to show a slight decline. The unemployment rate in the final quarter of 1980 is now projected at 8-1/4 percent, just a shade higher than a month ago. The gross business product fixed-weighted price index is projected to be rising at about an 8-1/2 percent rate in late 1980, compared with 10-1/4 percent in the quarter just ended.

SELECTED DOMESTIC NONFINANCIAL DATA
AVAILABLE SINCE PRECEDING GREENBOOK
(Seasonally adjusted)

	Latest Data			Percent Change from		
	Period	Release Date	Data	Preceding Period	Three Periods Earlier	Year earlier
						(At annual rate)
Civilian labor force	Sept.	10-5-79	103.5	5.2	3.8	2.5
Unemployment rate (%) <u>1/</u>	Sept.	10-5-79	5.8	6.0	5.6	5.9
Insured unemployment rate (%) <u>1/</u>	Sept.	10-5-79	3.0	3.1	2.8	3.4
Nonfarm employment, payroll (mil.)	Sept.	10-5-79	89.9	1.8	1.0	3.2
Manufacturing	Sept.	10-5-79	21.0	1.4	-1.5	2.3
Nonmanufacturing	Sept.	10-5-79	68.9	1.9	1.8	3.5
Private nonfarm:						
Average weekly hours (hr.) <u>1/</u>	Sept.	10-5-79	35.6	35.6	35.6	35.8
Hourly earnings (\$) <u>1/</u>	Sept.	10-5-79	6.25	6.22	6.13	5.78
Manufacturing:						
Average weekly hours (hr.) <u>1/</u>	Sept.	10-5-79	40.0	40.1	40.1	40.5
Unit labor cost (1967=100)	Aug.	9-28-79	176.5	8.9	7.4	8.2
Industrial production (1967=100)	Aug.	9-14-79	150.9	-13.4	-3.9	2.0
Consumer goods	Aug.	9-14-79	147.7	-25.4	-11.3	-1.9
Business equipment	Aug.	9-14-79	170.3	-9.1	-2.6	4.2
Defense & space equipment	Aug.	9-14-79	92.9	6.5	1.7	5.7
Materials	Aug.	9-14-79	155.3	-12.2	-1.0	3.4
Consumer prices all items (1967=100)	Aug.	9-25-79	220.7	12.6	12.1	11.7
All items, excluding food & energy	Aug.	9-25-79	209.4	12.2	10.4	9.9
Food	Aug.	9-25-79	235.0	.0	1.2	9.5
Producer prices: (1967=100)						
Finished goods	Sept.	10-4-79	221.0	17.1	14.8	11.8
Intermediate materials, nonfood	Sept.	10-4-79	251.5	18.4	18.5	14.8
Crude foodstuffs & feedstuffs	Sept.	10-4-79	249.9	17.5	13.2	13.8
Personal income (\$ bil.) <u>2/</u>	Aug.	9-18-79	1938.1	5.2	9.8	11.3
						(Not at annual rates)
Mfrs. new orders dur. goods (\$ bil.)	Aug.	10-3-79	74.6	2.9	-3.2	5.6
Capital goods industries	Aug.	10-3-79	24.5	8.6	-.4	13.5
Nondefense	Aug.	10-3-79	21.5	6.1	2.4	16.9
Defense	Aug.	10-3-79	3.0	30.8	-16.7	-6.3
Inventories to sales ratio: <u>1/</u>						
Manufacturing and trade, total	July	10-3-79	1.44	1.43	1.44	1.44
Manufacturing	Aug.	10-3-79	1.54	1.54	1.48	1.51
Trade	July	10-3-79	1.34	1.33	1.33	1.33
Ratio: Mfrs.' durable goods inven- tories to unfilled orders <u>1/</u>	Aug.	10-3-79	.563	.557	.546	.600
Retail sales, total (\$ bil.)	Aug.	9-10-79	72.8	.7	1.2	8.1
GAF <u>3/</u>	Aug.	9-10-79	16.1	.7	2.7	9.0
Auto sales, total (mil. units.) <u>2/</u>	Sept.	10-3-79	10.7	-2.4	12.3	.9
Domestic models	Sept.	10-3-79	8.5	-2.6	19.2	-1.9
Foreign models	Sept.	10-3-79	2.2	-1.7	-8.3	13.7
Housing starts, private (thous.) <u>2/</u>	Aug.	9-19-79	1,783	-.4	-2.8	-11.0
Leading indicators (1967=100)	Aug.	9-28-79	139.1	.0	-.5	-2.0

1/ Actual data used in lieu of percent changes for earlier periods.

2/ At annual rate.

3/ Excludes mail order houses.

STAFF GNP PROJECTIONS

Percent changes, annual rate								
	Nominal GNP		Real GNP		Gross business product fixed-weight price index		Unemployment rate (percent)	
	9/12/79	10/12/79	9/12/79	10/12/79	9/12/79	10/12/79	9/12/79	10/12/79
1976 <u>1/</u>	11.3	11.3	5.9	5.9	5.3	5.3	7.7	7.7
1977 <u>1/</u>	11.6	11.6	5.3	5.3	6.2	6.2	7.0	7.0
1978 <u>1/</u>	12.0	12.0	4.4	4.4	7.6	7.6	6.0	6.0
1979	10.8	10.9	1.7	1.7	9.6	9.7	6.1	5.9
1980	8.5	8.0	-0.7	-1.2	9.5	9.6	7.8	7.9
1978-III <u>1/</u>	10.9	10.9	3.5	3.5	8.8	8.8	6.0	6.0
1978-IV <u>1/</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>1/</u>	6.7	6.7	-2.4	-2.3	9.8	10.1	5.7	5.7
1979-III	9.5	10.6	.7	1.6	10.0	10.3	6.0	5.8
79-IV	7.3	5.8	-2.7	-4.0	9.8	10.1	6.9	6.7
1980-I	8.5	7.5	-0.9	-1.9	9.7	9.8	7.4	7.4
1980-II	8.7	8.0	-0.4	-1.0	9.5	9.4	7.7	7.9
1980-III	9.4	9.1	.9	.6	8.7	8.6	7.9	8.1
1980-IV	9.9	9.7	1.1	.9	8.5	8.4	8.1	8.3
Change:								
77-IV to								
78-IV <u>1/</u>	13.4	13.4	4.8	4.8	8.6	8.6	-0.8	-0.8
78-IV to								
79-IV	8.5	8.4	-0.8	-0.9	9.9	10.1	1.1	.9
79-IV to								
80-IV	9.1	8.6	.2	-0.4	9.1	9.0	1.2	1.6
Memo:								
Growth Over Annual Policy Period:								
78-IV to								
79 IV	8.5	8.4	-0.8	-0.9	9.9	10.1	1.1	.9

1/ Actual.

CONFIDENTIAL - FR
CLASS 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	2329.8	2389.1	2422.9	2467.3	2515.5	2570.7	2631.1
Final purchases	2272.9	2296.4	2366.6	2414.4	2465.9	2516.5	2570.9	2629.3
Private	1812.8	1829.8	1890.5	1921.6	1963.0	2003.8	2048.0	2092.9
Excluding net exports	1808.8	1837.9	1896.3	1924.4	1953.6	1986.8	2028.1	2073.0
Personal consumption expenditures	1454.2	1475.9	1522.9	1550.5	1580.7	1613.0	1647.1	1682.8
Goods	784.9	789.9	815.6	828.8	843.5	856.8	872.3	889.0
Services	669.3	686.0	707.3	721.7	737.2	756.2	774.8	793.8
Gross private domestic investment	373.8	395.4	395.9	382.4	374.3	372.8	380.8	392.0
Residential construction	111.2	112.9	115.9	115.4	113.4	110.9	113.4	117.4
Business fixed investment	243.4	249.1	257.5	258.5	259.5	262.9	267.6	272.8
Change in business inventories	19.1	33.4	22.5	8.5	1.4	-1.0	-.2	1.8
Nonfarm	18.8	32.6	22.5	8.5	1.4	-1.0	-.2	1.8
Net exports of goods and services ^{1/}	4.0	-8.1	-5.8	-2.8	9.4	17.0	19.9	19.9
Exports	238.5	243.7	263.6	270.4	280.5	289.3	295.6	301.9
Imports	234.4	251.9	269.5	273.3	271.2	272.4	275.8	282.1
Gov't. purchases of goods and services	460.1	466.6	476.1	492.8	502.9	512.7	522.9	536.4
Federal ^{2/}	163.6	161.7	163.0	173.0	176.7	180.1	183.3	189.7
State and local	296.5	304.9	313.1	319.8	326.2	332.6	339.6	346.7
Gross national product in constant (1972) dollars	1430.6	1422.3	1427.9	1413.5	1406.6	1403.1	1405.2	1408.3
Personal income	1852.6	1892.5	1943.3	1984.8	2021.1	2065.1	2121.1	2170.4
Wage and salary disbursements	1189.3	1212.4	1236.2	1252.4	1269.6	1290.9	1316.2	1345.4
Disposable personal income	1572.2	1601.7	1639.8	1674.0	1708.3	1743.6	1789.8	1828.2
Saving rate (percent)	5.0	5.4	4.6	4.8	4.9	4.9	5.3	5.3
Corporate profits with I.V.A. and C.C. Adj	178.9	176.6	187.7	181.8	181.8	181.3	183.4	186.6
Corporate profits before tax	233.3	227.9	243.0	232.9	229.9	227.9	229.7	232.7
Federal government surplus or deficit (-) (N.I.A. basis)	-11.7	-7.0	-9.5	-25.3	-29.9	-31.6	-39.5	-38.4
High employment surplus or deficit (-)	7.9	20.1	9.9	10.4	23.2	32.0	31.2	38.7
State and local government surplus or deficit (-) (N.I.A. basis)	27.6	19.7	21.7	19.4	18.1	17.6	17.4	17.1
Excluding social insurance funds	2.6	-6.3	-4.9	-7.8	-9.7	-10.8	-11.5	-12.4
Civilian labor force (millions)	102.5	102.3	103.2	103.9	104.3	104.6	105.0	105.3
Unemployment rate (percent)	5.7	5.7	5.8	6.7	7.4	7.9	8.1	8.3
Nonfarm payroll employment (millions)	88.7	89.4	89.8	89.1	88.7	88.6	88.6	88.7
Manufacturing	21.0	21.1	21.0	20.6	20.1	19.9	19.9	19.8
Industrial production (1967=100)	152.2	151.9	150.5	147.7	145.7	145.1	145.2	145.5
Capacity utilization: all mfg. (percent)	86.7	85.9	84.4	82.0	80.1	79.0	78.2	77.6
Materials (percent)	88.0	87.2	87.4	84.4	82.4	81.1	80.5	80.0
Housing starts, private (million units, A.R.)	1.62	1.83	1.76	1.55	1.40	1.45	1.55	1.60
New autos sales, (millions, A.R.)	11.55	10.66	10.77	9.70	9.80	9.60	9.70	9.80
Domestic models	9.13	8.00	8.49	7.50	7.70	7.70	7.80	7.90
Foreign models	2.42	2.66	2.28	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.

October 12, 1979

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

	1979				1980			
	I	II	III	IV	Projected		III	IV
	I	II	III	IV	I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	1.1	-2.3	1.6	-4.0	-1.9	-1.0	.6	.9
Final purchases	1.1	-3.9	3.4	-2.0	-.9	-.6	.5	.6
Private	1.8	-4.1	4.1	-3.2	-1.3	-1.0	.2	.4
Excluding net exports	.4	-2.9	2.4	-3.8	-2.8	-1.8	.0	.5
Personal consumption expenditures	.6	-2.9	2.2	-2.8	-1.3	-.7	.1	.4
Goods	-4.4	-7.3	2.0	-5.1	-2.4	-2.5	-1.0	-4
Services	7.1	2.5	2.5	-.2	-.1	1.5	1.3	1.4
Gross private domestic investment	-.5	8.5	-8.1	-19.6	-15.5	-9.3	.1	3.5
Residential structures	-14.3	-7.2	-1.3	-11.5	-16.0	-17.4	-.6	5.4
Business fixed investment	4.8	-.9	4.9	-6.4	-6.4	-2.8	-.8	-.2
Gov't. purchases of goods and services	-1.8	-3.3	.4	3.6	.9	.8	1.3	1.2
Federal	7.2	-11.3	-3.0	9.3	2.2	1.8	1.5	1.2
State and local	-6.6	1.6	2.3	.5	.2	.3	1.2	1.2
Disposable personal income	2.1	-1.4	-1.0	-1.8	-.9	-.6	2.2	.3
<u>Current dollars</u>								
Gross national product	10.6	6.7	10.6	5.8	7.5	8.0	9.1	9.7
Final purchases	11.0	4.2	12.8	8.3	8.8	8.5	8.9	9.4
Private	12.4	3.8	13.9	6.7	8.9	8.6	9.1	9.1
Excluding net exports	10.3	6.6	13.3	6.1	6.2	7.0	8.6	9.2
Personal consumption expenditures	11.4	6.1	13.4	7.4	8.0	8.4	8.7	9.0
Goods	7.9	2.6	13.7	6.6	7.3	6.5	7.4	7.9
Services	15.8	10.4	13.0	8.4	8.9	10.7	10.2	10.2
Gross private domestic investment	3.6	25.2	.5	-13.0	-8.2	-1.6	8.9	12.3
Residential structures	-8.5	6.1	11.1	-1.7	-6.8	-8.5	9.3	14.9
Business fixed investment	12.9	9.6	14.2	1.6	1.6	5.3	7.3	8.0
Gov't. purchases of goods and services	5.6	5.8	8.4	14.8	8.5	8.0	8.2	10.7
Federal	12.1	-4.6	3.3	26.9	8.8	7.9	7.3	14.7
State and local	2.3	11.7	11.2	8.8	8.2	8.1	8.7	8.6
Disposable personal income	13.0	7.7	9.9	8.6	8.5	8.5	11.0	8.9
Personal income	11.4	8.9	11.2	8.8	7.5	9.0	11.3	9.6
Wage and salary disbursements	12.7	8.0	8.1	5.3	5.6	6.9	8.1	9.2
Corporate profits with IVA & C.C. Adj.	-12.2	-5.0	27.6	-12.0	.0	-1.1	4.7	7.2
Corporate profits before tax	10.8	-8.9	29.3	-15.7	-5.0	-3.4	3.2	5.4
Nonfarm payroll employment	4.3	2.9	1.8	-3.0	-1.5	-.7	.2	.3
Manufacturing	5.0	.8	-1.0	-8.2	-7.9	-3.8	-2.0	-1.6
Nonfarm business sector								
Output per hour	-3.0	-4.3	-.2	-.4	1.2	.6	1.0	1.3
Compensation per hour	10.7	7.8	9.0	9.6	10.6	9.6	9.7	9.4
Unit labor costs	14.1	12.7	9.2	10.0	9.3	8.9	8.6	8.0
GNP implicit deflator ^{1/}	9.3	9.3	8.9	10.2	9.6	9.1	8.4	8.8
Gross business product fixed-weight price index ^{2/}	10.0	10.1	10.3	10.1	9.8	9.4	8.6	8.4
Consumer price index (all urban)	11.1	13.6	13.0	12.4	10.9	9.9	8.9	8.9
Industrial production	4.0	-.8	-3.6	-7.1	-5.4	-1.6	.2	.9

^{1/} Excluding Federal pay increases, the rates of change are: 1979 QI, 9.3 percent; 1979 QIV, 9.4 percent; 1980 QI, 9.6 percent; 1980 QIV, 8.2 percent.

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

CONFIDENTIAL - FR
CLASS 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.)

	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)	80.9	82.0	82.9	83.9	84.8	86.3	86.9	87.8
Manufacturing	19.4	19.6	19.8	19.9	20.2	20.4	20.5	20.8
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	1.81	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.

DENTIAL - FR
II FOMC

PERCENT 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	3.5	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	5.6	6.6	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	4.0	5.7	4.6	4.6	4.6	7.1	2.8	4.4
Manufacturing	4.9	6.3	2.8	3.3	5.8	3.8	1.3	5.5
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 ^{1/}	6.0	7.7	4.8	6.4	6.3	10.6	7.2	8.7
Gross business product fixed-weight price index ^{2/}	6.9	7.1	5.2	6.5	6.6	10.5	8.8	8.7
Consumer price index (all urban)	8.1	8.1	5.2	5.4	7.8	10.2	8.8	9.1
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:QI, 5.9 percent; 1977:QIV, 5.6 percent; 1978:QI, 6.3 percent; 1978:QIV, 8.1 percent.

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

October 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	2358.4	2546.1
Final purchases	1288.6	1404.0	1539.6	1692.1	1877.6	2105.2	2337.6	2545.6
Private	1019.1	1101.3	1201.2	1330.8	1481.4	1669.6	1863.7	2026.9
Excluding net exports	1012.0	1095.3	1180.8	1322.8	1491.3	1679.9	1866.9	2010.4
Personal consumption expenditures	809.9	889.6	979.1	1089.9	1210.0	1350.8	1500.9	1630.9
Goods	457.5	498.3	541.5	601.3	660.1	730.9	804.8	865.4
Services	352.3	391.3	437.5	488.5	549.8	619.8	696.1	765.5
Gross private domestic investment	220.0	214.6	190.9	243.0	303.3	351.5	386.9	380.0
Residential construction	66.1	55.1	51.5	68.1	91.9	108.0	113.9	113.8
Business fixed investment	136.0	150.6	150.2	164.9	189.4	221.1	252.1	265.7
Change in business inventories	17.9	8.9	-10.7	10.0	21.9	22.3	20.9	.5
Nonfarm	14.7	10.8	-14.3	12.1	20.7	21.3	20.6	.5
Net exports of goods and services ^{1/}	7.1	6.0	20.4	8.0	-9.9	-10.3	-3.2	16.5
Exports	101.6	137.9	147.3	163.3	175.9	207.2	254.1	291.9
Imports	94.4	131.9	126.9	155.4	185.8	217.5	257.3	275.4
Gov't. purchases of goods and services	269.5	302.7	338.4	361.3	396.2	435.6	473.9	518.7
Federal ^{2/}	102.2	111.1	123.1	129.7	144.4	152.6	165.3	182.4
State and local	167.3	191.5	215.4	231.6	251.8	283.0	308.6	336.3
Gross national product in constant (1972) dollars	1235.0	1217.8	1202.3	1273.0	1340.5	1399.2	1423.6	1405.8
Personal income	1052.4	1154.9	1255.5	1381.6	1531.6	1717.4	1918.3	2094.4
Wage and salary disbursements	701.3	764.6	805.9	890.0	984.0	1103.3	1222.6	1305.5
Disposable personal income	901.7	984.6	1086.7	1184.5	1305.1	1458.4	1621.9	1767.5
Saving rate (percent)	7.8	7.3	7.7	5.8	5.0	4.9	5.0	5.1
Corporate profits with I.V.A. and C.C. Adj.	99.1	83.6	95.9	126.8	150.0	167.7	181.3	183.3
Corporate profits before tax	115.8	126.9	120.4	156.0	177.1	206.0	234.3	230.1
Federal government surplus or deficit (N.I.A. basis)	-6.7	-10.7	-70.6	-53.6	-46.3	-27.7	-13.4	-34.8
High employment surplus or deficit (-)	-1.3	14.9	-27.4	-20.2	-19.0	-6.7	12.1	31.3
State and local government surplus or deficit (-) (N.I.A. basis)	13.0	7.6	6.2	17.9	26.8	27.4	22.1	17.6
Excluding social insurance funds	4.1	-2.9	-6.2	2.3	7.3	4.2	-4.1	-11.1
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	5.9	7.9
Nonfarm payroll employment (millions)	76.8	78.3	77.0	79.4	82.4	86.4	89.2	88.7
Manufacturing	20.2	20.1	18.3	19.0	19.7	20.5	20.9	19.9
Industrial production (1967=100)	129.8	129.3	117.8	130.5	138.2	146.1	150.6	145.4
Capacity utilization: all manufacturing (percent)	87.6	83.8	72.9	79.5	81.9	84.4	84.7	78.7
Materials (percent)	91.8	87.1	73.4	81.1	82.7	85.6	86.8	81.0
Housing starts, private (million units, A.R.)	2.05	1.34	1.16	1.54	1.99	2.02	1.69	1.50
New auto sales, (millions, A.R.)	11.42	8.91	8.66	10.12	11.13	11.29	10.67	9.72
Domestic models	9.65	7.49	7.08	8.63	9.07	9.27	8.28	7.77
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.

October 12, 1979

CONFIDENTIAL - FR
CLASS II FOMCPERCENT 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	5.9	5.3	4.4	1.7	-1.2
Final purchases	..9	-.7	.2	4.5	4.8	4.4	1.9	-.4
Private	6.3	-1.4	-.3	5.6	5.6	5.0	2.4	-.8
Excluding net exports	5.1	-2.3	-1.0	6.5	6.2	5.0	1.8	-1.6
Personal consumption expenditures	4.7	-.9	1.8	5.9	5.0	4.5	1.9	-.9
Goods	5.0	-3.4	.7	6.9	5.1	4.1	.2	-2.4
Services	4.4	2.3	3.2	4.8	4.9	5.1	4.0	.9
Gross private domestic investment	10.0	-11.4	-22.3	21.6	15.4	7.1	.5	-10.0
Residential structures	-3.7	-24.6	-13.9	23.3	20.7	4.2	-6.2	-10.0
Business fixed investment	12.2	-.3	-13.0	4.8	8.6	8.4	5.1	-3.0
Gov't. purchases of goods and services	-.2	2.1	1.9	.2	2.0	1.8	.2	1.1
Federal	-5.4	-.8	.7	-.2	4.4	-2.0	.4	1.7
State and local	3.2	3.8	2.6	.5	.6	4.0	.1	.8
Disposable personal income	6.7	-1.5	2.1	3.7	4.2	4.6	2.0	-.6
<u>Current dollars</u>								
Gross national product	11.6	8.1	8.2	11.3	11.6	12.0	10.8	8.0
Final purchases	10.9	8.9	9.7	9.9	11.0	12.1	11.0	8.9
Private	12.2	8.1	9.1	10.8	11.3	12.7	11.6	8.8
Excluding net exports	11.0	8.2	7.8	12.0	12.7	12.6	11.1	7.7
Personal consumption expenditures	10.5	9.8	10.1	11.3	11.0	11.6	11.1	8.7
Goods	11.4	8.9	8.7	11.0	9.8	10.7	10.1	7.5
Services	9.3	11.1	11.8	11.7	12.5	12.7	12.3	10.0
Gross private domestic investment	16.8	-2.5	-11.0	27.3	24.8	15.9	10.1	-1.8
Residential structures	6.6	-16.7	-6.5	32.3	35.0	17.5	5.5	-.1
Business fixed investment	16.4	10.8	-.3	9.8	14.9	16.7	14.0	5.4
Gov't. purchases of goods and services	6.5	12.3	11.8	6.8	9.7	9.9	8.8	9.5
Federal	.1	8.7	10.7	5.4	11.3	5.7	8.3	10.4
State and local	10.8	14.5	12.5	7.5	8.7	12.4	9.0	9.0
Disposable personal income	12.5	9.2	10.4	9.0	10.2	11.7	11.2	9.0
Personal income	11.7	9.7	8.7	10.0	10.9	12.1	11.7	9.2
Wage and salary disbursements	10.6	9.0	5.4	10.4	10.6	12.1	10.8	6.8
Corporate profits with IVA & C.C. Adj.	7.6	-15.6	14.7	32.2	18.3	11.8	8.1	1.1
Corporate profits before tax	20.4	9.6	-5.1	29.6	13.5	16.3	13.7	-1.8
Nonfarm payroll employment	4.2	2.0	-1.7	3.1	3.8	4.9	3.2	-.6
Manufacturing	5.2	-.4	-8.7	3.7	3.6	4.0	2.1	-4.7
Nonfarm business sector								
Output per hour	1.7	-2.9	1.9	3.5	1.8	1.1	-.8	.3
Compensation per hour	7.8	9.4	9.9	8.3	8.2	9.3	9.2	9.7
Unit labor costs	6.0	12.7	7.8	4.7	6.3	8.1	10.3	9.4
GNP implicit deflator	5.9	9.7	9.6	5.2	6.0	7.3	9.0	9.3
Gross business product fixed-weighted price index ^{1/}	5.7	10.4	9.4	5.3	6.2	7.6	9.7	9.6
Consumer price index (all urban)	6.2	11.0	9.1	5.8	6.5	7.7	11.2	11.0
Industrial production	8.4	-.4	-8.9	10.8	5.9	5.7	3.1	-3.5

^{1/} Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

October 12, 1979

	Fiscal Year 1978*	FY 1979 e/2/		FY 1980 e/2/		CY 1978*	CY79e/ F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data								
								1978 IV*	I*	II*	III	IV	1980 I II III			
Unified budget receipts	402.0	466.5	466.2	513.8	505.2	416.9	478.0	99.5	102.1	144.4	120.1	111.3	110.7	149.7	133.5	
Unified budget outlays	450.8	496.2	494.0	542.4	544.5	460.6	506.7	123.2	122.6	123.1	125.2	136.0	133.9	136.4	138.3	
Surplus(+)/Deficit(-), unified budget	-48.8	-29.7	-27.8	-28.7	-39.3	-43.7	-28.7	-23.7	-20.5	21.4	-5.1	-24.7	-23.2	13.3	-4.8	
Surplus(+)/Deficit(-), off-budget agencies 3/	-10.3	-12.4	-12.0	-11.6 ^{9/}	-18.0	-9.1	-13.9	-0.1	-3.0	-5.1	-3.7	-2.0	-5.8	-5.8	-4.4	
Combined deficit to be financed	-59.1	-42.1	-39.8	-40.3	-57.3	-52.8	-42.6	-23.8	-23.5	16.3	-8.8	-26.7	-29.0	7.5	-9.2	
Means of financing combined deficits:																
Net borrowing from public	59.1	29.8	33.6	29.1	45.6	53.6	30.6	15.3	10.6	-4.6	12.3	12.3	22.0	2.2	9.2	
Decrease in cash operating balance	-3.3	7.4	-1.8	9.2	9.2	-4.0	4.3	6.1	8.6	-9.8	-6.7	12.2	4.0	-8.0	1.0	
Other 4/	3.2	4.9	8.0	2.0	2.5	3.2	7.7	2.5	4.2	-1.9	3.2	2.2	3.0	-1.7	-1.0	
Cash operating balance, end of period	22.4	15.0	24.2	15.0	15.0	16.3	12.0	16.3	7.7	17.5	24.2	12.0	8.0	16.0	15.0	
Memo: Sponsored agency borrowing 5/	19.1	n.a.	22.1	n.a.	24.0	22.0	23.2	4.9	6.4	6.0	4.8	6.0	6.0	6.0	6.0	
NIA Budget 6/								Seasonally adjusted annual rates								
Receipts	414.9	480.6	478.8	525.3	519.9	432.1	493.0	463.5	475.0	485.8	504.0	507.2	511.8	521.3	533.7	
Expenditures	449.5	496.4	493.2	546.9	550.1	459.8	506.4	479.7	486.8	492.9	513.5	532.5	541.7	552.9	573.2	
Purchases (total)	150.6	164.5	161.8	178.7	178.3	152.6	165.3	159.0	163.6	161.7	163.0	173.0	176.7	180.1	183.3	
Defense	97.8	105.6	104.8	116.0	116.2	99.0	107.7	101.2	103.4	106.0	108.5	113.0	115.0	117.3	119.4	
Non-defense	52.8	58.9	57.0	62.7	62.1	53.6	57.6	57.8	60.2	55.7	54.5	60.0	61.7	62.8	63.9	
All other expenditures	298.9	331.9	331.4	368.2	371.8	307.2	341.1	320.7	323.2	331.2	350.5	359.5	365.0	372.8	389.9	
Surplus(+)/Deficit(-) 7/	-34.6	-15.8	-14.4	-21.6	-30.2	-27.7	-13.4	-16.3	-11.7	-7.0	-9.5	-25.3	-29.9	-31.6	-39.5	
High Employment Surplus(+)/ Deficit(-) (NIA basis) 8/	-13.6	n.a.	9.3	n.a.	24.2	-6.7	12.1	-0.8	7.9	20.1	9.9	10.4	23.2	32.0	31.2	
	*--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

Review of Recent Developments. Shortly after the September FOMC meeting, most market interest rates declined despite the System's moves toward further restraint, as market participants appeared to have discounted an even more substantial firming action. In late September, however, the dollar came under heavy pressure in foreign exchange markets, the price of gold soared, and market interest rates began rising. By October 5, the day preceding the System's most recent tightening actions, most short-term interest rates were 10 to 20 basis points above their level at the time of the September FOMC meeting, while corporate and Treasury bond yields were 10 to 15 basis points higher.

The reaction of financial markets to the October 6 announcement has been sharp and broad. In the first three trading days after the announcement, the federal funds rate averaged 13 percent. By October 11 most short-term interest rates had advanced a further 1 to 1-1/2 percentage points. The prime rate, which already had been increased twice since the September meeting by 1/4 percentage point increments, was raised again, from 13-1/2 to 14-1/2 percent. As of October 11, yields on corporate and Treasury bonds had risen 45 to 55 basis points and several large municipal and corporate bond offerings had been postponed due to the unsettled market conditions; stock prices had dropped precipitously, with the NYSE composite index receding more than 6 percent on record volume. Unsettled conditions in financial markets seemed to have had their greatest impact on lesser

quality issues; yield spreads generally widened, and commercial paper dealers reportedly advised lower-rated issuers to seek credit accommodation at banks.

In September, growth of the key monetary aggregates, total bank credit, and bank business loans exceeded the rapid pace registered in recent months. The pickup in measured M-1 growth in September to an 11 percent annual rate brought the rate of expansion for the third quarter as a whole to a record 9-1/2 percent. The retarding effect on quarterly M-1 growth of shifts into ATS accounts nationwide and NOW accounts in New York State was only about 3/4 percentage point, compared to 1-1/2 percentage points in the previous quarter.

Despite diminished inflows of savings and small time deposits, M-2 growth accelerated in September to 12 percent, the same as its advanced pace for the quarter as a whole. Banks issued substantial amounts of large time deposits during the month, some of which are counted in M-2. They also continued to borrow heavily from related foreign institutions, but other nondeposit liabilities declined. Over the third quarter, increases in total managed liabilities averaged more than \$8 billion per month.

Business credit demands remained robust in September. Bank loans to commercial and industrial firms grew at a 23-1/4 percent annual rate, slightly above the rapid third quarter average. However, issuance of commercial paper by nonfinancial firms in September fell to about one-half of its recent heavy pace. Despite a moderate pickup of public bond offerings by such corporations in August and September, their ratio of

outstanding short- to long-term indebtedness reached an all time high in the third quarter. Moreover, holdings of liquid assets of these firms have expanded at a slower rate than their current liabilities, and the ratio of liquid assets to total current liabilities has declined to a low level by historical standards.

Consumer installment credit outstanding expanded in August at only about a 10 percent annual rate for the third consecutive month, implying growth for the third quarter substantially below the already reduced pace of the first half. In contrast, the volume of home mortgage borrowing appears to have been well maintained in recent months, despite some further tightening of market conditions. Reflecting mainly the recent weakness of household incomes, the ratio of consumer installment and mortgage debt repayments to disposable personal income is estimated to have risen in the third quarter, surpassing the high reached a year earlier.

The average rate on new home mortgage commitments at S&Ls edged up 5 basis points between the September FOMC meeting and October 5. In recent days, however, sizable increases in home mortgage rates have been posted, reflecting in part reluctance by S&Ls to make additional mortgage commitments given current uncertainties about future cost of funds and deposit flows.

In government debt markets, net funds raised by the Treasury through marketable and nonmarketable securities were less than seasonal in September, owing to a delay in legislation to raise the national debt ceiling, but were substantial for the quarter as a whole. Offerings of tax-

exempt securities during the third quarter were somewhat higher than in the first half, bolstered by issuance of mortgage revenue bonds. However, in September a reduced issuance of housing revenue bonds by cities and counties lowered total offerings for the month.

Outlook. In light of the uncertainty in financial markets associated with the recent policy initiatives, it is more difficult than usual to forecast credit market conditions. However, over the near term, businesses can be expected to continue to place heavy credit demands on commercial banks, as they find the commercial paper market less hospitable and also defer long-term borrowing in response to the recent surge in market rates of interest. Banks will face these demands with intensified cost and liquidity pressures, as the new marginal reserve requirements add to the expense of managed liabilities and as the rise in market yields weakens inflows of deposits subject to rate ceilings. Consequently, the terms of lending at banks are likely to firm. Similarly, thrift institutions can be expected to tighten their loan commitment policies further, in response to sharply higher funds costs and increased cash flow pressures. Changes in rate relationships as well as in economic prospects will also probably lead mortgage bankers and finance companies to exercise greater restraint. In addition, a number of the weaker financial institutions may well experience significant earnings pressures.

By year end the slackening in economic activity is likely to damp private borrowing. Nonfinancial corporate demands for short- and intermediate-term credit will recede as businesses succeed in curtailing inventory

accumulation. With personal income weakening, and repayment burdens of households edging higher, retail sales--particularly autos--are expected to be weak, and consumer installment borrowing may moderate somewhat further. Similarly, home mortgage credit demands are likely to move down in the fourth quarter. With the reduction of demands for credit by households and businesses expected to more than offset the anticipated strengthening demands in the government sector, some downward pressure on interest rates may become evident by year end.

SELECTED DOMESTIC FINANCIAL DATA

Indicator	Latest data		Net Change from:		
	Period	Level	Month ago	Three months ago	Year ago
		\$ billions	Per cent at annual rates		
<u>Monetary and credit aggregates</u> ^{1/}					
Total reserves	Sept.	41.5	12.0	10.5	0.6
Nonborrowed reserves	Sept.	40.1	4.6	11.6	-0.1
Money supply					
M1	Sept.	377.7	10.9	9.4	4.7
M2	Sept.	931.7	12.0	12.1	7.6
M3	Sept.	1594.5	11.0	10.9	8.2
Time and savings deposits (less CDs)	Sept.	554.0	12.7	13.9	9.7
CDs ^{2/}	Sept.	88.1	2.2	3.2	-0.4
Thrift deposits (S&Ls + MSBs + Credit Unions)	Sept.	662.8	9.5	9.2	8.9
Bank credit	Sept.	1124.8	20.3	15.2	13.9

Indicator	Latest data		Net Change from:			
	Period	Per cent or index	Month ago	Three months ago	Year ago	
<u>market yields and stock prices</u>						
Federal funds	wk. endg.	10/3/79	11.91	.89	1.49	3.06
Treasury bill (90 day)	"	10/3/79	10.26	.35	1.30	2.23
Commercial paper (90-119 day)	"	10/3/79	11.71	.68	2.05	3.93
New utility issue Aaa	"	10/5/79	10.14	--	--	1.10
Municipal bonds (Bond Buyer) 1 day		10/4/79	6.64	.17	.56	.57
FNMA auction yield (FHA/VA)		10/1/79	11.66	.74	1.00	1.75
Dividend price ratio (common stocks)	wk endg.	10/3/79	5.26	-.11	-.27	.24
NYSE index (12/31/65=50)	end of day	10/1/79	61.84	.49	3.98	8.90

	Period	Net Change or Gross Offerings		
		Latest Data	Year ago	Year to Date 1979 1978
<u>Credit demands</u>				
Business loans at commercial banks ^{1/}	Sept.	5.5	2.4	39.1 8.3
Consumer instalment credit outstanding ^{1/}	Aug.	2.4	3.6	25.1 27.9
Mortgage debt outstanding (major holders) ^{1/3/}	June	10.1	9.8	44.2 44.8
Corporate bonds (public offerings)	Sept.	2.0e	1.6	19.5e 15.3
Municipal long-term bonds (gross offerings)	Sept.	2.7e	2.3	31.0e 37.3
Federally sponsored agcy. (net borrowing)	Sept.	.9e	2.3	16.3e 17.3
U.S. Treasury (net cash borrowing)	Sept.	4.2e	2.8	18.3e 38.3

^{1/} Seasonally adjusted.

^{2/} \$ billions, not at annual rates

^{3/} Includes comm'l banks, S&Ls, MSBs, life ins. cos, FNMA, and GNMA.

e - Estimated

Selected Interest Rates

	L e v e l s				Change Since October 5
	1974 Highs (July or December)	1979			
		September FOMC (Sept.18)	October 5	Current (Oct. 11)	
Short-term					
Federal funds	13.55	11.37 ^{1/}	11.61	13.20	+ 1.59
Treasury bill, 3-month	9.74	10.40	10.70	11.57	+ .87
Secondary market CD, 3-month	12.74	12.09	12.50	13.43	+ .93
Commercial paper, 3-month	12.25	11.81	11.86	13.19	+1.33
Prime rate	12.00	13.00	13.50	14.50	+1.00
Long-term					
Treasury bond, 20-year	8.72	9.22	9.44	9.89	+ .45
Aaa-rated corporate bond, recently offered	10.52	9.87	10.25	10.73 ^p	+ .48
Bond Buyer Index	7.15	6.49	6.64	7.12	+ .48

^{1/} Weekly average.

MEASURES OF RISK PREMIA
(basis points)

Period	Med.-grade Comm. Paper Minus High- grade Comm. Paper	A-rated Utility Bonds Minus Aaa- rated Utility Bonds	A-rated Municipal Bonds Minus Aaa- rated Municipal Bonds
1969-78 - Average	43	48	58 ^{1/}
High	169 (10/74)	140 (8/75)	161 ^{1/}
Low	12 ^{1/}	15 ^{1/}	20
1979-Jan.	48	49	45
Feb.	35	54	52
Mar.	37	51	31
Apr.	42	52	26
May	42	64	43
June	41	51	51
July	41	48	37
Aug.	48	49	36
Sept.	51	54	43
Oct. 5	50	90	45
11 ^{p/}	75	150	n.a.

^{1/} Multiple dates.

MONETARY AGGREGATES
(Seasonally adjusted annual rates of growth) 1/

	1978		1979				Sept. '78	to Sept. '79 ^e
	QIII	QIV	QI	QII	QIII ^e	Aug.	Sept. ^e	
<u>Major monetary aggregates</u>								
1. M-1	7.9	4.1	-2.1	7.6	9.6	7.1	10.9	4.7
2. Currency	9.4	10.8	9.1	8.1	11.1	14.1	13.9	10.1
3. Demand deposits	7.3	1.7	-6.2	7.5	9.1	4.0	9.3	2.7
4. M-2	9.8	7.6	1.8	8.6	12.0	11.0	12.0	7.6
5. M-3	10.3	9.3	4.7	7.9	10.5	10.0	11.0	8.2
<u>Bank time and savings deposits</u>								
6. Total	11.3	12.3	8.4	1.2	9.0	14.6	14.8	8.2
7. Other than large negotiable CDs at weekly reporting banks	11.0	10.2	4.5	9.3	13.5	14.0	12.7	9.7
8. Savings deposits	2.9	0.2	-9.6	-3.1	5.5	6.6	0.0	-2.3
9. Individuals <u>2/</u>	4.1	0.0	-9.4	-2.9	6.3	8.2	1.2	-1.9
10. Other	-10.1	0.0	-13.0	-8.1	-2.7	-32.4	0.0	-7.1
11. Time deposits	17.9	18.2	15.6	18.5	19.1	19.4	20.5	19.5
12. Small <u>4/</u>	12.7	15.8	16.5	36.3	26.7	23.3	17.4	26.5
. Large time <u>4/</u>	26.9	22.4	13.6	-12.1	4.5	11.4	27.0	7.3
.. Time and savings deposits sub- ject to rate ceilings (8+12)	6.9	7.0	2.2	15.1	15.8	14.9	8.7	10.3
<u>Deposits at nonbank thrift institutions 5/</u>								
15. Total	11.1	11.6	8.8	6.8	8.6	8.6	9.5	8.9
16. Savings and loan associations	12.3	13.1	11.3	7.8	9.2	8.5	10.8	10.4
17. Mutual savings banks	6.8	7.8	4.6	3.1	2.2	2.5	4.2	4.0
18. Credit unions	13.7	10.1	0.8	8.3	19.3	21.5	14.8	10.2
<u>MEMORANDA:</u>								
19. Total U.S. govt. deposits <u>6/</u>	1.1	-0.4	-2.0	1.5	0.7	-0.1	0.0	-0.1
20. Total large time deposits <u>7/</u>	2.9	4.7	1.3	-6.3	2.5	2.2	4.6	0.6
21. Nondeposit funds	1.6	2.2	5.3	5.0	5.8	10.1	3.6	4.6
22. Other <u>8/</u>	0.9	1.6	2.0	1.2	1.8	5.5	-2.3	1.6
23. Net due to related foreign institutions	0.7	0.6	3.3	3.7	4.0	3.7	6.8	2.9

^e—estimated.

1/ Quarterly growth rates are computed on a quarterly average basis.

2/ Savings deposits held by individuals and nonprofit organizations.

3/ Savings deposits of business, government, and others, not seasonally adjusted.

4/ Small time deposits are time deposits in denominations less than \$100,000. Large time deposits are time deposits in denominations of \$100,000 and above excluding negotiable CDs at weekly reporting banks.

5/ Growth rates computed from monthly levels are based on average of current and preceding end-of-month data.

6/ Includes Treasury demand deposits at commercial banks and Federal Reserve Banks and Treasury note balances.

All large time certificates, negotiable and nonnegotiable, at all CBs.

7/ Other nondeposit borrowings of commercial banks from nonbank sources include federal funds purchased and security RPs plus other liabilities for borrowed money (including borrowings from the Federal Reserve), and loans sold, less interbank borrowings.

COMMERCIAL BANK CREDIT
(Per cent changes at annual rates, based on seasonally adjusted data) 1/

	1978		1979				12 months ending Sept. ^e	
	QIII	QIV	QI ^P	QII ^P	QIII ^e	Aug. ^P		Sept. ^e
1. Total loans and investments <u>2/</u>	13.3	12.7	13.2	11.9	15.2	11.6	20.3	13.9
2. Investments	6.4	-1.8	7.6	5.4	8.2	3.0	13.7	4.9
3. Treasury securities	1.2	-21.1	2.1	3.8	1.7	-15.1	14.0	-3.5
4. Other securities	9.4	9.5	10.5	6.2	11.6	12.4	13.6	9.8
5. Total loans <u>2/</u>	15.9	18.2	15.1	14.2	17.7	14.5	22.6	17.3
6. Business loans <u>2/</u>	12.7	14.2	20.4	17.1	22.2	19.4	23.3	19.8
7. Security loans	-16.7	-23.3	33.0	40.0	10.4	-35.4	36.5	15.0
8. Real estate loans	20.4	17.7	14.6	13.0	14.7	16.3	11.9	15.8
9. Consumer loans	17.9	15.9	16.3	12.4	n.a.	6.7	n.a.	n.a.
MEMORANDA:								
10. Commercial paper issued by nonfinancial firms <u>3/</u>	23.1	17.5	33.5	65.7	69.7	65.1	48.5	54.6
11. Sum of items 6 & 10	13.3	14.2	21.5	20.6	26.1	23.3	25.5	22.2
12. Finance company loans to business <u>4/</u>	5.5	25.0	16.6	17.7	n.a.	17.2	n.a.	n.a.
13. Sum of items 11 and 12	11.8	16.3	20.6	20.0	n.a.	22.1	n.a.	n.a.

p--preliminary e--estimated n.a.--not available

1/ Average of Wednesdays for domestic chartered banks and average of current and preceding ends of months for foreign-related institutions.

2/ Loans include outstanding amounts of loans reported as sold outright to a bank's own foreign branches, unconsolidated nonbank affiliates of the bank, the bank's holding company (if not a bank), and unconsolidated nonbank subsidiaries of the holding company.

3/ Average of Wednesdays.

4/ Based on average of current and preceding ends of months.

October 12, 1979

	1978	1979 ^P	1980 ^P	1978	1979				1980 ^P				
				IV	I	II	III ^P	IV ^P	I	II	III	IV	
1. GNP Net Exports													
Current \$, Net	-10.3	-3.2	16.5	-4.5	4.0	-8.1	-5.8	-2.8	9.4	17.0	19.9	19.9	
Exports of G&S	207.2	254.1	291.9	224.9	238.5	243.7	263.6	270.4	280.5	289.3	295.6	301.9	
Imports of G&S	217.5	257.3	275.4	229.4	234.4	251.9	269.5	273.3	271.2	272.4	275.8	282.1	
Constant 72 \$, Net	11.0	16.9	25.5	12.9	17.0	13.2	18.1	19.4	23.5	25.7	26.5	26.2	
Exports of G&S	108.9	117.6	120.2	113.8	117.0	116.0	119.3	118.0	119.2	120.2	120.5	120.9	
Imports of G&S	97.9	100.6	94.7	101.0	100.0	102.9	101.2	98.5	95.8	94.5	94.1	94.6	
Terms of trade (1972=100) ^{2/}	85.7	84.5	83.5	87.0	86.9	85.8	83.0	82.6	83.1	83.5	83.6	83.8	
2. U.S. Merchandise Trade Balance ^{1/}	-34.2	-28.7	-12.4	-25.5	-24.5	-30.9	-31.2	-28.4	-17.9	-11.5	-9.8	-10.5	
Exports (excl. military)	141.9	179.6	208.4	157.3	165.4	171.2	188.5	193.5	200.8	207.0	210.8	215.0	
Agricultural	29.9	34.1	37.9	31.3	30.6	30.9	37.4	37.4	38.5	38.8	37.6	36.8	
Nonagricultural	112.0	145.6	170.5	126.0	134.8	140.2	151.0	156.2	162.3	168.2	173.3	178.2	
Imports	176.1	208.4	220.8	182.7	189.9	202.0	219.6	222.0	218.7	218.5	220.6	225.5	
Petroleum and Products	42.3	57.3	67.3	43.2	46.6	51.6	64.7	66.4	66.6	67.0	67.3	68.4	
Nonpetroleum	133.8	151.1	153.5	139.5	143.3	150.4	154.9	155.6	152.1	151.5	153.3	157.1	
3. U.S. Current Account Balance	-13.9	-1.2	19.6	-1.3	1.7	-3.9	-3.1	.2	12.0	20.1	23.3	23.0	
of which: Net Investment Income	21.6	29.1	31.5	26.4	27.5	29.6	29.4	29.8	30.6	31.3	31.9	32.2	
4. Foreign Outlook - Ten Industrial Countries ^{3/}													
Real GNP, % change, annual rates	3.3	3.3	2.4	4.6	2.1	3.7	3.6	2.6	1.9	1.9	2.2	2.2	
Consumer Prices, ^{4/} % change, annual rates	5.4	7.8	8.6	4.2	8.7	10.1	11.6	9.1	8.2	7.9	7.2	6.9	

^{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.

RESTRICTED

U.S. International Transactions
(in millions of dollars; receipts, or increase in liabilities, +)

	1977	1978	1978		1979		1979		
	Year	Year	Q3	Q4	Q1	Q2	June	July	August
1. Trade balance 1/	-30,873	-34,187	-8,012	-6,369	-6,115	-7,716	-2,646	-1,418	-2,890
2. Merchandise exports	120,816	141,884	36,491	39,315	41,348	42,792	14,919	15,685	15,897
3. Merchandise imports	-151,689	-176,071	-44,503	-45,684	-47,463	-50,508	-17,565	-17,103	-18,787
4. Change in net foreign positions of banking offices in U.S. (excl. liab. to foreign official inst.)	-3,909	-13,719	3,562	-13,568	13,753	5,335	-2,525	-1,317	8,944
Through interbank transactions with									
5. a) Own offices in foreign countries	-2,718	5,616	7,173	-2,880	14,452	7,265	4,080	-1,611	16,101
6. b) Unaffiliated banking offices in foreign countries	-2,204	-11,400	-1,425	-6,628	742	-1,236	-5,820	2,279	-5,031
Through nonbank transactions									
7. a) Claims on nonbanks in foreign countries (increase,-)	-424	-9,435	-2,642	-4,836	-984	-2,021	-1,165	-1,874	-2,113
8. b) Liabilities to private nonbanks in foreign countries (inc. custody liab.)	1,436	1,501	456	776	-458	1,327	381	-110	-13
9. Private securities transactions, net (excl. U.S. Treas. Oblig.)	-3,068	-783	-114	-108	-564	-92	-551	-482	-616
10. Foreign net purchases of U.S. corp. bonds	1,112	1,583	378	513	-11	278	102	-68	-49
11. Foreign net purchases of U.S. corp. stocks	1,326	1,124	-17	297	423	274	54	-2	107
12. U.S. net purchases (-) of foreign securities	-5,506	-3,490	-475	-918	-976	-644	-707	-412	-674
13. Foreign net purchases of U.S. Treasury obligations 2/	534	2,264	-1,069	1,551	2,583	-239	-276	1,386	225
14. Change in foreign official reserve assets in U.S. (increase +)	35,448	31,293	4,700	16,774	-8,454	-9,965	3,248	3,779	623
By Area									
15. G-10 countries and Switzerland	29,414	29,950	5,151	15,569	-7,197	-11,534	3,253	3,562	639
16. OPEC	5,743	-1,245	-1,475	1,001	-1,730	487	-607	859	1,245
17. All other countries	291	2,588	1,024	204	473	1,082	602	-642	-1,261
By Type									
18. U.S. Treasury securities	30,266	23,836	3,167	13,348	-8,085	-12,853	3,085	3,305	933
19. Other 3/	5,182	7,457	1,533	3,426	-369	2,888	163	474	-310
20. Change in U.S. reserve assets (increase -)	-237	662	14	200	-3,008 ^{4/}	446	1,018	1,223	0
21. All other transactions and statistical discrepancy	2,105	14,470	919	1,520	1,805	12,231	1,732	-3,171	-6,286
MEMO:									
Current Account (bil. \$. seasonally adj., annual rates)	-14.1	-13.9	-12.9	-1.3	1.7	-3.9	n.a.	n.a.	n.a.

1/ International accounts basis, seasonally adjusted.

2/ Includes U.S. Treasury notes publicly issued to private foreign residents.

3/ Includes deposits in banks, commercial paper, bankers' acceptances, and borrowing under repurchase agreements.

October 11, 1979

4/ Includes \$1,103 million of newly allocated SDR's.

5/ Less than \$500,000.

NOTE: Details may not add to total because of rounding.

INTERNATIONAL DEVELOPMENTS

Review of Recent Developments. The weighted foreign exchange value of the dollar has fluctuated over a range of about 2-1/4 percentage points during the past month, registering wide swings against several currencies. On October 12, the average value of the dollar was slightly above the level recorded a month earlier.

Starting in mid-September, downward pressure on the dollar intensified and became widespread against most major currencies, reflecting market sentiment that the United States was meeting with little success in resolving its inflation and energy problems. Pressure on the dollar was most pronounced against the Swiss franc and the German mark, depreciating against these currencies by nearly 6 percent and 5 percent respectively. By early October, the DM/dollar rate was approaching the low reached prior to the November 1978 dollar-support measures. In the first week of October, the dollar recovered about a third of its loss on market expectations that new measures would be announced. Following the announcement on October 6 of the monetary policy actions by the Federal Reserve System, the dollar has rebounded sharply on foreign exchange markets.

U.S. authorities bought nearly \$2-3/4 billion against marks to support the dollar. The sale of marks by the Desk were financed equally by System swap drawings and Treasury balances. Total System swap drawings outstanding on the Bundesbank on October 12 amounted to \$3.9 billion equivalent.

The upward pressure on the mark that had developed in late August, as market attention focused on German efforts to tighten monetary conditions, intensified in early September and generated strong pressure on other EMS currencies as well as on the dollar.

. With the pressure within the EMS persisting, the EMS on the weekend of September 23 underwent its first realignment of central rates since its formation in mid-March this year. The mark was revalued by 5 percent against the Danish krone and 2 percent against all other EMS currencies. Following this realignment, strains among EMS currencies abated.

Over the past month, the price of gold advanced sharply and exhibited a high degree of volatility. Gold reached a peak price of nearly \$450 an ounce on October 2, a rise of over 40 percent in a month, before falling back to \$367.50 an ounce. It subsequently recovered somewhat, and on October 12 gold was quoted at \$387.75 an ounce.

The U.S. merchandise trade deficit in August was \$35 billion at an annual rate (international accounts basis), about double the unexpectedly small deficit recorded in July. The July-August average deficit was somewhat smaller than the second-quarter average. Exports in August maintained the high level of July. About half of the July-August increase from the second quarter was in agricultural exports; non-agricultural exports showed a continuation of the strong upward trend in value evident over the past six quarters.

While the value of imports rose sharply in August from the very low level in July, for July-August combined the increase from the second quarter was a more moderate 7 percent. Virtually all of the July-August increase was attributable to higher oil import prices. The volume of oil imported in July-August (8.4 million barrels per day in both months) was 6 percent below the average monthly rate for the first half of the year.

Recently released data for the second quarter indicate that the current-account deficit was only about \$4 billion at an annual rate, despite a \$31 billion U.S. trade deficit at an annual rate. The strength of the non-trade current-account transactions reflected the continuing expansion of net investment income on the part of both petroleum and manufacturing affiliates abroad.

Bank-reported private capital transactions in August recorded a large net inflow of nearly \$9 billion. Interbank transactions (mainly with own foreign offices) resulted in a net capital inflow of \$11 billion in August. Part of this inflow reflected the return to domestic banking offices of funds deposited by U.S. residents in banks abroad. In September, head offices of member banks raised an additional \$3 billion through their foreign branches.

. CPEC holdings of U.S. securities and bank liabilities rose by \$1.2 billion in August. On balance, OPEC holdings in the United States in the first eight months of the year have risen by about \$850 million,

but in September OPEC holdings at the FRBNY fell by more than \$700 million. Part of this decline was associated with sales of Treasury bills by Nigeria to finance purchases of marks, yen and Swiss franc.

In the first half of the year, economic activity in most major foreign industrial countries has continued strong, supported by domestic demand, primarily in the form of private consumption and investment expenditures. Most of these countries have experienced wide swings in their current-account balances, with several countries shifting from surplus positions last year to positions of considerable deficit this year, reflecting a weakening of export demand and higher oil import bills. In the first eight months of 1979 the cumulative Japanese current-account deficit amounted to \$2.8 billion (compared with a surplus in excess of \$11 billion for the corresponding period in 1978). The cumulative January-August current-account deficit in Germany was \$2.4 billion (compared with a \$3.6 billion surplus for the corresponding period last year), while the British current account has shifted to a deficit of nearly \$5 billion in the first eight months of 1979 (compared with a surplus of about \$600 million in the corresponding period in 1978).

Following the latest increase in U.S. interest rates, Canada announced an increase in its discount rate, Italy also announced a discount rate increase on October 6, and several other countries (e.g., France and the Netherlands) have allowed short-term rates to rise.

Outlook. The staff continues to expect the trade deficit to narrow to about \$29 billion this year. For 1980, the U.S. trade outlook is clouded by uncertainties generated by the latest economic and financial developments in the United States and by the possibility of new OPEC

pricing decisions. For 1980, the staff has lowered its projection of the trade deficit to about \$12 billion, reflecting continued strength in exports and a slightly weaker outlook for U.S. economic activity. The trade forecast for next year assumes that petroleum prices will increase by 2-1/2 percent in each quarter in 1980. However, current conditions in petroleum markets increase the likelihood that OPEC may announce a more substantial price increase at its December meeting. The staff's trade projection envisions a decline in the volume of U.S. imports in the fourth quarter this year, continuing into the first three quarters of 1980, reflecting the projected slowdown in U.S. economic activity. For the remainder of the forecast period, the volume of exports is expected to expand more slowly than during the past year, although export prices are projected to advance at a brisk pace.

The current-account balance is expected to show a stronger improvement than the trade balance over the projection period, with the current account expected to be in deficit by about \$1 billion this year and projected to move into a surplus of about \$20 billion in 1980. The strength in the non-trade accounts is primarily related to projections of a continuing moderate upward trend in net investment income.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

October 16, 1979

CONFIDENTIAL (FR)
CLASS II - FOMC

TO: Federal Open Market Committee

FROM: Murray Altmann.

The attached note shows corrections made in "Current and Prospective Economic and Financial Conditions," prepared by the staff of the Board. The document was dated October 12, 1979, and was transmitted to you on the same day.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 15, 1979

Murray Altmann

Subject: Erratum to October 12 Memo

From Helmut Wendel

to FOMC

Page I - 10	1979		1980			
	QIII	QIV	QI	QII	QIII	QIV
Industrial Production	151.7	148.9	146.9	146.2	146.4	146.7
Capacity Utilization						
All Mfg. (percent)	85.1	82.7	80.8	79.7	78.9	78.3
Materials (percent)	86.7	83.7	81.7	80.4	79.8	79.3

Page I - 11

Industrial Production

Change at annual rate -0.8

(No Change)

NOTE: The corrected figures do not reflect information that has become available since Friday morning. Industrial production was stronger for the third quarter of 1979 than indicated above. The first column now appears as follows:

	1979 QIII
Industrial Production	152.2
Capacity Utilization	
All Mfg. (percent)	85.3
Materials (percent)	87.0
Change in Industrial Production	+0.8