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CONFIDENTIAL (FR)

November 14, 1979

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary of Recent Developments. Available information suggests a weakening of economic activity during October, following the third quarter rebound. Total retail sales declined, particularly sharply in the case of autos, and field reports indicate a substantial slowing of residential construction activity since the monetary policy actions of October 6. Inflation continued at about the same very rapid pace as earlier this year.

On the basis of partial data, industrial production is estimated to have been about unchanged in October. Auto assemblies remained at the September rate, slightly lower than the third quarter average, and considerably reduced from the pace of production in the first half of the year. Production of consumer nondurable goods increased somewhat, but business equipment output was reduced reflecting strike activity.

The payroll employment survey taken in early October showed a large increase from September of 300,000 jobs, with gains in trade, services and, to a small extent, construction. Total manufacturing employment was up somewhat after strike adjustments, but in recent weeks, new layoffs and temporary plant shutdowns have been announced in the auto industry. The factory workweek continued unchanged, one-half hour below the level of the first quarter. The unemployment rate, as shown in the household survey, increased to 6.0 percent, up slightly from September and the third quarter average.

Following two successive months of large gains, total retail sales in dollar terms are reported to have decreased 1.7 percent in October with the bulk of the decline at auto stores. Unit auto sales were off about 12 percent from the September level to a 9.4 million unit annual rate. Rebates and discounts by manufacturers had stimulated sales in August and September, some of which undoubtedly involved borrowing from the future. But in October, sales of discretionary items at general merchandise, apparel, and furniture and appliance stores also declined--by nearly 1 percent--after a large increase reported during the third quarter.

There is little hard information available on residential construction activity since the monetary policy actions in early October, but qualitative reports generally indicate that home sales and new building activity are being severely curtailed. Among contributing causes are apparently buyer resistance to higher financing costs, the effects of high carrying costs on builder profits, and diminished credit availability due to usury laws and lender uncertainties. In September, however, before these new factors took hold, private housing starts were at an impressive 1.9 million unit annual rate. Single-family starts, at about a 1.25 million unit annual rate, were about unchanged from August, while multi-family starts increased substantially, partly reflecting an end-of-fiscal-year bulge in federally subsidized units. Home sales also increased further in September, mainly for existing homes.

Information on business spending is available only through September. Outlays for business capital investment continued strong in that month with shipments of nondefense capital goods up 1.6 percent further. Sales of heavy trucks, however, declined again in September to the lowest level this year. Nonresidential construction put-in-place, although at a substantially higher level than a year earlier, did not show much change in August and September.

Capital spending commitments suggest a more moderate pace of growth in outlays in the near term in contrast to the strong third quarter spending rate. Although new orders for nondefense capital goods increased in both August and September, they showed declines for the second as well as the third quarter when measured in constant dollars. Nonresidential construction contracts also suggest a more moderate future outlay growth. According to two private surveys, primarily taken before the October 6 actions, firms were planning to boost nominal spending on plant and equipment between 7 and 9-1/2 percent in 1980; this implies no real growth in capital spending in 1980.

Book value inventory investment, which had slowed markedly in August from the record July pace, contracted considerably further in September. In large part this reflects a liquidation in stocks of motor vehicles and parts at both the trade and manufacturing levels, associated with reduced production and increased sales. The book value of manufacturers inventories increased at an annual rate of \$20.5 billion in September, well below the monthly average so far this year. Total trade inventories

declined at an annual rate of \$16 billion reflecting the auto liquidations; excluding autos, trade stocks showed an increase. The book value inventory-sales ratio for manufacturing and trade, combined, edged down slightly.

Energy price increases and their diffusion throughout the economy continue to be the dominant factor in keeping overall inflation at the high rates that have prevailed since the beginning of this year. Producer prices of finished goods increased at a 12 percent annual rate in October. The energy price component rose at a 56 percent annual rate in October, following an 80 percent annual rate of increase over the third quarter. The September consumer price index rose at a 13 percent annual rate--about the same rate as since last February, with sharp increases reported for energy, food, homeownership, and apparel prices. Labor cost pressures on prices remained intense in the third quarter as there was virtually no increase in overall productivity to offset the sizable rise in hourly compensation.

Outlook. The fiscal policy assumptions underlying the staff's projection indicate a \$42 billion unified budget deficit in FY 1980; this total is somewhat larger than previously estimated, reflecting cyclical reductions in revenues as well as some increases in spending. Passage of a windfall profits tax would reduce this deficit by several billion dollars. In the monetary area, M1 is assumed to increase at about a 6 percent rate over the next year, unchanged from last month's projection. Market interest rates, which rose sharply in the wake of the October 6 action, are

assumed to reach appreciably lower levels during the first quarter of next year in conjunction with reduced demands for money and credit.

Recent developments in world oil markets and the Iranian situation have led us to project markedly higher prices of foreign oil and consequently also of domestic energy. At the same time, we continue to assume no major energy supply disruptions in the forecast. The base price of imported oil in the fourth quarter of 1979 has been increased. In addition, the average price is projected to rise by about 23 percent during the four quarters of 1980, to a level of about \$28 per barrel. This price is 17 percent more than was estimated in the previous projection.

The staff estimates that the third quarter pickup in economic activity will not be sustained. The strength of the third quarter appears to have reflected in part a rebound from the low level of activity in the second quarter (gasoline shortage and truckers' strike) and in part a borrowing from future demand, as indicated by developments in the auto market. More fundamental forces--such as inflation, tighter financial conditions, and the increasing quasi-tax imposed by OPEC--continue to suggest weaker economic activity in prospect. Real GNP is expected to decline at about a 2-3/4 percent annual rate in the fourth quarter. This is a milder decline than shown last month, reflecting some postponement in the expected timing of major adjustments in production and employment, and not a change in the general stance of the projection. Real GNP is now projected to decline by 1-1/2 percent over the four quarters of 1980, with appreciable declines during the first half of 1980, followed by a leveling out of activity during the second half of 1980.

In particular, residential construction activity is projected to slow substantially with housing starts dropping to a low of 1.3 million units (annual rate) in the first quarter of 1980. The recent and, to some extent, continuing disruptions in credit flows are expected to exert their major impact on housing early next year. Real business fixed investment is projected to begin a decline in the current quarter that will continue throughout next year. On a year-over-year basis, real spending in 1980 is projected to decline about 3 percent, as businesses are expected to revise downward their spending plans in light of weaker-than-anticipated final sales and increased financing costs. The decline in the rate of inventory accumulation which started in the third quarter, is expected to continue through mid-1980. Real consumption outlays are projected to contract in an environment of declining real incomes, uncertainties about economic and financial prospects, and tighter consumer credit terms.

Consistent with the sharp decline in real GNP, unemployment is projected to rise sharply to almost 8 percent by mid-1980; in view of sluggish activity over the last half of 1980, the unemployment rate is expected to continue to edge up reaching a level of about 8-1/2 percent by year-end. Growth of hourly compensation is not likely to slow during 1980 as efforts by workers to catch up with past price increases are expected to offset the downward pressure on wages due to weaker labor markets. Even though productivity may improve after firms adjust employment to reduced demands, unit labor costs will continue to increase

sharply. The gross business product fixed-weighted price index is projected to rise at a 10 percent rate during the current quarter, followed by a 9-1/2 percent rate of advance during 1980. The increase next year is about 1/2 percent higher than in last month's projection due to the upward revised assumptions for oil prices. The projection indicates some moderation of inflation rates during the last half of next year when this price index increases at about a 9 percent annual rate.

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)	
	10/12/79	11/14/79	10/12/79	11/14/79	10/12/79	11/14/79	10/12/79	11/14/79
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 <u>1/</u>	10.9	11.0	1.7	1.9	9.7	9.7	5.9	5.9
1980	8.0	7.5	-1.2	-1.7	9.6	9.9	7.9	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	-2.3	-2.3	10.1	10.1	5.7	5.7
1979-III <u>1/</u>	10.6	11.0	1.6	2.4	10.3	10.0	5.8	5.8
1979-IV	5.8	7.0	-4.0	-2.7	10.1	10.0	6.7	6.3
1980-I	7.5	5.7	-1.9	-3.8	9.8	10.2	7.4	7.1
1980-II	8.0	6.7	-1.0	-2.5	9.4	10.1	7.9	7.9
1980-III	9.1	8.8	.6	.0	8.6	9.0	8.1	8.2
1980-IV	9.7	10.1	.9	.8	8.4	8.9	8.3	8.4
Change:								
79-II to 79-IV	8.2	9.0	-1.2	-.2	10.2	10.0	1.0	.6
79-IV to 80-II	7.8	6.2	-1.5	-3.1	9.6	10.1	1.2	1.6
80-II to 80-IV	9.4	9.4	.7	.4	8.5	8.9	.4	.5
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	8.4	8.8	-.9	-.4	10.1	10.0	.9	.5
79-IV to 80-IV	8.6	7.8	-.4	-1.4	9.0	9.5	1.6	2.1

1/ Actual.

November 14, 1979

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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.)

	1979				1980			
	I	II	III	IV	Projected			
					I	II	III	IV
Gross national product	2292.1	2329.8	2391.5	2432.3	2466.0	2506.2	2559.8	2621.9
Final purchases	2272.9	2296.4	2371.5	2422.3	2463.0	2508.2	2560.3	2620.9
Private	1812.8	1829.8	1895.3	1927.7	1957.7	1992.4	2033.9	2080.4
Excluding net exports	1808.8	1837.9	1900.6	1932.2	1954.3	1982.8	2021.7	2067.1
Personal consumption expenditures	1454.2	1475.9	1528.6	1559.9	1585.9	1616.1	1648.5	1683.8
Goods	784.9	789.9	816.2	832.1	840.6	852.3	866.1	882.4
Services	669.3	686.0	712.4	727.8	745.3	763.8	782.4	801.4
Gross private domestic investment	373.8	395.4	392.1	382.3	371.4	364.7	372.7	384.3
Residential construction	111.2	112.9	114.9	113.4	107.9	103.4	105.9	111.4
Business fixed investment	243.4	249.1	257.2	258.9	260.5	263.3	267.3	271.9
Change in business inventories	19.1	33.4	20.0	10.0	3.0	-2.0	-5.5	1.0
Nonfarm	18.8	32.6	19.2	10.0	3.0	-2.0	-5.5	1.0
Net exports of goods and services ^{1/}	4.0	-8.1	-5.3	-4.5	3.4	9.6	12.2	13.3
Exports	238.5	243.7	266.4	275.4	287.6	293.3	298.1	304.8
Imports	234.4	251.9	271.7	279.9	284.3	283.7	285.9	291.5
Gov't. purchases of goods and services	460.1	466.6	476.2	494.6	505.3	515.8	526.4	540.5
Federal ^{2/}	163.6	161.7	162.5	173.1	176.9	180.4	183.7	190.2
State and local	296.5	304.9	313.7	321.5	328.4	335.4	342.7	350.3
Gross national product in constant (1972) dollars	1430.6	1422.3	1430.8	1421.2	1407.6	1398.6	1398.5	1401.2
Personal income	1852.6	1892.5	1943.4	1992.1	2026.5	2066.4	2120.7	2170.0
Wage and salary disbursements	1189.3	1212.4	1237.1	1259.8	1273.7	1291.6	1315.1	1343.9
Disposable personal income	1572.2	1601.7	1636.9	1676.6	1709.2	1741.1	1785.7	1824.0
Saving rate (percent)	5.0	5.4	4.1	4.4	4.6	4.5	5.0	5.0
Corporate profits with I.V.A. and C.C. Adj.	178.9	176.6	189.5	181.4	174.4	169.9	172.7	178.3
Corporate profits before tax	233.3	227.9	247.9	238.0	227.6	221.6	223.1	228.5
Federal government surplus or deficit (-) (N.I.A. basis)	-11.7	-7.0	-8.3	-21.8	-31.3	-35.4	-43.1	-42.2
High employment surplus or deficit (-)	7.9	20.2	19.1	24.6	32.4	43.5	44.1	51.3
State and local government surplus or deficit (-) (N.I.A. basis)	27.6	19.7	25.9	22.3	19.7	18.0	16.4	16.1
Excluding social insurance funds	2.6	-6.3	-1.1	-5.3	-8.5	-10.8	-12.9	-13.8
Civilian labor force (millions)	102.5	102.3	103.2	103.8	104.2	104.6	105.0	105.3
Unemployment rate (percent)	5.7	5.7	5.8	6.3	7.1	7.9	8.2	8.4
Nonfarm payroll employment (millions)	88.7	89.4	89.8	90.1	89.6	89.1	89.0	89.1
Manufacturing	21.0	21.1	21.0	20.8	20.4	20.1	20.0	19.9
Industrial production (1967=100)	152.2	151.9	152.2	152.2	150.4	149.2	149.1	149.1
Capacity utilization: all mfg. (percent)	86.7	85.9	85.3	84.1	82.2	80.7	79.9	79.1
Materials (percent)	88.0	87.3	87.0	87.0	84.5	82.6	81.6	81.0
Housing starts, private (million units, A.R.)	1.62	1.83	1.82	1.50	1.30	1.35	1.45	1.55
New autos sales, (millions, A.R.)	11.55	10.66	10.77	9.50	9.50	9.50	9.55	9.60
Domestic models	9.13	8:00	8.49	7.30	7.40	7.55	7.65	7.70
Foreign models	2.42	2.66	2.28	2.20	2.10	1.95	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.

November 14, 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			
					I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	1.1	-2.3	2.4	-2.7	-3.8	-2.5	.0	.8
Final purchases	1.1	-3.9	4.8	-1.3	-2.8	-1.8	-.2	.6
Private	1.8	-4.1	6.0	-2.6	-3.6	-2.5	-.6	.4
Excluding net exports	.4	-2.9	3.7	-3.1	-5.1	-3.4	-.7	.4
Personal consumption expenditures	.6	-2.9	4.3	-2.0	-3.7	-2.1	-.6	.0
Goods	-4.4	-7.3	3.9	-3.3	-7.1	-4.6	-1.9	-.9
Services	7.1	2.5	4.9	-.5	.2	.8	.9	1.0
Gross private domestic investment	-.5	8.5	-12.9	-16.4	-17.3	-13.8	.2	3.7
Residential structures	-14.3	-7.2	-4.7	-14.5	-26.2	-23.7	.0	12.3
Business fixed investment	4.8	-.8	3.6	-5.5	-5.7	-3.8	-1.8	-1.1
Gov't. purchases of goods and services	-1.8	-3.3	.2	4.4	.4	.7	1.3	1.3
Federal	7.2	-11.3	-2.0	10.4	1.3	1.4	1.5	1.2
State and local	-6.6	1.6	1.5	1.1	.0	.4	1.1	1.4
Disposable personal income	2.1	-1.4	-1.1	-.6	-2.6	-2.2	1.6	.0
<u>Current dollars</u>								
Gross national product	10.6	6.7	11.0	7.0	5.7	6.7	8.8	10.1
Final purchases	11.0	4.2	13.8	8.8	6.9	7.6	8.6	9.8
Private	12.4	3.8	15.1	7.0	6.4	7.3	8.6	9.5
Excluding net exports	10.3	6.6	14.4	6.8	4.7	6.0	8.1	9.3
Personal consumption expenditures	11.4	6.1	15.1	8.4	6.8	7.8	8.3	8.8
Goods	7.9	2.6	14.0	8.0	4.1	5.7	6.6	7.7
Services	15.8	10.4	16.3	8.9	10.0	10.3	10.1	10.1
Gross private domestic investment	3.6	25.2	-3.3	-9.6	-10.9	-7.0	9.1	13.0
Residential structures	-8.5	6.1	7.5	-5.1	-18.0	-15.7	10.0	22.4
Business fixed investment	12.9	9.6	13.7	2.7	2.5	4.4	6.2	7.1
Gov't. purchases of goods and services	5.6	5.8	8.5	16.4	8.9	8.6	8.5	11.2
Federal	12.1	-4.6	1.9	28.8	9.1	8.2	7.5	14.9
State and local	2.3	11.9	12.1	10.3	8.9	8.8	9.0	9.2
Disposable personal income	13.0	7.7	9.1	10.1	8.0	7.7	10.6	8.9
Personal income	11.4	8.9	11.2	10.4	7.1	8.1	10.9	9.6
Wage and salary disbursements	12.7	8.0	8.4	7.5	4.5	5.7	7.5	9.1
Corporate profits with IVA & C.C. Adj.	-12.2	-5.0	32.6	-16.0	-14.6	-9.9	6.8	13.6
Corporate profits before tax	10.8	-8.9	40.2	-15.1	-16.3	-10.2	2.8	10.0
Nonfarm payroll employment	4.3	2.9	1.9	1.2	-2.1	-2.0	-.5	.3
Manufacturing	5.0	.8	-1.2	-3.2	-7.7	-5.8	-1.9	-1.5
Nonfarm business sector								
Output per hour	-3.2	-4.1	.2	-.9	.0	.4	1.0	.9
Compensation per hour	10.4	7.9	8.2	9.3	10.6	9.6	9.7	9.4
Unit labor costs	14.0	12.5	7.9	10.3	10.6	9.2	8.7	8.4
GNP implicit deflator ^{1/}	9.3	9.3	8.4	9.9	9.8	9.4	8.9	9.2
Gross business product fixed-weight price index ^{2/}	10.0	10.1	10.0	10.0	10.2	10.1	9.0	8.9
Consumer price index (all urban)	11.1	13.6	12.9	13.0	13.8	10.1	9.0	9.0
Industrial production	4.0	-.8	.8	.0	-4.7	-3.1	-.3	.1

^{1/} Excluding Federal pay increases, the rates of change are: 1979 QI, 9.3 percent; 1979 QIV, 9.2 percent; 1980 QI, 9.8 percent; 1980 QIV, 8.6 percent.

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

November 14, 1979

CONFIDENTIAL - FR
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	-1.8
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	-0.9	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.

CONFIDENTIAL - FR
CLASS 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	1.8	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	-1.8	3.1	-1.5	-.9	1.9	2.7	.8
Compensation per hour	8.7	6.4	7.7	7.0	11.4	7.5	8.8	8.8
Unit labor costs	3.4	8.4	4.5	8.6	12.4	5.4	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.

November 14, 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	2361.4	2538.5
Final purchases	1288.6	1404.0	1539.6	1692.1	1877.6	2105.2	2340.8	2538.1
Private	1019.1	1101.3	1201.2	1330.8	1481.4	1669.6	1866.4	2016.1
Excluding net exports	1012.0	1095.3	1180.8	1322.8	1491.3	1679.9	1869.9	2006.5
Personal consumption expenditures	809.9	889.6	979.1	1089.9	1210.0	1350.8	1504.6	1633.6
Goods	457.5	498.3	541.5	601.3	660.1	730.9	805.8	860.3
Services	352.3	391.3	437.5	488.5	549.8	619.8	698.9	773.2
Gross private domestic investment	220.0	214.6	190.9	243.0	303.3	351.5	385.9	373.3
Residential construction	66.1	55.1	51.5	68.1	91.9	108.0	113.1	107.1
Business fixed investment	136.0	150.6	150.2	164.9	189.4	221.1	252.2	265.7
Change in business inventories	17.9	8.9	-10.7	10.0	21.9	22.3	20.6	.4
Nonfarm	14.7	10.8	-14.3	12.1	20.7	21.3	20.1	.4
Net exports of goods and services ^{1/}	7.1	6.0	20.4	8.0	-9.9	-10.3	-3.5	9.6
Exports	101.6	137.9	147.3	163.3	175.9	207.2	256.0	296.0
Imports	94.4	131.9	126.9	155.4	185.8	217.5	259.5	286.3
Gov't. purchases of goods and services	269.5	302.7	338.4	361.3	396.2	435.6	474.4	522.0
Federal ^{2/}	102.2	111.1	123.1	129.7	144.4	152.6	165.2	182.8
State and local	167.3	191.5	215.4	231.6	251.8	283.0	309.1	339.2
Gross national product in constant (1972) dollars	1235.0	1217.8	1202.3	1273.0	1340.5	1399.2	1426.2	1401.5
Personal income	1052.4	1154.9	1255.5	1381.6	1531.6	1717.4	1920.2	2095.9
Wage and salary disbursements	701.3	764.6	825.9	890.0	984.0	1103.3	1224.6	1306.1
Disposable personal income	901.7	984.6	1086.7	1184.5	1305.1	1458.4	1621.9	1765.0
Saving rate (percent)	7.8	7.3	7.7	5.8	5.0	4.9	4.7	4.8
Corporate profits with I.V.A. and C.C. Adj.	99.1	83.6	95.9	126.8	150.0	167.7	181.6	173.8
Corporate profits before tax	115.8	126.9	120.4	156.0	177.1	206.0	236.8	225.2
Federal government surplus or deficit (N.I.A. basis)	-6.7	-10.7	-70.6	-53.6	-46.3	-27.7	-12.2	-38.0
High employment surplus or deficit (-)	-1.3	14.9	-27.4	-20.2	-19.0	-6.7	17.9	42.8
State and local government surplus or deficit (-) (N.I.A. basis)	13.0	7.6	6.2	17.9	26.8	27.4	23.9	17.6
Excluding social insurance funds	4.1	-2.9	-6.2	2.3	7.3	4.2	-2.5	-11.5
Civilian labor force (millions)	88.7	91.0	92.6	94.8	97.4	100.4	102.9	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	89.5	89.2
Manufacturing	20.2	20.1	18.3	19.0	19.7	20.5	21.0	20.1
Industrial production (1967=100)	129.8	129.3	117.8	130.5	138.2	146.1	152.1	149.4
Capacity utilization: all manufacturing (percent)	87.6	83.8	72.9	79.5	81.9	84.4	85.5	80.5
Materials (percent)	91.8	87.1	73.4	81.1	82.7	85.6	87.3	82.4
Housing starts, private (million units, A.R.)	2.05	1.34	1.16	1.54	1.99	2.02	1.69	1.41
New auto sales, (millions, A.R.)	11.42	8.91	8.66	10.12	11.13	11.29	10.62	9.54
Domestic models	9.65	7.49	7.08	8.63	9.07	9.27	8.23	7.57
Foreign models	1.77	1.42	1.58	1.50	2.06	2.02	2.39	1.96

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

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

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CONFIDENTIAL - FR
CLASS II 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	1.9	-1.7
Final purchases	4.9	-.7	.2	4.5	4.8	4.4	2.2	-1.0
Private	6.3	-1.4	-.3	5.6	5.6	5.0	2.6	-1.5
Excluding net exports	5.1	-2.3	-1.0	6.5	6.2	5.0	2.1	-2.3
Personal consumption expenditures	4.7	-.9	1.8	5.9	5.0	4.5	2.2	-1.4
Goods	5.0	-3.4	.7	6.9	5.1	4.1	.5	-3.6
Services	4.4	2.3	3.2	4.8	4.9	5.1	4.2	1.0
Gross private domestic investment	10.0	-11.4	-22.3	21.6	15.4	7.1	.1	-11.2
Residential structures	-3.7	-24.6	-13.9	23.3	20.7	4.2	-6.7	-14.7
Business fixed investment	12.2	-.3	-13.0	4.8	8.6	8.4	5.0	-3.1
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	.6	1.7
State and local	3.2	3.8	2.6	.5	.6	4.0	.0	.8
Disposable personal income	6.7	-1.5	2.1	3.7	4.2	4.6	2.0	-1.2
<u>Current dollars</u>								
Gross national product	11.6	8.1	8.2	11.3	11.6	12.0	11.0	7.5
Final purchases	10.9	8.9	9.7	9.9	11.0	12.1	11.2	8.4
Private	12.2	8.1	9.1	10.8	11.3	12.7	11.8	8.0
Excluding net exports	11.0	8.2	7.8	12.0	12.7	12.6	11.3	7.3
Personal consumption expenditures	10.5	9.8	10.1	11.3	11.0	11.6	11.4	8.6
Goods	11.4	8.9	8.7	11.0	.8	10.7	10.2	6.8
Services	9.3	11.1	11.8	11.7	12.5	12.7	12.8	10.6
Gross private domestic investment	16.8	-2.5	-11.0	27.3	24.8	15.9	9.8	-3.3
Residential structures	6.6	-16.7	-6.5	32.3	35.0	17.5	4.7	-5.3
Business fixed investment	16.4	10.8	-.3	9.8	14.9	16.7	14.1	5.4
Gov't. purchases of goods and services	6.5	12.3	11.8	6.8	9.7	9.9	8.9	10.0
Federal	.1	8.7	10.7	5.4	11.3	5.7	8.3	10.6
State and local	10.8	14.5	12.5	7.5	8.7	12.4	9.2	9.7
Disposable personal income	12.5	9.2	10.4	9.0	10.2	11.7	11.2	8.8
Personal income	11.7	9.7	8.7	10.0	10.9	12.1	11.8	9.2
Wage and salary disbursements	10.6	9.0	5.4	10.4	10.6	12.1	11.0	6.6
Corporate profits with IVA & C.C. Adj.	7.6	-15.6	14.7	32.2	18.3	11.8	8.3	-4.3
Corporate profits before tax	20.4	9.6	-5.1	29.6	13.5	16.3	15.0	-4.9
Nonfarm payroll employment	4.2	2.0	-1.7	3.1	3.8	4.9	3.5	-.3
Manufacturing	5.2	-.4	-8.7	3.7	3.6	4.0	2.4	-4.1
Nonfarm business sector								
Output per hour	1.7	-2.9	1.9	3.5	1.8	.5	-1.0	-.1
Compensation per hour	7.8	9.4	9.9	8.3	8.0	8.6	8.9	9.5
Unit labor costs	6.0	12.7	7.8	4.7	6.3	8.0	10.0	9.7
GNP implicit deflator	5.9	9.7	9.6	5.2	6.0	7.3	8.9	9.4
Gross business product fixed-weighted price index ^{1/}	5.7	10.4	9.4	5.3	6.2	7.6	9.7	9.9
Consumer price index (all urban)	6.2	11.0	9.1	5.8	6.5	7.7	11.2	11.9
Industrial production	8.4	-.4	-8.9	10.8	5.9	5.7	4.1	-1.8

^{1/} Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

November 14, 1979

	Fiscal Year 1979*	FY 1980 e/3/		CY 1978*	CY79e/ F.R. Board	Calendar quarters; unadjusted data								FRB Staff Estimates		
		Admin, 1/2/	F.R. Board			1978				1979				1980		
						IV*	I*	II*	III*	IV	I	II	III			
Unified budget receipts	465.9 ^{4/}	513.9	504.9	416.9	478.1	99.5	102.1	144.4	119.9	111.6	111.4	149.0	132.8			
Unified budget outlays	493.2 ^{4/}	547.1	546.7	460.6	507.8	123.2	122.6	123.1	124.4	137.8	134.0	135.6	139.3			
Surplus(+)/Deficit(-), unified budget	-27.3	-33.2	-41.8	-43.7	-29.7	-23.7	-20.5	21.4	-4.5	-26.2	-22.6	13.4	-6.5			
Surplus(+)/Deficit(-), off-budget agencies ^{7/}	-12.4	-20.0 ^{5/}	-18.0	-9.1	-14.1	-0.1	-3.0	-5.1	-4.1	-1.8	-5.9	-5.8	-4.4			
Combined deficit to be financed	-39.7	-53.2	-59.8	-52.8	-43.8	-23.8	-23.5	16.3	-8.6	-28.0	-28.5	7.6	-10.9			
Means of financing combined deficits:																
Net borrowing from public	33.7	42.0 ^{6/}	48.1	53.6	32.4	15.3	10.6	-4.6	12.4	14.0	21.6	1.7	10.9			
Decrease in cash operating balance	-1.8	9.2 ^{6/}	9.2	-4.0	4.3	6.1	8.6	-9.8	-6.7	12.2	4.0	-8.0	1.0			
Other ^{8/}	7.7	2.0 ^{6/}	2.5	3.2	7.0	2.5	4.2	-1.9	2.9	1.8	3.0	-1.3	-1.0			
Cash operating balance, end of period	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 ^{9/}	22.1 ^{e/}	n.a.	26.0	22.0	25.2	4.9	6.4	6.0	4.8	8.0	6.0	6.0	6.0			
NIA Budget ^{10/}						Seasonally adjusted annual rates										
Receipts	480.0	525.3	521.1	432.1	495.2	463.5	475.0	485.8	507.1	512.8	513.7	520.2	531.9			
Expenditures	493.7	546.9	552.5	459.8	507.4	479.7	486.8	492.9	515.3	534.6	545.0	555.6	575.0			
Purchases (total)	161.7	178.7	178.5	152.6	165.2	159.0	163.6	161.7	162.5	173.1	176.9	180.4	183.7			
Defense	104.8	116.0	116.4	99.0	107.8	101.2	103.4	106.0	108.5	113.2	115.2	117.5	119.6			
Non-defense	56.9	62.7	62.1	53.6	57.5	57.8	60.2	55.7	54.0	59.9	61.7	62.9	64.1			
All other expenditures	332.0	368.2	374.0	307.2	342.2	320.7	323.2	331.2	352.8	361.5	368.1	375.2	391.3			
Surplus(+)/Deficit(-) ^{11/}	-13.7	-21.6	-31.4	-27.7	-12.2	-16.3	-11.7	-7.1	-8.2	-21.8	-31.3	-35.4	-43.1			
High Employment Surplus(+)/ Deficit(-) (NIA basis) ^{12/}	11.6	n.a.	36.1	-6.7	17.9	-0.8	7.9	20.2	19.1	24.6	32.4	43.5	44.1			
		*--actual		e--estimated									n.a.--not available			

^{1/} Administration estimates as of October 11, 1979, except as noted.

^{2/} Administration NIA estimates are from OMB Mid-Session Review of the 1980 Budget, July 12, 1979.

^{3/} In the Conference Committee Report on the Second Concurrent Budget Resolution, Fiscal Year 1980, Congress expects receipts of \$517.8 billion and outlays of \$547.6 billion.

^{4/} Excludes \$0.4 billion of outlays for the Exchange Stabilization Fund in order to be consistent with all historical data and Treasury reporting practices.

^{5/} Confidential Administration estimate as of September 4, 1979.

^{6/} Estimate from OMB Mid-Session Review of the 1980 Budget, July 12, 1979.

^{7/} Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.

^{8/} Checks issued less checks paid, accrued items and other transactions.

^{9/} Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives marketable debt on an offerings basis.

^{10/} All NIA data incorporate the Department of Commerce's July 1979 GNP revisions.

^{11/} 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.

^{12/} FRB staff estimates are consistent with the Council's new potential GNP series as reported in the Economic Report of the President, January 1979.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Interest rates rose sharply in October in response to the System's policy actions announced on October 6. Part of these advances have been retraced in recent days, as markets have rallied in reaction to recent signs of a weakening in economic activity and a slowing in monetary growth. On balance, however, for the intermeeting period short-term market rates still show gains of about 1-1/4 to 2-1/4 percentage points and bond yields about 3/4 to 1-1/4 percentage points. In addition, bank prime rates have been raised two percentage points to 15-1/2 percent, home mortgage rates in the primary markets appear generally to have increased about 1-1/2 percentage points and rates on consumer loans have moved up appreciably. Banks and other institutions also are reported to have tightened credit standards and nonprice lending terms for both business and household customers. Against this background and with concerns growing about a likely weakening in economic activity over the near term, major stock indexes have declined 8 to 10 percent.

Conditions in financial markets were quite unsettled in the weeks immediately following the October 6 announcement, and both short- and long-term interest rates were subject to unusual day-to-day and intra-day fluctuation. Given this volatility, the general erosion of security values and uncertainty surrounding the System's new operating procedures, bid-asked spreads widened, differences between rates on higher- and lower-rated debt instruments increased, and a large number of corporate and municipal securities scheduled to come to market were postponed or cancelled. While many mortgage companies and securities firms suffered large losses in the wake of the sharp advance in rates, to date there have been few reports of bankruptcies or of firms voluntarily deciding to go out of business.

The flow of credit to nonfinancial businesses dropped off somewhat in October, apparently in response to both the tightening of credit supplies and perhaps some decline in demand resulting from a further cutback in inventory accumulation. Growth in business loans at banks (adjusted for bankers acceptance sales) slowed somewhat from September's rapid pace, and only a marginal additional volume of commercial paper was sold in the market by nonfinancial firms. The volume of publicly offered corporate bonds in October about matched that for September, but it was swollen by a large pre-October 6 offering of IBM. The volume of issues declined markedly after the System's announcement, in part reflecting the aforementioned postponements and cancellations of issues.

Household mortgage indebtedness also is likely to have expanded at a slower pace in October, the result in large measure of the sharp tightening in the cost and availability of such credits. Given the tightening consumer credit supplies and drop in new car sales, consumer loan growth also likely moderated in October after posting a sizable gain in September.

State and local governments also reduced their borrowing in October, as a large volume of short-term note offerings were cancelled, in many instances because market rates moved above legal ceilings. The volume of longer-term offerings, on the other hand, remained relatively large. Reflecting its enlarged fourth quarter deficit, Treasury demands for funds have been quite strong in recent weeks.

M-1 increased at only a 2-1/2 percent annual rate in October, down markedly from an 11-1/4 percent rate of increase in September. With M-1 expansion reduced, M-2 growth slowed to about an 8.6 percent annual rate. The interest-bearing component of this measure, however, continued to increase at September's rapid pace despite a sharp drop in savings deposits,

as growth in small time deposits (presumably mainly in the form of MMCs) and large time deposits accelerated. Deposit flows at nonbank thrift institutions weakened as strong further advances in MMCs and in large time deposits were more than offset by outflows from savings and other time deposits.

Bank credit growth also moderated in October, reflecting a cutback in investment acquisitions, a sharp rundown in security loans and a sell-off of holdings of bankers acceptances. With growth in deposits included in the key aggregates slowing, commercial banks also raised a substantial volume of funds through issuance of managed liabilities, despite the new marginal reserve requirements on these funds.

Outlook. Following the recent rally in securities markets, market interest rates may have reached sustainable levels for the near term. Demands for money and credit are expected to continue to moderate in conjunction with a weakening in the economy, however, and it thus appears likely that rates will become subject to further downward pressures in coming months.

The flow of funds to households, in particular, is likely to drop over the current quarter. Given a further erosion of real income growth and with uncertainty over the economic outlook intensifying, demands for houses, autos, and other durable goods are expected to decline. At the same time, deposit flows to lending institutions are expected to remain moderate, and thus interest rates charged on mortgages and consumer installment credit should stay comparatively high and the availability of such credit remain relatively tight.

Business demands for credit are also expected to moderate in coming months. The corporate financing gap is expected to narrow, mainly because of the cutback in inventory outlays. Business loan demands at banks, however, may remain relatively strong for a while, if firms decide to delay

funding their short-term debt in anticipation of an eventual sharp decline in long-term rates. However, the relatively high proportion of short-term business indebtedness should induce firms to increase their issuance of bonds and this should tend to offset downward pressures on bond yields.

The outlook for credit demands in the government sector is mixed. The calendar of state and local government offerings for the remainder of the current quarter appears quite light. On the other hand, the Treasury with large deficits in prospect is expected to continue raising new funds in coming weeks as well as in the first quarter of next year.

INTERNATIONAL DEVELOPMENTS

Summary. Since early October exchange markets have been dominated first by the repercussions of the tightening of monetary policy in the United States and then by evaluations of the effects of accelerating oil prices and a possible cutback of Iranian supplies. The effect of these events was to raise the weighted-average value of the dollar by about 4 per cent from the beginning of October to November 13. On November 14 the report that Iran might withdraw funds from U.S. banks, followed by the U.S. action to freeze such assets, brought some pressure on the dollar.

Following the October 6 measures taken by the Federal Reserve there was a series of increases in discount rates by other central banks (Canada, Germany, the Netherlands, Japan and Switzerland). The need to combat inflation was usually cited as a chief consideration in the increases but Switzerland and Canada also cited their concern about exchange rate relationships.

Since early October the yen has declined about 7 per cent against the dollar (25 per cent since the beginning of the year), mainly influenced by concerns about Japan's oil supply.

. In the case of sterling, some downward pressure on the pound developed when

exchange controls on U.K residents' dealings in foreign currencies were eliminated on October 23

After mid-year the costs of Eurodollar bank loans rose more rapidly than costs to prime borrowers at U.S. banks, possibly causing some shift of borrowing to U.S. banking offices. However, recent increases in the U.S. prime rate have brought it closer to a more normal relationship to Euro-dollar lending rates.

The gold price peaked at about \$450 per ounce at the beginning of October, and has been under \$400 since that time partly under the influence of uncertainty caused by changes in the U.S. Treasury's gold auction program and an increased amount sold at the first auction thereafter.

In U.S. international transactions, the trade deficit was reduced to about \$28 billion (SAAR) in the third quarter from \$31 billion in the second. Petroleum imports rose sharply to average \$67 billion at an annual rate for the quarter, and reached a \$72 billion rate in September. Oil import prices rose nearly 30 per cent from the second quarter. Other imports have been nearly flat since the first quarter, with prices up and volume down somewhat. On the export side agricultural sales rose sharply in the third quarter with both volumes and prices rising substantially. Non-agricultural exports were also up considerably

in the third quarter, with industrial materials (especially chemicals), aircraft, and machinery all showing increases.

Data from balance-of-payments sources indicate a net inflow of about \$6 billion through interbank transactions in the third quarter, raising the total for the year to about \$27 billion. U.S. banks' net outflows to nonbanks abroad rose to about \$5 billion in the quarter.

Official foreign assets of G-10 countries and Switzerland held in the United States rose nearly \$5 billion in the third quarter, when the dollar was under heavy pressure. In October foreign official assets of these countries fell substantially (\$2.5 billion at the FRBNY),

. OPEC assets in the United States rose about \$1-1/2 billion in the third quarter, and by another \$1 billion at the FRBNY in October.

Economic activity abroad was fairly vigorous in the second quarter but data for industrial production suggest some moderation in the third quarter. Japan's growth has continued quite strong, and Germany has also held up well. This strength, coupled with the persistence of high inflation rates, has brought forth the increases in interest rates mentioned above.

Outlook. The staff's assumption of a further major increase in petroleum prices has resulted in a less optimistic outlook for

economic activity abroad in the year ahead and reduced the gains projected for the U.S. current account. Foreign GNP is now projected to rise by only 1-1/2-2 per cent from the fourth quarter of 1979 to the fourth quarter of 1980, assuming some stimulative policy actions will be taken abroad. Economic growth in the less developed countries will be hampered by the weakening of their export markets and their rising petroleum costs.

The U.S. import price for a barrel of oil is projected to average \$23 in the fourth quarter of 1979 (up 73 per cent since the fourth quarter of 1978) and to rise a further 23 per cent by the fourth quarter of 1980. By the fourth quarter of 1980 the import price is now projected to reach \$28 per barrel, 17 per cent higher than the \$24 level used in the previous projections. After allowing for a substantial drop in the volume of petroleum imports next year, the year-over-year value of oil imports is projected to rise by \$15 billion. The net effect of the revised oil price assumption, and other changes, is that a trade deficit of about \$19 billion is now projected for 1980 (about \$9 billion less than the 1979 figure) and a current account surplus of about \$14 billion (compared with near zero in 1979).

In the framework of the green book 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 differ significantly from the average level in recent weeks (about 83.5 on the Federal Reserve Board staff's index, March 1973 = 100).

	1978	1979 ^P	1980 ^P	1979				1980 ^P				
				I	II	III	IV ^P	I	II	III	IV	
1. GNP Net Exports												
Current \$, Net	-10.3	-3.5	9.6	4.0	-8.1	-5.3	-4.5	3.4	9.6	12.2	13.3	
Exports of G&S	207.2	256.0	296.0	238.5	243.7	266.4	275.4	287.6	293.3	298.1	304.8	
Imports of G&S	217.5	259.5	286.3	234.4	251.9	271.7	279.9	284.3	283.7	285.9	291.5	
Constant 72 \$, Net	11.0	17.5	26.8	17.0	13.1	19.4	20.7	24.9	27.3	27.5	27.6	
Exports of G&S	108.9	119.4	122.5	117.0	116.0	122.5	121.9	123.1	122.7	121.9	122.3	
Imports of G&S	97.9	101.8	95.7	100.0	102.9	103.1	101.3	98.2	95.4	94.4	94.7	
Terms of trade (1972=100) ^{2/}	85.7	84.2	80.7	86.9	85.8	82.5	81.7	80.7	80.4	80.7	81.0	
2. U.S. Merchandise Trade Balance ^{1/}	-34.2	-27.9	-18.4	-24.5	-30.9	-27.8	-28.2	-23.6	-17.6	-16.8	-15.5	
Exports (excl. military)	141.9	180.4	209.0	165.4	171.2	190.3	194.9	201.9	207.6	210.4	215.9	
Agricultural	29.9	34.5	37.6	30.6	30.9	38.4	38.0	38.1	38.2	36.4	37.5	
Nonagricultural	112.0	146.0	171.4	134.8	140.2	151.9	156.9	163.8	169.4	174.0	178.4	
Imports	176.1	208.3	227.3	189.9	202.0	218.2	223.1	225.5	225.2	227.2	231.4	
Petroleum and Products	42.3	58.6	73.9	46.6	51.6	66.5	69.7	73.1	73.6	74.0	74.8	
Nonpetroleum	133.8	149.7	153.4	143.3	150.4	151.7	153.4	152.5	151.6	153.2	156.6	
3. U.S. Current Account Balance	-13.9	0.3	14.4	1.7	-3.9	1.7 ^P	1.7	7.1	14.5	17.4	18.7	
of which: Net Investment Income	21.6	29.7	32.4	27.5	29.6	30.9 ^P	31.0	31.4	31.8	33.2	33.1	
4. Foreign Outlook - Ten Industrial Countries ^{3/}												
Real GNP, % change, annual rates	3.3	3.4	2.2	2.1	4.1	2.6 ^P	3.3	1.8	1.3	1.7	2.0	
Consumer Prices, ^{4/} % change, annual rates	5.4	7.8	9.2	8.7	10.1	11.7 ^P	9.5	9.2	8.4	8.0	7.5	

^{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 (5.4.2%).

^{4/} Wholesale prices for Japan.

^{p/} Projected.