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March 12, 1980

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Note: At this writing the staff does not have available the specifics of the administration's new anti-inflation program, and the forthcoming policy initiatives are not reflected in this forecast.

Summary

Economic activity in the aggregate has remained firm early in 1980. Spending by consumers and businesses has increased on balance, employment has risen, and industrial production has edged higher. However, housing activity declined further in January. Aggregate price measures accelerated in early 1980 from the already rapid pace of earlier months.

The index of industrial production, after increasing 0.3 percent in January, edged up 0.2 percent further in February; the level of output thus returned to its previous peak of March 1979. The February increase reflected mainly a rebound in automotive output from a very low January level. Production of business equipment rose further, but by less than in recent months, and other major components of the February index either declined or showed only small increases.

Payroll employment rose by 140,000 in February, following an upward-revised advance of 350,000 in January. Average weekly hours, however, receded somewhat in February. Hiring remained strong in the service-producing industries, which have accounted for more than 80 percent of the nation's total employment gains over the past year. Manufacturing employment edged up slightly during the most recent three

months, but nonetheless remains no higher than its level in early fall.

Consumer spending expanded strongly in January, but according to advance estimates it receded in February. Auto demand, in particular, picked up in January, with car sales totaling 11.3 million units at an annual rate, and in February sales remained relatively strong at a 10.5 million unit rate. Almost 3 million of these sales (annual rate) were accounted for by foreign-made autos. Nominal retail sales, excluding autos and building supplies, were revised upward in January to a 2-1/2 percent increase; but this was followed by a 1/2 percent decline in February. In real terms, February retail sales appear to have been little changed from the fourth quarter average.

Activity in the housing sector continued to deteriorate in early 1980, despite unusually mild winter weather across many regions of the U.S. Housing starts in January declined for the fourth consecutive month to an annual rate of 1.4 million units with cutbacks in both single- and multi-family starts. Permits rose marginally from December but were still 25 percent below their third quarter level. New home sales increased somewhat in January but also remained well below third quarter levels; existing home sales continued to decline. Since January, of course, mortgage market conditions have tightened considerably further.

Business investment spending apparently advanced briskly in January, as shipments of nondefense capital goods rose 3-1/2 percent and the value of construction put in place remained high. In addition, recent indicators of spending prospects have exhibited strength; new orders for machinery jumped more than 7 percent in January after having

been on a plateau during much of last year. Newly approved capital appropriations of large manufacturers excluding petroleum were up by 13 percent in the fourth quarter. A new Commerce survey of anticipated plant and equipment expenditures, taken in late January and February, shows that business spending intentions for 1980 were about unchanged from plans reported in December. Businesses expect to increase nominal spending by 11.1 percent in 1980; this would imply little change in real terms.

The book value of inventories held by manufacturers increased at a record pace of \$50 billion (annual rate) in January. This accumulation was fairly evenly divided by major stages of processing. The rise in stocks was unusually large in the nondurable goods industries, especially among producers of chemicals and petroleum products where prices were moving up rapidly. Auto dealers' inventories, on the other hand, declined sharply in January and continued to decrease in February as domestic auto production again was kept lower than the volume of sales.

Federal budget outlays during the October to January period of FY 1980 were 13-1/2 percent larger than a year earlier; the budget deficit totaled about \$29 billion, some \$2-1/2 billion more than a year earlier. The pace of spending has been exceeding the Congress' Second Concurrent Budget Resolution that provides a ceiling of \$548 billion on FY 1980 outlays. In addition, recent budget estimates indicate that in the absence of new policies the deficit for FY 1981 would be larger than shown in the administration's January budget.

Consumer prices advanced at a 17 percent annual rate in January, and producer prices for finished goods increased at an even faster pace both in January and February. While these advances were led by prices for energy items--particularly gasoline--they also reflected increases for a broad set of other goods and services. In contrast, food prices were unchanged at the retail level in January, and declined in the February producer price index for the second month in a row.

Outlook

In view of stronger than expected incoming data for consumer spending and business fixed investment, the staff has revised upward its projection of real GNP for the current quarter; an increase of about 2 percent at an annual rate is now expected, compared to the fractional decline projected in the last Greenbook.

Even though personal consumption expenditures now appear stronger in early 1980 than previously expected, the annual rate of increase of about 2-1/2 percent is down measurably from the 4-1/2 percent pace in the second half of 1979. Higher prices are continuing to squeeze real disposable income, but currently household purchasing power is being maintained by large income tax refunds that are running about \$10 billion higher than last year.

Business fixed investment spending appears to be expanding strongly in the first quarter, but residential building activity is declining sharply. Federal purchases are continuing to increase substantially, mainly due to increased defense spending and grain acquisitions by the Commodity Credit Corporation. The annual rate of

inflation, as measured by the gross business product fixed-weighted price index, is now estimated to be about 11-1/4 percent in the first quarter; this is an upward revision of almost 1 percentage point since a month ago.

The fiscal policy assumptions for this staff projection--which do not include the new initiatives--result in a FY 1980 deficit of almost \$40 billion and a FY 1981 deficit of \$39 billion. Receipts for both fiscal years have been revised upward due to larger projected noninflationary incomes; but this is offset, especially in FY 1981, by higher spending for interest, defense, and social security. Our monetary policy assumptions specify M-1A growth of about 4-3/4 percent in 1980 and in 1981, compared with a path of about 5 percent in the previous Greenbook. Interest rates are assumed higher than in last month's projection, particularly in the near term.

The staff projects a downturn in real GNP to begin next quarter and to extend to mid-1981. Housing is already in a major decline that will be aggravated by recent higher mortgage rates. We are now projecting that starts will drop to a 1 million unit annual rate in the spring quarter of this year. Higher interest rates are likely to impinge on business and state and local government spending as well.

The overall drop in real output until mid-1981 is now projected to be about 3 percent, somewhat more than estimated in the previous projection. The unemployment rate is expected to reach about 8-1/2 percent in late 1981. After the current quarter, the anticipated inflation rate is only marginally greater than in the last Greenbook. The CPI, however, will rise more strongly in the next couple of quarters

than the other measures of inflation because of rapid increases in mortgage rates. Largely in response to the recession and an assumed slower oil price rise, the projection still shows a deceleration in the gross business product fixed-weighted price index from an annual rate of increase of 11 percent over the first half of 1980 to about 9-1/2 percent by late this year and around 8 percent in late 1981.

Detailed data for these projections are shown in the following tables.

STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
				Total		Excluding food and energy				
1/30/80	3/14/80	1/30/80	3/14/80	1/30/80	3/14/80	1/30/80	3/14/80	1/30/80	3/14/80	
Annual changes:										
1978 ^{1/}	12.0	12.0	4.4	4.4	7.6	7.6	7.2	7.2	6.0	6.0
1979 ^{1/}	11.3	11.4	2.3	2.3	9.6	9.6	8.2	8.1	5.8	5.8
1980	8.1	9.4	-7	.1	10.0	10.2	7.9	7.9	6.9	6.7
1981	8.1	7.3	-1.0	-1.8	8.9	9.2	7.9	7.9	8.4	8.3
Quarterly changes:										
1979-Q1 ^{1/}	10.6	10.6	1.1	1.1	10.0	10.0	7.7	7.7	5.7	5.7
1979-Q2 ^{1/}	6.7	6.7	-2.3	-2.3	10.1	10.1	7.9	7.9	5.8	5.8
1979-Q3 ^{1/}	11.9	11.9	3.1	3.1	10.4	10.4	7.6	7.6	5.8	5.8
1979-Q4 ^{1/}	10.3	10.9	1.4	2.1	9.2	8.9	7.7	7.2	5.9	5.9
1980-Q1	7.2	11.3	-.8	1.9	10.3	11.2	7.6	8.0	6.2	6.1
1980-Q2	6.5	8.2	-2.2	-1.6	10.5	10.8	7.9	8.2	6.5	6.4
1980-Q3	6.2	5.6	-3.1	-3.6	9.8	9.7	8.8	8.3	7.1	7.0
1980-Q4	7.9	5.9	-2.4	-3.8	9.2	9.6	8.2	8.3	7.7	7.5
1981-Q1	7.9	6.8	-1.3	-2.5	9.0	9.2	8.1	8.1	8.0	8.0
1981-Q2	9.0	7.8	.4	-.8	8.5	8.8	7.5	7.6	8.4	8.3
1981-Q3	9.2	9.5	1.4	1.6	8.0	8.2	7.0	7.1	8.6	8.4
1981-Q4	10.0	10.2	1.9	1.8	7.9	8.1	6.9	7.0	8.7	8.5
Two-quarter changes: ^{2/}										
1979-Q4 ^{1/}	11.1	11.4	2.3	2.6	9.7	9.6	7.7	7.4	.1	.1
1980-Q2	6.8	9.8	-1.5	.2	10.4	11.0	7.7	8.1	.6	.5
1980-Q4	7.1	5.7	-2.8	-3.7	9.5	9.6	8.4	8.3	1.2	1.1
1981-Q2	8.5	7.3	-.5	-1.7	8.7	8.9	8.0	7.8	.7	.8
1981-Q4	9.6	9.9	1.6	1.7	8.0	8.1	7.1	7.1	.3	.2
Four-quarter changes: ^{3/}										
1978-Q4 ^{1/}	13.4	13.4	4.8	4.8	8.6	8.6	8.1	8.1	-.7	-.7
1979-Q4 ^{1/}	9.9	10.0	.8	1.0	9.9	9.8	7.7	7.6	.1	.1
1980-Q4	7.0	7.7	-2.2	-1.8	9.9	10.3	8.1	8.2	1.8	1.6
1981-Q4	9.0	8.6	.6	.0	8.3	8.6	7.4	7.5	1.0	1.0

^{1/} Actual.^{2/} Percent change from two quarters earlier.^{3/} Percent change from four quarters earlier.

March 14, 1980

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.)

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2526.3	2576.8	2611.8	2649.7	2693.5	2744.3	2807.6	2876.9
Final purchases	2525.9	2571.9	2605.9	2654.8	2697.6	2745.9	2803.6	2868.9
Private	2010.7	2046.4	2070.5	2105.2	2137.3	2174.8	2221.7	2271.5
Excluding net exports	2024.6	2059.2	2080.0	2107.2	2132.5	2167.4	2214.6	2267.1
Personal consumption expenditures	1638.8	1678.7	1700.2	1721.7	1743.5	1772.5	1809.7	1850.2
Goods	882.3	900.2	901.7	903.2	905.7	914.2	930.7	949.7
Services	756.5	778.5	798.5	818.5	837.8	858.3	879.0	900.5
Gross private domestic investment	386.2	385.4	385.7	380.4	384.9	393.3	408.9	424.9
Residential construction	111.4	98.9	95.9	100.4	105.4	110.4	117.9	125.9
Business fixed investment	274.4	281.6	283.9	285.1	283.6	284.5	287.0	291.0
Change in business inventories	.4	4.9	5.9	-5.1	-4.1	-1.6	4.0	8.0
Nonfarm	.5	5.0	6.0	-5.0	-4.0	-1.5	4.1	8.1
Net exports of goods and services ^{1/}	-13.9	-12.8	-9.5	-2.0	4.8	7.4	7.1	4.4
Exports	294.0	304.9	312.4	318.8	326.3	334.7	343.6	352.4
Imports	307.9	317.8	321.9	320.8	321.5	327.3	336.5	348.0
Gov't. purchases of goods and services	515.2	525.5	535.4	549.6	560.3	571.1	581.9	597.4
Federal ^{2/}	185.8	189.6	192.7	200.3	204.7	209.1	213.2	221.9
State and local	329.4	335.9	342.7	349.3	355.6	362.0	368.7	375.5
Gross national product in constant (1972) dollars	1447.6	1441.8	1428.7	1415.0	1406.0	1403.2	1408.6	1414.9
Personal income	2055.9	2114.4	2166.3	2208.7	2241.8	2281.9	2339.8	2390.8
Wage and salary disbursements	1296.4	1320.3	1337.8	1357.6	1378.6	1400.7	1427.4	1459.5
Disposable personal income	1736.0	1781.2	1825.5	1860.1	1885.3	1917.1	1965.2	2004.5
Saving rate (percent)	3.1	3.2	4.3	4.8	4.9	4.9	5.2	5.0
Corporate profits with I.V.A. and C.C. Adj.	186.9	172.4	162.9	151.8	139.9	141.8	150.1	158.2
Corporate profits before tax	257.5	239.8	228.1	215.7	203.5	205.1	212.8	219.6
Federal government surplus or deficit (-) (N.I.A. basis)	-21.0	-21.9	-42.7	-51.4	-40.5	-38.0	-44.8	-42.3
High employment surplus or deficit (-)	4.4	14.2	12.3	23.1	55.4	69.6	68.9	76.9
State and local government surplus or deficit (-) (N.I.A. basis)	24.9	24.9	26.5	24.5	22.4	21.6	22.0	23.5
Excluding social insurance funds	-4.0	-4.6	-3.5	-6.1	-8.8	-10.2	-10.4	-9.5
Civilian labor force (millions)	104.3	104.8	105.3	105.6	106.0	106.3	106.5	106.8
Unemployment rate (percent)	6.1	6.4	7.0	7.5	8.0	8.3	8.4	8.5
Nonfarm payroll employment (millions)	90.7	90.7	90.4	90.0	89.7	89.6	89.6	89.8
Manufacturing	20.9	20.8	20.7	20.3	20.0	19.8	19.8	19.9
Industrial production (1967=100)	153.0	153.4	152.5	150.2	148.4	147.7	148.1	148.6
Capacity utilization: all mfg. (percent)	84.1	83.7	81.9	79.6	77.8	76.9	76.5	76.4
Materials (percent)	86.1	85.1	83.0	80.2	78.2	77.1	76.7	76.5
Housing starts, private (million units, A.R.)	1.25	1.00	1.05	1.15	1.20	1.25	1.35	1.40
New autos sales, (millions, A.R.)	10.80	9.80	9.55	9.40	9.25	9.30	9.45	9.65
Domestic models	7.90	7.00	6.80	6.70	6.60	6.70	6.80	6.90
Foreign models	2.90	2.80	2.75	2.70	2.65	2.60	2.65	2.75

^{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.

March 14, 1980

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

	1980				1981			
	Q1	Q2	Q3	Q4	Projected Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.9	-1.6	-3.6	-3.8	-2.5	-.8	1.6	1.8
Final purchases	2.6	-2.2	-3.7	-2.4	-2.6	-1.1	.8	1.3
Private	2.4	-2.8	-4.7	-3.0	-3.4	-1.6	.8	1.3
Excluding net exports	1.3	-3.3	-5.1	-4.1	-4.2	-1.9	.8	1.6
Personal consumption expenditures	2.2	-1.3	-4.3	-4.3	-3.9	-1.8	.6	1.2
Goods	2.6	-4.0	-8.7	-8.6	-7.8	-4.5	-.4	.4
Services	1.9	2.0	.9	.7	.3	1.1	1.7	1.9
Gross private domestic investment	-7.3	-8.5	-7.7	-13.0	-4.5	.0	7.4	7.5
Residential structures	-24.0	-43.3	-19.6	9.2	10.9	10.4	19.9	19.8
Business fixed investment	5.4	.9	-5.2	-6.6	-9.9	-6.2	-3.9	-1.8
Gov't. purchases of goods and services	3.2	.5	.2	.3	.5	.7	.8	1.1
Federal	10.7	2.7	.9	1.6	2.2	2.9	2.3	3.0
State and local	-0.9	-0.7	-0.1	-0.4	-0.5	-0.6	-0.1	-0.1
Disposable personal income	.8	-.6	.3	-1.9	-3.6	-1.7	2.2	.2
<u>Current dollars</u>								
Gross national product	11.3	8.2	5.6	5.9	6.8	7.8	9.5	10.2
Final purchases	12.5	7.5	5.4	7.7	6.6	7.4	8.7	9.7
Private	12.7	7.3	4.8	6.9	6.2	7.2	8.9	9.3
Excluding net exports	13.4	7.0	4.1	5.3	4.9	6.7	9.0	9.8
Personal consumption expenditures	15.4	10.1	5.2	5.2	5.2	6.8	8.7	9.3
Goods	17.7	8.4	.7	.7	1.1	3.8	7.4	8.4
Services	12.8	12.1	10.7	10.4	9.8	10.2	10.0	10.1
Gross private domestic investment	-1.3	-.8	.3	-5.4	4.8	9.0	16.8	16.6
Residential structures	-16.7	-37.9	-11.6	20.1	21.5	20.4	30.1	30.0
Business fixed investment	16.4	10.9	3.3	1.7	-2.1	1.3	3.6	5.7
Gov't. purchases of goods and services	11.7	8.2	7.8	11.0	8.0	7.9	7.8	11.1
Federal	17.7	8.4	6.7	16.7	9.1	8.9	8.1	17.3
State and local	8.4	8.1	8.3	7.9	7.4	7.4	7.6	7.6
Disposable personal income	13.7	10.8	10.3	7.8	5.5	6.9	10.4	8.2
Personal income	11.0	11.9	10.2	8.1	6.1	7.3	10.5	9.0
Wage and salary disbursements	8.4	7.6	5.4	6.1	6.3	6.6	7.8	9.3
Corporate profits with IVA & C.C. Adj.	6.9	-27.6	-20.3	-24.6	-27.9	5.5	25.6	23.4
Corporate profits before tax	11.1	-24.8	-18.2	-20.0	-20.8	3.2	15.8	13.5
Nonfarm payroll employment	2.4	.1	-1.1	-2.0	-1.1	-.8	.3	.7
Manufacturing	.5	-1.0	-3.5	-6.2	-6.3	-3.9	.8	2.0
Nonfarm business sector								
Output per hour	1.2	-1.6	-1.7	-1.5	-1.0	.2	1.6	1.5
Compensation per hour	10.0	9.2	8.9	8.6	11.9	8.6	8.7	8.6
Unit labor costs	8.7	11.0	10.8	10.3	13.0	8.4	7.0	7.0
GNP implicit deflator ^{1/}	9.2	10.0	9.5	10.1	9.5	8.6	7.9	8.3
Gross domestic business product								
fixed-weighted price index ^{2/}								
Excluding food and energy	8.0	8.2	8.3	8.3	8.1	7.6	7.1	7.0
Consumer price index (all urban)	16.9	14.3	12.0	8.8	8.2	9.3	8.1	8.7
Industrial production	2.1	1.0	-2.3	-5.9	-4.7	-1.9	1.1	1.4

^{1/} Excluding Federal pay increases, the rates of change are: 1980-Q1, 9.2 percent; 1980-Q4, 9.4 percent; 1981-Q1, 9.5 percent; 1981-Q4, 7.7 percent.

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

March 14, 1980

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.)

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2011.3	2104.2	2159.6	2235.2	2292.1	2329.8	2396.5	2459.4
Final purchases	1988.5	2078.4	2139.5	2214.5	2272.9	2296.4	2381.9	2452.7
Private	1569.1	1650.1	1698.6	1760.7	1812.8	1829.8	1904.1	1951.5
Excluding net exports	1591.3	1657.7	1705.4	1765.2	1808.8	1837.9	1906.4	1962.0
Personal consumption expenditures	1287.2	1331.2	1369.3	1415.4	1454.2	1475.9	1528.6	1581.2
Goods	691.2	722.1	740.2	770.2	784.9	789.9	818.1	847.1
Services	596.0	609.1	629.1	645.1	669.3	686.0	710.6	734.1
Gross private domestic investment	327.0	352.3	356.2	370.5	373.8	395.4	392.3	387.5
Residential construction	100.5	107.7	110.2	113.7	111.2	112.9	116.0	116.6
Business fixed investment	203.7	218.8	225.9	236.1	243.4	249.1	261.8	264.2
Change in business inventories	22.8	25.8	20.0	20.6	19.1	33.4	14.5	6.7
Nonfarm	22.0	25.3	18.5	19.3	18.8	32.6	12.6	3.2
Net exports of goods and services ^{1/}	-22.2	-7.6	-6.8	-4.5	4.0	-8.1	-2.3	-10.5
Exports	184.4	205.7	213.8	224.9	238.5	243.7	267.3	281.8
Imports	206.6	213.3	220.6	229.4	234.4	251.9	269.5	292.3
Gov't. purchases of goods and services	419.4	428.3	440.9	453.8	460.1	466.6	477.8	501.2
Federal ^{2/}	150.9	148.2	152.3	159.0	163.6	161.7	162.9	178.4
State and local	268.5	280.1	288.6	294.8	296.5	304.9	314.9	322.8
Gross national product in constant (1972) dollar	1367.8	1395.2	1407.3	1426.6	1430.6	1422.3	1433.3	1440.7
Personal income	1634.8	1689.3	1742.5	1803.1	1852.6	1892.5	1946.6	2003.1
Wage and salary disbursements	1052.0	1090.0	1116.8	1154.3	1189.3	1212.4	1238.1	1270.4
Disposable personal income	1395.0	1437.3	1476.5	1524.8	1572.2	1601.7	1640.0	1681.0
Saving rate (percent)	5.3	5.0	4.8	4.7	5.0	5.4	4.3	3.4
Corporate profits with I.V.A. and C.C. Adj.	141.2	169.4	175.2	184.8	178.9	176.6	180.8	183.8
Corporate profits before tax	177.5	207.2	212.0	227.4	233.3	227.9	242.3	250.8
Federal government surplus or deficit (-) (N.I.A. basis)	-49.4	-24.6	-20.4	-16.3	-11.7	-7.0	-11.3	-13.1
High employment surplus or deficit (-)	-24.9	-8.0	-6.8	-6.6	-9	13.8	10.8	9.5
State and local government surplus or deficit (-) (N.I.A. basis)	30.2	29.6	22.7	27.1	27.6	19.7	25.3	27.0
Excluding social insurance funds	7.9	6.5	-9	3.3	2.6	-6.3	-1.8	-1.3
Civilian labor force (millions)	99.1	100.2	100.8	101.5	102.3	102.4	103.2	103.7
Unemployment rate (percent)	6.2	6.0	6.0	5.8	5.7	5.8	5.8	5.9
Nonfarm payroll employment (millions)	84.8	86.3	86.9	87.8	88.7	89.4	89.8	90.1
Manufacturing	20.2	20.4	20.5	20.8	21.0	21.1	21.0	20.9
Industrial production (1967=100)	140.8	145.1	147.9	150.7	152.2	151.9	152.3	152.2
Capacity utilization: all mfg. (percent)	82.0	83.9	85.2	86.4	86.7	85.9	85.4	84.6
Materials (percent)	82.6	85.0	86.4	88.2	88.0	87.3	87.2	86.3
Housing starts, private (million units, A.R.)	1.86	2.10	2.03	2.06	1.67	1.82	1.81	1.58
New autos sales, (millions, A.R.)	10.80	12.09	11.16	11.06	11.56	10.65	10.79	9.80
Domestic models	8.80	10.01	9.21	9.14	9.30	8.16	8.63	7.43
Foreign models	2.00	2.09	1.96	1.92	2.25	2.49	2.16	2.37

^{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.

March 14, 1980

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

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.9	8.3	3.5	5.6	1.1	-2.3	3.1	2.1
Final purchases	.4	8.7	4.6	5.7	1.1	-3.9	6.4	3.4
Private	.8	10.7	4.4	6.7	1.8	-4.1	7.8	2.9
Excluding net exports	1.0	7.9	4.1	6.9	.4	-2.9	5.3	3.0
Personal consumption expenditures	.8	5.6	4.8	6.8	.6	-2.9	4.9	4.4
Goods	-4.7	9.2	4.2	9.9	-4.4	-7.3	6.0	4.9
Services	7.9	1.4	5.5	3.2	7.1	2.5	3.6	3.7
Gross private domestic investment	12.3	15.7	-5.0	6.6	-.5	8.5	-12.8	-10.9
Residential structures	-4.7	11.0	-4.9	-1.1	-14.3	-7.2	-1.5	-4.2
Business fixed investment	4.6	23.2	3.9	11.3	4.8	-.8	10.7	-2.3
Gov't. purchases of goods and services	-1.2	.9	5.0	1.8	-1.8	-3.3	1.0	5.7
Federal	-7.4	-12.3	8.2	3.2	7.2	-11.3	-2.6	14.9
State and local	2.7	9.3	3.3	1.0	-6.6	1.6	3.1	.8
Disposable personal income	2.0	4.0	4.2	6.4	2.1	-1.4	.2	.6
<u>Current dollars</u>								
Gross national product	8.4	19.8	10.9	14.8	10.6	6.7	11.9	10.9
Final purchases	7.5	19.3	12.3	14.8	11.0	4.2	15.8	12.4
Private	7.7	22.3	12.3	15.4	12.4	3.8	17.3	10.3
Excluding net exports	8.8	17.8	12.0	14.8	10.3	6.6	15.8	12.2
Personal consumption expenditures	9.0	14.4	11.9	14.2	11.4	6.1	15.0	14.5
Goods	3.3	19.1	10.4	17.2	7.9	2.6	15.1	15.0
Services	16.1	9.1	13.8	10.6	15.8	10.4	15.1	13.9
Gross private domestic investment	13.3	34.8	4.5	17.1	3.6	25.2	-3.0	-4.8
Residential structures	2.4	32.0	9.5	13.5	-8.5	6.1	11.7	1.8
Business fixed investment	10.6	33.3	13.7	19.3	12.9	9.6	22.0	3.8
Gov't. purchases of goods and services	6.5	8.8	12.3	12.2	5.6	5.8	10.0	21.1
Federal	-.9	-7.0	11.7	18.7	12.1	-4.6	3.1	43.8
State and local	11.1	18.5	12.6	8.9	2.3	11.9	13.8	10.4
Disposable personal income	10.3	12.7	11.4	13.8	13.0	7.7	9.9	10.4
Personal income	10.0	14.0	13.2	14.7	11.4	8.9	11.9	12.1
Wage and salary disbursements	11.7	15.3	10.2	14.1	12.7	8.0	8.8	10.9
Corporate profits with IVA & C.C. Adj.	-27.5	107.2	14.4	23.8	-12.2	-5.0	9.9	6.8
Corporate profits before tax	-11.5	85.7	9.6	32.4	10.8	-8.9	27.8	14.8
Nonfarm payroll employment	4.6	7.1	2.8	4.4	4.3	2.9	1.8	1.6
Manufacturing	5.8	3.8	1.3	5.5	5.0	.8	-1.3	-2.3
Nonfarm business sector								
Output per hour	-.9	1.9	2.7	.8	-3.2	-4.1	-1.4	.5
Compensation per hour	11.4	7.5	8.8	8.8	10.4	7.9	8.5	9.2
Unit labor costs	12.4	5.4	6.0	8.0	14.0	12.5	10.1	8.6
GNP implicit deflator ^{1/}	6.3	10.6	7.2	8.7	9.3	9.3	8.5	8.7
Gross domestic business product								
fixed-weighted price index ^{2/}								
Excluding food and energy	6.6	10.5	8.8	8.7	10.0	10.1	10.4	8.9
Consumer price index (all urban)	7.8	10.2	8.8	9.1	11.1	13.6	12.9	13.2
Industrial production	1.4	12.8	7.9	7.8	4.0	-.8	1.1	-.3

^{1/} Excluding Federal pay increases, rates of change were: 1978-Q1, 6.3 percent; 1978-Q4, 8.1 percent; 1979-Q1, 9.3 percent; 1979-Q4, 8.0 percent.

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

March 14, 1980

CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and Income figures are billions of current dollars.)

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
Gross national product	1412.9	1528.8	1702.2	1899.5	2127.6	2369.4	2591.2	2780.6
Final purchases	1404.0	1539.6	1692.1	1877.6	2105.2	2351.0	2589.6	2779.0
Private	1101.3	1201.2	1330.8	1481.4	1669.6	1874.6	2058.2	2201.3
Excluding net exports	1095.3	1180.8	1322.8	1491.3	1679.9	1878.8	2067.7	2195.4
Personal consumption expenditures	889.6	979.1	1089.9	1210.0	1350.8	1510.0	1684.8	1794.0
Goods	498.3	541.5	601.3	660.1	730.9	810.0	896.8	925.1
Services	391.3	437.5	488.5	549.8	619.8	700.0	788.0	868.9
Gross private domestic investment	214.6	190.9	243.0	303.3	351.5	387.2	384.4	403.0
Residential construction	55.1	51.5	68.1	91.9	108.0	114.2	101.6	114.9
Business fixed investment	150.6	150.2	164.9	189.4	221.1	254.6	281.2	286.5
Change in business inventories	8.9	-10.7	10.0	21.9	22.3	18.5	1.5	1.6
Nonfarm	10.8	-14.3	12.1	20.7	21.3	16.8	1.6	1.7
Net exports of goods and services ^{1/}	6.0	20.4	8.0	-9.9	-10.3	-4.2	-9.5	5.9
Exports	137.9	147.3	163.3	175.9	207.2	257.8	307.6	339.2
Imports	131.9	126.9	155.4	185.8	217.5	262.0	317.1	333.3
Gov't. purchases of goods and services	302.7	338.4	361.3	396.2	435.6	476.4	531.4	577.7
Federal ^{2/}	111.1	123.1	129.7	144.4	152.6	166.6	192.1	212.2
State and local	191.5	215.4	231.6	251.8	283.0	309.8	339.3	365.4
Gross national product in constant (1972) dollars	1217.8	1202.3	1273.0	1340.5	1399.2	1431.7	1433.3	1408.2
Personal income	1154.9	1255.5	1381.6	1531.6	1717.4	1923.7	2136.3	2313.6
Wage and salary disbursements	764.6	805.9	890.0	984.0	1103.3	1227.6	1328.0	1416.5
Disposable personal income	984.6	1086.7	1184.5	1305.1	1458.4	1623.7	1800.7	1943.0
Saving rate (percent)	7.3	7.7	5.8	5.0	4.9	4.5	3.9	5.0
Corporate profits with I.V.A. and C.C. Adj.	83.6	95.9	126.8	150.0	167.7	178.7	168.5	147.5
Corporate profits before tax	126.9	120.4	156.0	177.1	206.0	237.3	235.3	210.2
Federal government surplus or deficit (N.I.A. basis)	-10.7	-70.6	-53.6	-46.3	-27.7	-11.0	-34.2	-41.4
High employment surplus or deficit (-)	9.0	-19.2	-14.3	-19.3	-11.5	8.3	13.5	67.7
State and local government surplus or deficit (-) (N.I.A. basis)	7.6	6.2	17.9	26.8	27.4	24.8	25.2	22.4
Excluding social insurance funds	-2.9	-6.2	2.3	7.3	4.2	-1.8	-4.5	-9.7
Civilian labor force (millions)	91.0	92.6	94.8	97.4	100.4	102.9	105.0	106.4
Unemployment rate (percent)	5.6	8.5	7.7	7.0	6.0	5.8	6.8	8.3
Nonfarm payroll employment (millions)	78.3	77.0	79.4	82.4	86.4	89.5	90.4	89.7
Manufacturing	20.1	18.3	19.0	19.7	20.5	21.0	20.7	19.9
Industrial production (1967=100)	129.3	117.8	130.5	138.2	146.1	152.2	152.3	148.2
Capacity utilization: all manufacturing (percent)	83.8	72.9	79.5	81.9	84.4	85.7	82.3	76.9
Materials (percent)	87.1	73.4	81.1	82.7	85.6	87.2	83.6	77.1
Housing starts, private (million units, A.R.)	1.34	1.16	1.54	1.99	2.02	1.74	1.11	1.30
New auto sales, (millions, A.R.)	8.91	3.66	10.12	11.13	11.28	10.70	9.89	9.41
Domestic models	7.49	7.08	8.63	9.07	9.29	8.38	7.10	6.75
Foreign models	1.42	1.58	1.50	2.06	1.99	2.32	2.79	2.66

^{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.

March 14, 1980

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

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
<u>Constant (1972) dollars</u>								
Gross national product	-1.4	-1.3	5.9	5.3	4.4	2.3	.1	-1.8
Final purchases	-.7	.2	4.5	4.8	4.4	2.6	.8	-1.8
Private	-1.4	-.3	5.6	5.6	5.0	3.2	.5	-2.3
Excluding net exports	-2.3	-1.0	6.5	6.2	5.0	2.6	-.2	-2.9
Personal consumption expenditures	-.9	1.8	5.9	5.0	4.5	2.6	.7	-2.6
Goods	-3.4	.7	6.9	5.1	4.1	1.3	-.6	-5.8
Services	2.3	3.2	4.8	4.9	5.1	4.3	2.3	1.0
Gross private domestic investment	-11.4	-22.3	21.6	15.4	7.1	.5	-8.4	-3.9
Residential structures	-24.6	-13.9	23.3	20.7	4.2	-5.7	-18.7	3.1
Business fixed investment	-.3	-13.0	4.8	8.6	8.4	6.1	1.2	-6.1
Gov't. purchases of goods and services	2.1	1.9	.2	2.0	1.8	.4	1.9	.6
Federal	-.8	.7	-.2	4.4	-2.0	.8	4.8	2.2
State and local	3.8	2.6	.5	.6	4.0	.2	.2	-.4
Disposable personal income	-1.5	2.1	3.7	4.2	4.6	2.3	.0	-1.3
<u>Current dollars</u>								
Gross national product	8.1	8.2	11.3	11.6	12.0	11.4	9.4	7.3
Final purchases	8.9	9.7	9.9	11.0	12.1	11.7	10.1	7.3
Private	8.1	9.1	10.8	11.3	12.7	12.3	9.8	7.0
Excluding net exports	8.2	7.8	12.0	12.7	12.6	11.8	10.1	6.2
Personal consumption expenditures	9.8	10.1	11.3	11.0	11.6	11.8	11.6	6.5
Goods	8.9	8.7	11.0	9.8	10.7	10.8	10.7	3.1
Services	11.1	11.8	11.7	12.5	12.7	12.9	12.6	10.3
Gross private domestic investment	-2.5	-11.0	27.3	24.8	15.9	10.2	-.7	4.8
Residential structures	-16.7	-6.5	32.3	35.0	17.5	5.7	-11.0	13.0
Business fixed investment	10.8	-.3	9.8	14.9	16.7	15.1	10.4	1.9
Gov't. purchases of goods and services	12.3	11.8	6.8	9.7	9.9	9.4	11.5	8.7
Federal	8.7	10.7	5.4	11.3	5.7	9.2	15.3	10.5
State and local	14.5	12.5	7.5	8.7	12.4	9.5	9.5	7.7
Disposable personal income	9.2	10.4	9.0	10.2	11.7	11.3	10.9	7.9
Personal income	9.7	8.7	10.0	10.9	12.1	12.0	11.1	8.3
Wage and salary disbursements	9.0	5.4	10.4	10.6	12.1	11.3	8.2	6.7
Corporate profits with IVA & C.C. Adj.	-15.6	14.7	32.2	18.3	11.8	6.6	-5.7	-12.5
Corporate profits before tax	9.6	-5.1	29.6	13.5	16.3	15.2	-.8	-10.6
Nonfarm payroll employment	2.0	-1.7	3.1	3.8	4.9	3.5	1.1	-.8
Manufacturing	-.4	-8.7	3.7	3.6	4.0	2.5	-1.4	-3.8
Nonfarm business sector								
Output per hour	-2.9	1.9	3.5	1.8	.5	-1.1	-.7	-.5
Compensation per hour	9.4	9.9	8.3	8.0	8.6	8.9	9.1	9.5
Unit labor costs	12.7	7.8	4.7	6.3	8.0	10.2	9.9	10.1
GNP implicit deflator	9.7	9.6	5.2	6.0	7.3	8.8	9.3	9.2
Gross domestic business product								
fixed-weighted price index ^{1/}	10.4	9.4	5.3	6.2	7.6	9.6	10.2	9.2
Excluding food and energy	8.1	9.5	5.8	6.3	7.2	8.2	7.9	7.9
Consumer price index (all urban)	11.0	9.1	5.8	6.5	7.7	11.3	14.0	9.4
Industrial production	-.4	-8.9	10.8	5.9	5.7	4.2	.1	-2.7

^{1/} Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

March 14, 1980

	Fiscal Year 1979*	FY 1980 e/2/		FY 1981 e/		CY 1979*	CY80e/ F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data						1981		
								1979			1980			1981		
		III*	IV*	I	II			III	IV	I	II	III				
Unified budget receipts	465.9	523.8	526.6	600.0	590.6	480.5	542.3	119.9	114.0	116.2	155.8	140.5	129.8	131.0	173.5	156.3
Unified budget outlays	493.7	563.6	566.0	615.8	629.5	508.7	581.1	124.4	138.6	140.6	141.9	144.8	153.8	154.3	158.3	163.1
Surplus(+)/deficit(-), unified budget	-27.7	-39.8	-39.4	-15.8	-38.9	-28.2	-38.8	-4.5	-24.6	-24.4	13.9	-4.3	-24.0	-23.3	15.2	-6.8
Surplus(+)/deficit(-), off-budget agencies 3/	-12.4	-16.8	-17.0	-18.1	-19.5	-13.2	-17.2	-4.1	-1.0	-3.9	-7.0	-5.1	-1.2	-6.8	-6.5	-5.0
Combined deficit to be financed	-40.2	-56.5	-56.4	-33.9	-58.4	-41.4	-56.0	-8.6	-25.6	-28.3	6.9	-9.4	-25.2	-30.1	8.7	-11.8
Means of financing combined deficits:																
Net borrowing from public	33.7	44.3	43.2	33.1	56.9	37.3	51.5	12.4	18.9	15.1	1.8	7.4	27.2	27.1	-6.7	9.3
Decrease in cash operating balance	-1.8	9.2	9.2	0.0	0.0	0.4	0.9	-6.7	8.3	7.6	-6.7	0.0	0.0	0.0	0.0	0.0
Other 4/	8.3	3.0	3.9	0.8	1.5	3.5	3.6	2.9	-1.7	5.6	-2.0	2.0	-2.0	3.0	-2.0	2.5
Cash operating balance, end of period	24.2	15.0	15.0	15.0	15.0	15.9	15.0	24.2	15.9	8.3	15.0	15.0	15.0	15.0	15.0	15.0
Memo: Sponsored agency borrowing 5/	19.1	16.2	26.4	16.7	15.0	25.5	22.9	4.8	7.5	5.8	7.1	6.0	4.0	3.0	4.0	4.0
NIA Budget								Seasonally adjusted annual rates								
Receipts 6/	483.7	530.6	538.7	607.7	594.8	497.8	553.1	504.8	526.0	534.9	550.0	559.2	568.1	592.1	604.4	620.9
Expenditures 6/	493.6	564.2	567.5	626.3	640.0	508.7	587.3	516.1	539.2	555.9	571.9	601.9	619.5	632.6	642.4	665.7
Purchases (Total)	162.4	185.6	186.6	202.9	206.8	166.6	192.1	162.9	178.4	185.8	189.6	192.7	200.3	204.7	209.1	213.2
Defense	105.9	118.7	119.6	132.1	135.3	108.3	123.6	109.0	114.6	117.9	121.2	124.6	130.7	133.7	136.9	139.9
Nondefense	56.5	66.9	67.0	70.8	71.5	58.4	68.5	53.9	63.8	67.9	68.4	68.1	69.6	71.0	72.2	73.3
All other expenditures	331.2	378.6	380.9	423.4	433.2	342.1	395.2	353.2	360.8	370.1	382.3	409.2	419.2	427.9	433.3	452.5
Surplus(+)/deficit(-) 6/	-9.9	-33.6	-28.8	-18.6	-45.2	-11.0	-34.2	-11.3	-13.1	-21.0	-21.9	-42.7	-51.4	-40.5	-38.0	-44.8
High Employment Surplus(+)/ Deficit(-) (NIA basis)	4.3	n.a.	10.1	n.a.	54.2	8.3	13.5	10.8	9.5	4.4	14.2	12.3	23.1	55.4	69.6	68.9
		*--actual		e--estimated				n.a.--not available								

1. The Budget of the United States Government, Fiscal Year 1981, January 1980.

2. In the Second Concurrent Resolution on the Budget, Fiscal Year 1980, (November 28, 1979), the Congress approved receipts of \$517.8 billion and outlays of \$547.6 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. FRB staff estimates include Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives marketable debt on an offerings basis.

6. The fiscal year totals as published by the BEA "Fiscal Year 1981 Budget Translation," January 1980, 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 the staff estimates comparable.

Summary

Credit market conditions have tightened dramatically since the last FOMC meeting. On balance, short-term interest rates have risen 3 to 4 percentage points, and long-term yields have extended the increases begun in early January by another 1/2 to 1-1/2 percentage points. Upward pressure, especially on short-term rates, arose in part from accelerated growth in the monetary aggregates and a one percentage point increase in the discount rate in mid-February. In addition, inflationary expectations apparently soared in light of large reported price increases, as well as indications of continued expansion in the economy and prospects of larger Treasury deficits associated with higher defense spending.

Equity prices were initially resistant to declines in bond values, as shares of oil companies and other firms with large holdings of natural resources led the broad stock price indexes to record levels. In the past three weeks, however, stock prices have dropped sharply, responding to further rises in short-term rates and increasing uncertainty about future economic policy actions.

During the intermeeting period, heightened market uncertainty was indicated by a substantial increase in intra-day and day-to-day interest rate movements and a widening in both bid-asked spreads and risk premia. In Treasury securities markets, however, trading volume has been generally well maintained, although in the coupon area trading was occasionally thin. In Treasury futures markets, price limits sharply curtailed trading for a brief period in mid-February, but volume quickly returned to normal.

Mortgage and consumer credit markets also have tightened appreciably in the past month. Average interest rates on new commitments for conventional home mortgages at S&Ls jumped more than a full percentage point between mid-February and early March and have continued to rise since then. S&Ls also tightened nonrate lending terms last month, in the face of a second month of net outflows of small time and savings deposits and the unprofitability, at least in short run, of financing new mortgage loans with borrowed funds. Lending commitments outstanding at S&Ls declined in January for the fourth consecutive month, while net mortgage lending during January remained very low. Real estate lending at commercial banks--an increased portion of which likely has been for short-term construction loans, particularly on commercial properties--has moderated slightly this year. Moreover, the interest cost to home builders of financing unsold completed new homes and residential construction work in progress has climbed dramatically.

In consumer credit markets, lenders have hiked finance rates where allowed under state statutory rate ceilings. Especially where these ceilings have become binding, moreover, creditors have reportedly tightened nonrate terms on both closed-end and revolving credit agreements. Consumer installment credit grew at only a 5-1/4 percent annual pace in December and January, and data for weekly reporting banks suggest a further moderation in February.

Nonfinancial businesses--deterred from long-term bond financing by record high yields--cancelled or postponed a number of scheduled bond issues, restructured offerings toward shorter maturities, and placed continued heavy demands on short- and intermediate-term markets, especially

at commercial banks. More recently, rumors of impending credit controls reportedly led to a jump in bank loan commitments in late February and early March, while the prime rate reached 18-1/2 percent at some banks by mid-March.

Financings of some states and localities also were cancelled or postponed in response to higher borrowing costs, with statutory interest rate ceilings acting as a constraint in certain cases. Municipal borrowing--at less than \$5 billion last month--again fell short of the 1979 pace, even though offerings of mortgage-related issues remained heavy. The Treasury raised nearly \$5 billion in new money through sales of marketable debt in February, as nonmarketable debt was reduced mainly by redemptions of savings bonds and of special issues to foreign official institutions.

Outlook

The future course of market interest rates is clouded by uncertainty regarding the impact of the government's forthcoming anti-inflation program. Its announcement effects, especially on long-term rates, will depend on its perceived overall stringency relative to market expectations, while the impact on particular markets will reflect the specific features of the package. The program will be superimposed on credit conditions that in its absence probably would have been taut during the coming months, given the FOMC's long-run money targets, with market interest rates likely staying around current levels.

The staff's GNP projections indicate that, in the next several months, nonfinancial corporations will face a wider financing gap between outlays and internally generated funds. Business demands for shorter-term

credit at commercial banks and in the commercial paper market hence are likely to remain sizable. Even if household demands for mortgage and consumer credit at commercial banks moderate further, overall bank loan growth could continue large, although probably somewhat below the very strong January-February pace. Thus, bank managed liabilities would expand further, and the existing marginal reserve requirements may well become binding on an increasing number of covered institutions, raising their costs of funds and further reducing their willingness to lend.

The availability of mortgage loans at thrift institutions, too, is likely to remain limited, in light of meager inflows of small denomination deposits and the high cost of managed liabilities. Mortgage rates at S&Ls may rise somewhat further, widening the currently relatively narrow spread over bond rates and leading to diminishing growth of mortgage credit.

The Treasury is projected to issue \$14 to \$15 billion of new debt, mainly cash management bills, prior to the mid-April tax date, but subsequently pay down a larger amount in late April. Its borrowing likely will be seasonally light in the second quarter overall, with no need to raise new money on balance. Municipal borrowing is expected to rebound somewhat from the reduced pace of January and February. Tax-exempt rates may be under some further upward pressure over this period, as demands by commercial banks and casualty insurance companies are likely to moderate.

Summary. The dollar has been in strong demand in foreign exchange markets since mid-February,

. Sharply rising interest rates in the United States were the dominant factor in the market, together with evidence of high inflation rates and current account deficits in a number of major foreign industrial countries. Since the low point in early January the weighted-average value of the dollar has risen over 5 per cent, to about the level reached in late October.

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Selling pressure against the Japanese yen developed early in the year, and the yen had depreciated by nearly 10 per cent against the dollar by the end of February. At the beginning of March, Japanese authorities announced new measures to support the yen,

; the System has purchased \$130 million equivalent of yen to add to System balances.

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High and rising inflation rates were being experienced in nearly all foreign industrial countries in late 1979 and early 1980, and in most countries deficits on current account were also rising. Higher

costs of imported oil were a major factor in both developments, though the price inflation ranged across most goods and services. A number of countries reacted to these developments, and the pressure on their **exchange** rates, by tightening monetary conditions. Discount rate increases in February occurred in Germany, Japan, Belgium, Denmark, and Switzerland; France took other steps to tighten monetary conditions, and Japan also raised reserve requirements. On March 11 the Bank of Canada announced that it would allow its discount rate to float with movements in the Canadian Treasury bill rate.

The pace of economic activity abroad appeared to be holding up fairly well at the turn of the year, though experience was mixed. Economic activity in Japan still seems to be vigorous, led by exports; activity in Germany is well maintained; and production in Italy is holding at a relatively high level. However, activity has weakened in Canada and the United Kingdom.

Financing in international capital markets slowed considerably late in 1979 and was at a greatly reduced rate in January - February this year. Under the pressure of higher interest rates and greater economic and political uncertainties, gross lending through international bond issues and Eurocredits in early 1980 was down about one third from the 1979 rate, with new credits to non-OPEC developing countries down especially sharply, spreads on credits tending to rise slightly, and maturities shortening.

The U.S. trade deficit in January was at an annual rate of \$54 billion (international accounts basis). The value of petroleum imports was down from the December rate, despite a further increase in price

to \$26.18 per barrel, but other imports rose very sharply, reflecting strong demand for capital and consumer goods. Exports rose, but at a slower rate, with agricultural exports down somewhat from the high fourth-quarter rate. Capital flows reported by banks were strongly inward in January, partly reversing outflows in December largely related to year-end positioning. Other capital flows include further increases in Eurodollar CD holdings of U.S. money market mutual funds and unit investment trusts in January and February.

The behavior of exchange markets and the heavy intervention by foreign authorities to support their exchange rates suggest that there have been very large capital flows to the United States through non-bank channels. Official foreign assets in the United States fell by \$3.7 billion in January, including some decline in OPEC holdings. Sharper declines in U.S. assets of G-10 countries occurred as intervention sales rose in February and early March, but OPEC assets rose somewhat in February.

Outlook. Since the last Greenbook the projection of the U.S. trade deficit has been raised considerably, to \$42 billion in 1980 and \$29 billion in 1981. The current account deficit is now projected at about \$13 billion in 1980, moving into a small surplus early in 1981. Most of the change from the earlier projection reflects the changed profile of U.S. demand, together with somewhat higher projected oil prices and larger net interest payments to foreigners. There was little change in the outlook for economic activity abroad but projected inflation rates were raised. Though the U.S. trade and current account deficits are expected to rise in the first half of the year, other

industrial countries are also expected to have sizable deficits as the OPEC surplus expands. Given this picture of generalized deficits, and the expectations of continued firmness in U.S. monetary policy, the weighted value of the U.S. dollar is not expected to vary significantly over the projection period from about its recent level.

	1979 ANN.	1980 ANN. ^f	1981 ANN. ^f	1980 Q I ^f	1980 Q II ^f	1980 Q III ^f	1980 Q IV ^f	1981 Q I ^f	1981 Q II ^f	1981 Q III ^f	1981 Q IV ^f
1. GNP NET EXPORTS											
CURRENT \$, NET	-4.2	-9.5	5.9	-13.9	-12.8	-9.5	-2.0	4.8	7.4	7.1	4.4
EXPORTS OF G&S	257.8	307.6	339.2	294.0	305.0	312.4	318.8	326.3	334.7	343.6	352.4
IMPORTS OF G&S	262.0	317.1	333.3	307.9	317.8	321.9	320.8	321.5	327.3	336.5	348.0
CONSTANT 72 \$, NET	17.5	25.4	30.9	23.3	24.5	25.4	28.3	30.3	31.1	31.3	30.7
EXPORTS OF G&S	120.0	125.8	127.2	125.2	126.1	125.9	125.9	126.1	126.8	127.6	128.2
IMPORTS OF G&S	102.5	100.4	96.3	102.0	101.6	100.5	97.7	95.8	95.6	96.3	97.5
TERMS OF TRADE (1972=100) 1/	84.0	77.4	77.1	77.8	77.3	77.5	77.1	77.1	77.2	77.1	77.0
2. U.S. MERCHANDISE TRADE BALANCE 2/											
EXPORTS (EXCL. MILITARY)	182.4	213.5	236.4	204.5	211.8	216.1	221.7	227.3	233.0	239.4	245.9
AGRICULTURAL	35.4	38.2	42.2	38.3	38.3	37.5	38.6	40.5	41.6	42.8	44.1
NONAGRICULTURAL	147.1	175.4	194.2	166.2	173.6	178.6	183.1	186.9	191.4	196.6	201.8
IMPORTS	211.6	255.8	265.3	252.5	256.1	258.1	256.7	256.2	260.1	267.6	277.4
PETROLEUM AND PRODUCTS	60.0	88.9	95.3	85.1	89.4	90.7	90.5	91.6	93.3	96.4	99.9
NONPETROLEUM	151.5	166.9	170.0	167.4	166.7	167.4	166.2	164.6	166.8	171.2	177.5
3. U.S. CURRENT ACCOUNT BALANCE											
OF WHICH: NET INVESTMENT INCOME	-0.4	-13.1	3.9	-19.6	-15.8	-12.7	-4.3	2.7	5.4	5.0	2.3
	31.3	31.1	34.5	30.5	30.5	31.2	32.3	33.2	34.1	34.9	35.8
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	3.6	1.8	1.8	0.9	0.5	0.7	0.9	2.1	2.5	3.0	3.2
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	7.8	10.7	8.0	12.8	10.4	8.7	8.3	8.0	7.6	7.1	7.0

1/ GNP EXPORT IMPLICIT DEFLATOR DIVIDED BY GNP IMPORT IMPLICIT DEFLATOR.

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- 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.

f/ PROJECTED.