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December 16, 1981

# **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee

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

## DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. A widespread contraction in economic activity is under way. Industrial production declined sharply in November, more than in either of the preceding two months, and a large number of layoffs again pushed up the unemployment rate. Consumer spending remained weak in November, business firms reduced appreciably their fixed investment outlays in October, and activity in the housing sector eroded further.

Households continue to be cautious about increasing their discretionary spending in an environment of slow income growth, high interest rates, and rising unemployment. Over the past three months outlays for all types of consumer goods have been sluggish; the personal saving rate has risen sharply. Domestic auto sales were very low in November and early December--only a bit more than 5 million, annual rate--despite the continuation of some purchase incentive programs. Retail sales in November, excluding autos, gasoline, and nonconsumption items, were little changed in nominal terms for a third month.

In the housing sector, sales remained depressed through October. Starts edged down further, with the additional weakness occurring in the construction of single-family homes. Mortgage commitment rates have eased since the last FOMC meeting, but remain at extremely high levels.

Business spending for capital equipment dropped significantly in October. Shipments of nondefense capital goods were down 3-1/2 percent in nominal terms, and sales of heavy-weight trucks fell sharply. Although the recent Commerce Department Survey reported that business firms plan to increase capital spending in real terms during the first half of 1982, such plans, in the past, have tended to be far too optimistic when real

GNP is declining. Indeed, with orders for nondefense capital goods plunging in October for a second month, the near-term outlook for capital spending appears quite weak.

Industrial production fell 2.1 percent in November--the third consecutive sizable monthly drop. Since September, reductions in output have been widespread among products and materials. By October these sharp production cutbacks had begun to reduce the rate of inventory accumulation in the manufacturing sector, but trade stocks continued to grow rapidly. As a result, the book value of total manufacturing and trade inventories rose at a \$58 billion annual rate in October, down only slightly from the preceding two months.

In the labor market, layoffs continue to mount. The unemployment rate reached 8.4 percent in November, and new claims for unemployment insurance remained at a high rate in early December. Except for services, all major private-sector industries reduced employment in November, lowering payroll employment to 1/2 million below its September peak.

Prices, on average, continued to rise at more moderate rates in October and November than over the first three quarters of the year. This has occurred in the absence of any significant easing in the rate of increase in prices of services; the rise in prices of producer finished goods excluding food and energy in November was large. But in recent months the rate of increase in food prices slowed again, the CPI home price index turned down, and lower rates of increase for many retail consumer items were sustained.

Outlook. The staff now estimates that real GNP will decline at a 5-1/2 percent annual rate in the current quarter. The outlook for inflation in the fourth quarter has improved, and the rate of increase projected for the gross domestic business product fixed-weight price index is 7-3/4 percent at an annual rate.

The most significant change in the estimate of current-quarter final sales is a much sharper cutback in business outlays for capital goods. In addition, consumer spending for goods is projected to be a bit weaker than shown in the last Greenbook, with domestic auto sales anticipated to average just 5.3 million units per year--the poorest quarter in 20 years. The personal saving rate is projected to jump to 6.1 percent, about the same as during the recession in the second quarter of 1980. The larger declines in spending this quarter are expected to be reflected in a steep drop in industrial production and extensive worker layoffs, which are anticipated to push the unemployment rate close to 9 percent by early 1982.

The fiscal and monetary policy assumptions underlying the projection are little changed from six weeks ago. M1-B is assumed to grow at about a 4 percent rate over the four quarters of 1982. Short-term interest rates are expected to rise moderately as the economy recovers, with the tendency for bond yields to do the same being tempered by evidence of continuing progress in slowing inflation. In regard to fiscal developments, the staff now expects that the deficit for FY1982 will be \$108 billion.

The decline in real activity is projected to extend into the first quarter of 1982, with real GNP falling another 2-1/4 percent at an annual rate. The deeper cyclical decline is followed by a recovery that is projected to be a bit more robust than in last month's Greenbook, but it is still weak by historical standards. For the year as a whole, economic activity will be restrained by financial conditions, which have their greatest impact on the investment sectors. A slight uptrend in homebuilding is projected over the year, but housing starts reach only 1-1/4 million units, annual rate, in the second half. Business fixed investment spending is anticipated to decline through most of the year. Weak export demand also is expected to be a drag on overall growth during 1982. Growth in consumer expenditures is projected to be relatively sluggish in real terms in the first half of 1982 but then to be boosted significantly by the second round of the tax cut.

The outlook for inflation in 1982 has changed only slightly since the last Greenbook. The pickup in the rate of increase in food prices now is projected to be a bit less than expected earlier. Overall, the gross domestic business product fixed-weight index is projected to rise 7 percent over the four quarters of 1982, down from a 9 percent increase over 1981. The downward pressures on prices should come principally through the impact on wages of high unemployment and of smaller cost-of-living adjustments as well as through the damping effect of slack product markets on businesses. Following a continued contraction in employment in early 1982, job opportunities are expected to be very limited during the second half of the year. As a result, the unemployment rate is projected to remain close to 9 percent throughout the year.

## 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				
11/10/81	12/16/81	11/10/81	12/16/81	11/10/81	12/16/81	11/10/81	12/16/81	11/10/81	12/16/81	
<b>Annual changes:</b>										
1979 <u>1/</u>	12.0	12.0	3.2	3.2	9.7	9.7	8.4	8.4	5.8	5.8
1980 <u>1/</u>	8.8	8.8	-2	-2	9.8	9.8	8.2	8.2	7.1	7.1
1981 <u>1/</u>	11.1	11.1	1.8	1.8	9.4	9.4	9.2	9.4	7.6	7.6
1982	7.1	6.9	-7	-6	7.9	7.6	8.0	7.7	8.8	8.7
<b>Quarterly changes:</b>										
1980-Q1 <u>1/</u>	12.6	12.6	3.1	3.1	10.1	10.1	7.4	7.4	6.2	6.2
1980-Q2 <u>1/</u>	-1.1	-1.1	-9.9	-9.9	9.8	9.8	9.5	9.5	7.3	7.3
1980-Q3 <u>1/</u>	11.8	11.8	2.4	2.4	9.6	9.6	9.3	9.3	7.5	7.5
1980-Q4 <u>1/</u>	14.9	14.9	3.8	3.8	9.3	9.3	8.2	8.2	7.5	7.5
1981-Q1 <u>1/</u>	19.2	19.2	8.6	8.6	10.5	10.5	8.1	8.1	7.4	7.4
1981-Q2 <u>1/</u>	4.7	4.7	-1.6	-1.6	8.2	8.2	9.7	9.7	7.4	7.4
1981-Q3 <u>1/</u>	8.8	10.2	-.6	.6	9.6	9.8	11.2	14.4	7.2	7.2
1981-Q4 <u>1/</u>	5.0	3.0	-4.2	-5.5	8.5	7.7	8.6	5.5	8.3	8.4
1982-Q1	5.2	4.6	-1.8	-2.2	7.5	7.1	7.2	7.0	8.6	8.9
1982-Q2	8.2	9.0	.9	1.9	7.4	7.4	7.1	7.0	8.8	9.2
1982-Q3	10.1	10.8	3.3	4.1	7.1	7.1	6.7	6.6	8.8	9.1
1982-Q4	10.7	10.0	3.2	3.1	6.7	6.4	6.6	6.4	8.8	9.0
<b>Two-quarter changes:</b>										
1980-Q2 <u>2/</u>	5.6	5.6	-3.6	-3.6	9.9	9.9	8.4	8.4	1.4	1.4
1980-Q4 <u>2/</u>	13.3	13.3	3.1	3.1	9.5	9.5	8.8	8.8	.2	.2
1981-Q2 <u>2/</u>	11.7	11.7	3.4	3.4	9.2	9.2	9.0	9.0	-.1	-.1
1981-Q4 <u>2/</u>	6.8	6.5	-2.4	-2.5	9.1	8.7	9.9	9.9	.9	1.0
1982-Q2	6.7	6.8	-.4	-.2	7.4	7.2	7.1	7.0	.5	.8
1982-Q4	10.4	10.4	3.2	3.6	7.0	6.7	6.7	6.5	.0	-.2
<b>Four-quarter changes:</b>										
1979-Q4 <u>3/</u>	9.9	9.9	1.7	1.7	9.7	9.7	8.2	8.2	.1	.1
1980-Q4 <u>3/</u>	9.4	9.4	-.3	-.3	9.7	9.7	8.6	8.6	1.6	1.6
1981-Q4	9.2	9.1	.4	.4	9.2	9.0	9.5	9.5	.8	.9
1982-Q4	8.5	8.6	1.4	1.7	7.2	7.0	6.9	6.7	.5	.6

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

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

	1979				1980			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2340.6	2374.6	2444.1	2496.3	2571.7	2564.8	2637.3	2730.6
Final purchases	2316.2	2341.5	2430.8	2497.1	2569.1	2557.4	2653.4	2748.0
Private	1858.0	1876.4	1955.4	2000.7	2052.3	2027.4	2119.9	2189.4
Excluding net exports	1838.1	1868.2	1937.5	1993.1	2044.1	2010.3	2075.4	2166.1
Personal consumption expenditures	1454.1	1478.0	1529.1	1582.3	1631.0	1626.8	1682.2	1751.0
Goods	784.3	793.8	824.8	855.3	882.0	858.4	883.0	926.8
Services	669.9	684.2	704.3	727.0	749.0	768.4	799.2	824.2
Gross private domestic investment	408.3	423.2	421.7	410.0	415.6	390.9	377.1	397.7
Residential construction	116.7	117.2	119.8	120.6	115.2	93.6	99.2	113.0
Business fixed investment	267.3	272.9	288.5	290.2	297.8	289.8	294.0	302.1
Change in business inventories	24.3	33.1	13.3	-.8	2.5	7.4	-16.0	-17.4
Nonfarm	20.8	29.2	7.8	-4.4	1.5	6.1	-12.3	-14.0
Net exports of goods and services <sup>1/</sup>	19.9	8.2	17.9	7.6	8.2	17.1	44.5	23.3
Exports	259.1	266.8	293.1	306.3	337.3	333.3	342.4	346.1
Imports	239.2	258.6	275.2	298.7	329.1	316.2	297.9	322.7
Gov't. purchases of goods and services	458.2	465.1	475.4	496.4	516.8	530.0	533.5	558.6
Federal <sup>2/</sup>	164.8	163.6	165.1	178.1	190.0	198.7	194.9	212.0
State and local	293.4	301.6	310.4	318.3	326.8	331.3	338.6	346.6
Gross national product in constant (1972) dollar	1479.9	1473.4	1488.2	1490.6	1501.9	1463.3	1471.9	1485.6
Personal income	1864.6	1906.3	1972.3	2032.0	2088.2	2114.5	2182.1	2256.2
Wage and salary disbursements	1194.8	1218.6	1248.6	1282.2	1314.7	1320.4	1341.8	1397.8
Disposable personal income	1580.2	1612.8	1663.8	1710.1	1765.1	1784.1	1840.6	1897.0
Saving rate (percent)	5.3	5.6	5.4	4.7	4.9	6.2	6.1	5.1
Corporate profits with I.V.A. and C.C. Adj	201.9	196.6	199.5	189.4	200.2	169.3	177.9	183.3
Corporate profits before tax	253.1	250.9	262.0	255.4	277.1	217.9	237.6	249.5
Federal government surplus or deficit (-) (N.I.A. basis)	-11.5	-8.1	-15.2	-24.5	-36.3	-66.5	-74.2	-67.9
High employment surplus or deficit (-)	-4.7	5.1	-2.3	-7.1	-17.1	-21.5	-21.1	-13.3
State and local government surplus or deficit (-) (N.I.A. basis)	29.5	21.9	26.5	28.9	26.6	23.9	28.6	37.1
Excluding social insurance funds	7.1	-1.7	2.1	4.0	1.3	-1.7	.9	8.1
Civilian labor force (millions)	102.3	102.4	103.2	103.7	104.2	104.7	105.0	105.2
Unemployment rate (percent)	5.8	5.7	5.8	5.9	6.2	7.3	7.5	7.5
Nonfarm payroll employment (millions)	89.0	89.7	90.2	90.5	90.8	90.5	90.2	90.8
Manufacturing	21.0	21.1	21.1	20.9	20.8	20.3	20.0	20.2
Industrial production (1967=100)	152.7	152.3	152.6	152.5	152.6	144.5	142.3	148.7
Capacity utilization: all mfg. (percent)	86.9	85.9	85.3	84.4	83.4	77.9	75.9	79.1
Materials (percent)	88.4	87.5	87.2	86.3	85.8	78.8	75.2	80.1
Housing starts, private (million units, A.R.)	1.64	1.84	1.79	1.59	1.23	1.06	1.39	1.54
New autos sales, (millions, A.R.)	11.56	10.65	10.79	9.80	10.65	7.68	8.80	9.04
Domestic models	9.30	8.16	8.63	7.43	7.87	5.53	6.51	6.57
Foreign models	2.25	2.49	2.16	2.37	2.77	2.14	2.29	2.47

<sup>1/</sup> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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PERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS  
(Annual rates compounded quarterly)

	1979				1980			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	3.9	-1.7	4.1	.6	3.1	-9.9	2.4	3.8
Final purchases	2.5	-2.5	7.2	2.9	3.1	-10.4	4.1	4.4
Private	3.0	-3.0	8.7	2.2	2.2	-13.3	6.5	4.9
Excluding net exports	1.1	-1.6	5.5	1.9	-.4	-14.4	4.6	8.5
Personal consumption expenditures	.9	-1.2	4.7	3.6	.8	-9.8	5.1	7.0
Goods	-2.7	-4.6	6.0	4.2	-.3	-17.7	4.0	10.2
Services	5.5	3.0	3.1	2.8	2.1	.0	6.4	3.7
Gross private domestic investment	10.6	1.7	-9.9	-17.8	-5.6	-28.9	-10.0	11.1
Residential structures	-6.5	-10.8	-3.6	-3.1	-24.2	-60.2	16.0	64.2
Business fixed investment	5.2	-.4	13.4	-5.4	2.2	-19.9	-1.5	4.0
Gov't. purchases of goods and services	.7	-.5	1.2	6.1	6.9	2.5	-5.0	2.2
Federal	8.0	-7.9	-3.6	13.1	18.9	11.9	-13.1	2.0
National defense	2.2	3.8	2.0	7.1	9.8	6.2	-.1	5.9
State and local	-3.3	4.0	3.9	2.4	.6	-2.8	.3	2.3
Disposable personal income	3.1	.5	3.5	.8	1.3	-4.9	4.1	2.9
<u>Current dollars</u>								
Gross national product	12.7	5.9	12.2	8.8	12.6	-1.1	11.8	14.9
Final purchases	11.5	4.4	16.1	11.4	12.0	-1.8	15.9	15.0
Private	12.8	4.0	17.9	9.6	10.7	-4.8	19.5	13.8
Excluding net exports	10.8	6.7	15.7	12.0	10.6	-6.5	13.6	18.7
Personal consumption expenditures	11.0	6.7	14.6	14.7	12.9	-1.0	14.3	17.4
Goods	8.5	4.9	16.6	15.6	13.1	-10.3	12.0	21.4
Services	14.2	8.8	12.2	13.5	12.7	10.8	17.0	13.1
Gross private domestic investment	17.0	15.4	-1.5	-10.6	5.6	-21.8	-13.3	23.7
Residential structures	1.8	1.8	9.1	2.8	-16.7	-56.4	25.7	68.5
Business fixed investment	13.9	8.6	25.0	2.3	11.0	-10.4	6.0	11.5
Gov't. purchases of goods and services	6.3	6.2	9.2	18.8	17.5	10.6	2.6	20.2
Federal	10.7	-2.9	3.7	35.4	29.5	19.8	-7.5	40.2
National defense	8.2	8.2	15.0	26.2	23.2	12.4	8.4	35.0
State and local	3.9	11.6	12.2	10.6	11.2	5.6	9.1	9.7
Disposable personal income	13.5	8.5	13.3	11.6	13.5	4.4	13.3	12.8
Personal income	12.8	9.3	14.6	12.7	11.5	5.1	13.4	14.3
Wage and salary disbursements	13.5	8.2	10.2	11.2	10.5	1.8	6.6	17.8
Corporate profits with IVA & C.C. Adj.	-1.6	-10.1	6.0	-18.8	24.8	-48.9	21.9	12.7
Corporate profits before tax	8.3	-3.4	18.9	-9.7	38.6	-61.8	41.4	21.6
Nonfarm payroll employment	3.7	3.1	2.4	1.2	1.5	-1.6	-1.0	2.7
Manufacturing	3.5	2.1	-.1	-3.6	-2.4	-9.7	-5.9	3.7
Nonfarm business sector								
Output per hour	-.9	-1.6	-1.1	-.2	.3	-2.9	3.6	-.2
Compensation per hour	10.9	10.4	8.6	9.7	10.2	11.3	9.0	9.8
Unit labor costs	11.9	12.1	9.7	9.9	9.9	14.6	5.3	10.1
GNP implicit deflator <sup>1/</sup>	8.4	7.8	7.8	8.1	9.3	9.8	9.2	10.7
Gross domestic business product fixed-weighted price index <sup>2/</sup>	9.7	9.7	9.5	10.0	10.1	9.8	9.6	9.3
Excluding food and energy	7.5	7.2	6.9	11.1	7.4	9.5	9.3	8.2
Consumer price index (all urban)	10.2	12.5	14.0	14.3	16.5	13.1	7.7	12.9
Industrial production	5.4	-1.0	.8	-.3	.3	-19.6	-6.2	19.2

<sup>1/</sup> Excluding Federal pay increases, rates of change were: 1979-Q1, 8.3 percent; 1979-Q4, 7.5 percent; 1980-Q1, 9.2 percent; 1980-Q4, 9.7 percent.

<sup>2/</sup> Uses expenditures in 1972 as weights.

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

	1981				1982			
	Q1	Q2	Q3	Q4	Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2853.0	2885.8	2956.5	2978.2	3011.6	3077.4	3157.1	3233.3
Final purchases	2848.5	2862.5	2932.2	2965.2	3015.6	3076.4	3153.6	3228.3
Private	2272.0	2285.1	2343.9	2356.2	2401.7	2451.1	2517.0	2574.9
Excluding net exports	2242.8	2264.3	2321.9	2336.2	2380.4	2433.1	2503.6	2564.0
Personal consumption expenditures	1810.1	1829.1	1887.2	1912.3	1952.8	1996.3	2054.2	2101.7
Goods	964.3	962.6	988.4	989.1	1005.5	1025.0	1058.4	1085.4
Services	845.8	866.5	898.8	923.2	947.3	971.3	995.8	1016.3
Gross private domestic investment	437.1	458.6	459.1	436.9	423.6	437.8	452.9	467.3
Residential construction	116.7	110.7	101.6	94.6	95.6	100.6	108.6	116.1
Business fixed investment	315.9	324.6	333.2	329.3	332.0	336.2	340.8	346.2
Change in business inventories	4.5	23.3	24.3	13.0	-4.0	1.0	3.5	5.0
Nonfarm	6.8	21.5	19.5	13.0	-4.0	1.0	3.5	5.0
Net exports of goods and services <sup>1/</sup>	29.2	20.8	22.0	20.0	21.3	18.0	13.4	10.9
Exports	367.4	368.2	364.1	357.8	354.8	358.7	366.0	374.5
Imports	338.2	347.5	342.1	337.8	333.5	340.6	352.7	363.6
Gov't. purchases of goods and services	576.5	577.4	588.3	609.0	613.9	625.3	636.6	653.4
Federal <sup>2/</sup>	221.6	219.5	226.0	241.5	241.2	247.7	253.8	265.3
State and local	354.9	357.9	362.3	367.5	372.7	377.6	382.8	388.1
Gross national product in constant (1972) dollars	1516.4	1510.4	1512.8	1491.4	1483.3	1490.1	1505.1	1516.7
Personal income	2319.8	2368.5	2441.8	2490.1	2526.3	2572.0	2635.8	2689.3
Wage and salary disbursements	1442.9	1467.0	1497.8	1519.3	1536.8	1559.8	1589.2	1626.4
Disposable personal income	1947.8	1985.6	2041.7	2094.5	2127.1	2164.6	2252.3	2295.9
Saving rate (percent)	4.6	5.4	5.1	6.1	5.7	5.2	6.3	6.0
Corporate profits with I.V.A. and C.C. Adj.	203.0	190.3	191.2	171.7	159.6	174.8	195.0	204.9
Corporate profits before tax	257.0	229.0	230.9	208.7	191.3	202.7	219.5	224.8
Federal government surplus or deficit (-) (N.I.A. basis)	-46.6	-47.2	-54.9	-97.4	-101.5	-103.6	-148.1	-148.5
High employment surplus or deficit (-) <sup>3/</sup>	.4	6.6	4.8	-17.4	-6.3	.8	-45.4	-44.1
State and local government surplus or deficit (-) (N.I.A. basis)	36.9	36.1	37.2	34.4	34.7	36.5	40.0	41.3
Excluding social insurance funds	6.6	4.3	4.6	.4	-.6	-.1	2.1	2.1
Civilian labor force (millions)	105.8	106.8	106.4	107.0	107.2	107.4	107.6	107.9
Unemployment rate (percent)	7.4	7.4	7.2	8.4	8.9	9.2	9.1	9.0
Nonfarm payroll employment (millions)	91.2	91.5	91.9	91.5	91.0	90.7	90.8	91.1
Manufacturing	20.2	20.4	20.5	20.0	19.6	19.4	19.5	19.7
Industrial production (1967=100)	151.8	152.5	153.1	146.8	144.5	146.2	148.9	150.8
Capacity utilization: all mfg. (percent)	79.9	79.8	79.3	75.1	73.3	73.7	74.6	75.1
Materials (percent)	82.2	81.2	81.2	75.7	73.6	74.6	76.0	76.8
Housing starts, private (million units, A.R.)	1.39	1.18	.97	.88	1.00	1.10	1.25	1.25
New autos sales, (millions, A.R.)	9.96	7.89	9.04	7.50	8.20	8.70	9.20	9.05
Domestic models	7.31	5.63	6.90	5.30	6.00	6.40	6.80	6.65
Foreign models	2.66	2.25	2.14	2.20	2.20	2.30	2.40	2.40

<sup>1/</sup> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

<sup>3/</sup> Estimates in table are evaluated at a 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$37.8 billion in 1980-Q4 and a deficit of \$44.1 billion in 1981-Q4, and a deficit of \$71.9 billion in 1982-Q4.

CONFIDENTIAL - FR  
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS  
(Annual rates compounded quarterly)

	1981				1982			
	Q1	Q2	Q3	Q4	Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	8.6	-1.6	.6	-5.5	-2.2	1.9	4.1	3.1
Final purchases	6.9	-4.7	-.2	-3.7	.1	1.2	3.7	2.9
Private	7.3	-4.5	.1	-5.0	.9	1.2	4.4	3.4
Excluding net exports	6.7	-3.2	2.3	-4.4	.7	1.9	5.2	3.9
Personal consumption expenditures	5.8	-2.1	4.0	-2.0	1.4	1.9	5.3	3.8
Goods	9.8	-5.3	4.3	-5.6	.8	1.7	7.8	5.0
Services	1.4	1.6	3.7	2.0	2.0	2.1	2.6	2.4
Gross private domestic investment	24.2	16.1	.7	-25.7	-17.9	7.3	7.3	6.3
Residential structures	3.6	-23.4	-32.6	-29.4	-2.1	15.1	27.0	22.2
Business fixed investment	13.3	-2.1	4.3	-10.9	-2.8	-1.2	-.6	.3
Gov't. purchases of goods and services	5.4	-5.6	-1.5	2.3	-3.3	.9	1.1	.8
Federal	14.8	-8.4	3.6	10.1	-5.9	5.3	4.9	3.4
National defense	1.1	2.6	-4.4	-2.2	-1.6	-1.8	-1.3	-.8
State and local	.2	-3.8	7.7	6.5	4.4	4.4	4.6	9.3
Disposable personal income	3.0	1.4	2.6	2.9	-.8	.0	10.1	2.2
<u>Current dollars</u>								
Gross national product	19.2	4.7	10.2	3.0	4.6	9.0	10.8	10.0
Final purchases	15.5	2.0	10.1	4.6	7.0	8.3	10.4	9.8
Private	16.0	2.3	10.7	2.1	8.0	8.5	11.2	9.5
Excluding net exports	14.9	3.9	10.6	2.5	7.8	9.2	12.1	10.0
Personal consumption expenditures	14.2	4.3	13.3	5.4	8.7	9.2	12.1	9.6
Goods	17.2	-.7	11.2	.3	6.8	8.0	13.7	10.6
Services	10.9	10.1	15.8	11.3	10.9	10.5	10.5	8.5
Gross private domestic investment	45.9	21.1	.5	-18.0	-11.6	14.1	14.5	13.3
Residential structures	14.0	-19.2	-29.0	-24.8	4.3	22.6	35.8	30.6
Business fixed investment	19.6	11.4	11.0	-4.6	3.3	5.2	5.6	6.5
Gov't. purchases of goods and services	13.5	.6	7.7	14.9	3.3	7.6	7.4	11.0
Federal	19.3	-3.7	12.3	30.6	-.5	11.2	10.2	19.4
National defense	10.4	8.7	16.0	29.0	10.9	10.4	9.6	27.1
State and local	10.0	3.3	5.0	5.9	5.8	5.4	5.6	5.7
Disposable personal income	11.2	8.0	11.8	10.7	6.4	7.3	17.2	8.0
Personal income	11.8	8.7	13.0	8.2	5.9	7.4	10.3	8.4
Wage and salary disbursements	13.5	6.9	8.7	5.9	4.7	6.1	7.8	9.7
Corporate profits with IVA & C.C. Adj.	50.4	-22.8	1.9	-35.0	-25.3	43.9	54.9	21.9
Corporate profits before tax	12.6	-37.0	3.4	-33.2	-29.4	26.1	37.6	9.9
Nonfarm payroll employment	1.8	1.4	1.7	-1.8	-2.2	-1.3	.5	1.2
Manufacturing	.5	4.2	2.4	-9.0	-8.2	-3.9	2.3	2.6
Nonfarm business sector								
Output per hour	4.3	1.4	-1.6	-4.0	.0	3.6	3.5	1.3
Compensation per hour	11.6	9.6	9.3	8.5	8.8	8.1	7.9	7.6
Unit labor costs hour	7.0	8.1	11.1	13.0	8.8	4.4	4.3	6.2
GNP implicit deflator <sup>1/</sup>	9.8	6.4	9.5	9.0	6.9	7.1	6.4	6.7
Gross domestic business product								
fixed-weighted price index <sup>2/</sup>								
Excluding food and energy	8.1	9.7	14.4	5.5	7.0	7.0	6.6	6.4
Consumer price index (all urban)	10.8	7.5	12.0	8.2	8.0	7.3	7.4	6.2
Industrial production	8.3	1.9	1.6	-15.5	-6.1	4.8	7.6	5.2

<sup>1/</sup> Excluding Federal pay increases, the rates of change are: 1981-Q1, 9.7 percent; 1981-Q4, 8.0 percent; 1982-Q1, 6.8 percent; 1982-Q4, 5.7 percent.

<sup>2/</sup> Uses expenditures in 1972 as weights.

CONFIDENTIAL - FK  
CLASS II FOMC

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

	1975	1976	1977	1978	1979	1980	Projected	
							1981	1982
Gross national product	1549.2	1718.0	1918.0	2156.1	2413.9	2626.1	2918.3	3119.8
Final purchases	1556.1	1706.2	1897.0	2133.9	2396.4	2632.0	2902.1	3118.5
Private	1216.2	1344.1	1502.5	1701.3	1922.6	2097.3	2314.3	2486.2
Excluding net exports	1189.4	1330.4	1506.7	1701.9	1909.2	2074.0	2291.3	2470.3
Personal consumption expenditures	976.4	1084.3	1205.5	1348.7	1510.9	1672.8	1859.7	2026.2
Goods	539.5	598.5	657.8	729.1	814.5	887.6	976.1	1043.6
Services	437.0	485.7	547.7	619.6	696.3	785.2	883.6	982.7
Gross private domestic investment	206.1	257.9	322.3	375.3	415.8	395.3	447.9	445.4
Residential construction	55.3	72.0	95.8	111.3	118.6	105.3	105.9	105.2
Business fixed investment	157.7	174.1	205.5	242.0	279.7	296.0	325.7	338.8
Change in business inventories	-6.9	11.8	21.0	22.2	17.5	-5.9	16.3	1.4
Nonfarm	-10.5	13.9	20.2	21.8	13.4	-4.7	15.2	1.4
Net exports of goods and services <sup>1/</sup>	26.8	13.7	-4.2	-6	13.4	23.3	23.0	15.9
Exports	154.9	170.9	183.3	219.8	281.3	339.8	364.4	363.5
Imports	128.1	157.1	187.5	220.4	267.9	316.5	341.4	347.6
Gov't. purchases of goods and services	339.9	362.1	394.5	432.6	473.8	534.7	587.8	632.3
Federal <sup>2/</sup>	122.7	129.2	143.9	153.4	167.9	198.9	227.1	252.0
State and local	217.2	232.9	250.6	279.2	305.9	335.8	360.6	380.3
Gross national product in constant (1972) dollars	1233.9	1300.4	1371.7	1436.9	1483.0	1480.7	1507.7	1498.8
Personal income	1265.0	1391.2	1538.0	1721.8	1943.8	2160.2	2405.1	2605.9
Wage and salary disbursements	806.4	889.9	983.8	1105.2	1236.1	1343.7	1481.7	1578.0
Disposable personal income	1096.1	1194.4	1311.5	1462.9	1641.7	1821.7	2017.4	2210.0
Saving rate (percent)	8.6	6.9	5.6	5.2	5.2	5.6	5.3	5.8
Corporate profits with I.V.A. and C.C. Adj.	110.5	138.1	164.7	185.5	196.8	182.7	189.0	183.6
Corporate profits before tax	132.1	166.3	192.6	223.3	255.4	245.5	231.3	209.6
Federal government surplus or deficit (N.I.A. basis)	-69.3	-53.1	-46.4	-29.2	-14.8	-61.2	-61.5	-125.5
High employment surplus or deficit (-)	-29.2	-20.1	-23.0	-15.7	-2.2	-18.2	-1.4	-23.8
State and local government surplus or deficit (-) (N.I.A. basis)	5.5	16.6	28.1	29.0	26.7	29.1	36.1	38.1
Excluding social insurance funds	-7.6	.9	10.1	9.0	2.9	2.1	3.9	.9
Civilian labor force (millions)	92.6	94.8	97.4	100.4	102.9	104.7	106.5	107.5
Unemployment rate (percent)	8.5	7.7	7.0	6.0	5.8	7.1	7.6	9.0
Nonfarm payroll employment (millions)	76.9	79.4	82.5	86.7	89.8	90.6	91.6	90.9
Manufacturing	18.3	19.0	19.7	20.5	21.0	20.3	20.3	19.5
Industrial production (1967=100)	117.8	130.5	138.1	146.1	152.5	147.0	151.0	147.6
Capacity utilization: all manufacturing (percent)	72.9	79.5	81.9	84.4	85.6	79.1	78.5	74.2
Materials (percent)	73.4	81.1	82.7	85.6	87.4	80.0	80.1	75.3
Housing starts, private (million units, A.R.)	1.16	1.54	1.99	2.02	1.75	1.29	1.10	1.15
New auto sales, (millions, A.R.)	8.66	10.12	11.13	11.28	10.70	9.04	8.64	8.79
Domestic models	7.08	8.63	9.07	9.29	8.38	6.62	6.31	6.46
Foreign models	1.58	1.50	2.06	1.99	2.32	2.42	2.33	2.32

- <sup>1/</sup> Balance of payments data underlying these estimates are shown in the International Developments section of this part of the Greenbook.
- <sup>2/</sup> 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

	1975	1976	1977	1978	1979	1980	Projected	
							1981	1982
<u>Constant (1972) dollars</u>								
Gross national product	-1.1	5.4	5.5	4.8	3.2	-.2	1.8	-.6
Final purchases	.3	4.2	5.2	4.7	3.5	.7	1.1	-.1
Private	-.1	5.3	6.0	15.4	4.0	.2	1.4	.0
Excluding net exports	-.6	6.2	6.5	5.2	2.9	-1.0	2.2	.6
Personal consumption expenditures	2.2	5.6	4.9	4.7	2.9	.5	2.7	1.5
Goods	1.3	6.7	5.2	4.2	1.9	-1.4	2.6	.9
Services	3.3	4.3	4.5	5.4	4.1	2.6	2.7	2.3
Gross private domestic investment	-20.8	19.2	15.7	7.6	1.3	-12.5	5.0	-6.7
Residential structures	-12.5	21.3	18.5	2.9	-5.2	-18.6	-5.6	-6.8
Business fixed investment	-12.1	5.3	11.9	9.1	6.5	-3.0	1.6	-2.8
Gov't. purchases of goods and services	2.1	.0	2.1	2.0	1.5	2.9	.1	-.6
Federal	.8	-.7	4.1	-.9	1.9	6.3	2.1	2.0
National defense	-.7	-2.3	.8	.0	2.6	5.7	-1.1	-2.2
State and local	2.9	.5	.9	3.7	1.2	1.0	3.6	5.4
Disposable personal income	2.0	3.6	3.6	4.4	3.1	.7	2.2	2.1
<u>Current dollars</u>								
Gross national product	8.0	10.9	11.6	12.4	12.0	8.8	11.1	6.9
Final purchases	9.6	9.6	11.2	12.5	12.3	9.8	10.3	7.5
Private	9.0	10.5	11.8	13.2	13.0	9.1	10.3	7.4
Excluding net exports	7.9	11.8	13.3	12.9	12.2	8.6	10.5	7.8
Personal consumption expenditures	9.9	11.1	11.2	11.9	12.0	10.7	11.2	9.0
Goods	9.0	10.9	9.9	10.8	11.7	9.0	10.0	6.9
Services	11.1	11.2	12.7	13.1	12.4	12.8	12.5	11.2
Gross private domestic investment	-9.9	25.1	25.0	16.5	10.8	-4.9	13.3	-.6
Residential structures	-4.7	30.2	33.1	16.1	6.6	-11.3	.6	-.6
Business fixed investment	.8	10.3	18.1	17.7	15.6	5.8	10.1	4.0
Gov't. purchases of goods and services	11.8	6.5	8.9	9.7	9.5	12.9	9.9	7.6
Federal	10.6	5.3	11.4	6.6	9.5	18.5	14.2	11.0
National defense	7.7	3.7	8.5	7.1	11.2	18.4	7.4	5.4
State and local	12.5	7.3	7.6	11.4	9.6	9.8	16.0	15.3
Disposable personal income	9.8	9.0	9.8	11.5	12.2	11.0	10.7	9.5
Personal income	8.2	10.0	10.6	12.0	12.9	11.1	11.3	8.3
Wage and salary disbursements	5.3	10.4	10.6	12.3	11.8	8.7	10.3	6.5
Corporate profits with IVA & C.C. Adj.	16.5	25.0	19.3	12.6	6.1	-7.2	3.4	-2.9
Corporate profits before tax	-3.3	25.9	15.8	15.9	14.4	-3.9	-5.8	-9.4
Nonfarm payroll employment	-1.7	3.2	3.9	5.1	3.6	.8	1.1	-.7
Manufacturing	-8.8	3.7	3.6	4.2	2.6	-3.5	-.1	-3.6
Nonfarm business sector								
Output per hour	2.1	3.2	2.0	-.2	-.7	-.3	1.0	.3
Compensation per hour	9.4	9.6	8.1	7.6	9.7	10.0	10.1	8.5
Unit labor costs	7.4	4.7	5.5	8.7	10.4	10.3	8.9	8.2
GNP implicit deflator	9.6	5.2	5.8	7.3	8.5	9.0	9.1	7.5
Gross domestic business product								
fixed-weighted price index <sup>1/</sup>	9.2	5.5	6.3	7.8	9.7	9.8	9.4	7.6
Excluding food and energy	9.2	6.0	6.5	7.5	8.4	8.2	9.4	7.7
Consumer price index (all urban)	9.1	5.8	6.5	7.7	11.3	13.5	10.3	8.1
Industrial production	-8.9	10.8	5.8	5.8	4.4	-3.5	2.7	-2.3

<sup>1/</sup> Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS  
(billions of dollars)

	Fiscal Year 1980*	Fiscal Year 1981*	FY 1982 e/		CY 1980*	CY 1981 e/		FRB Staff Estimates								
			Admin. 1/	F.R. Board		F.R. Board	Calendar quarters; unadjusted data									
							1980			1981			1982			
							IV*	I*	II*	III*	IV	I	II	III		
Unified budget receipts	520.1	602.6	662.4	625.4	533.0	619.5	127.0	135.2	183.7	156.7	143.9	143.3	188.3	149.9		
Unified budget outlays	579.6	660.5	704.8	733.6	600.9	693.1	160.6	167.3	167.4	165.3	193.1	165.0	185.7	189.8		
Surplus/deficit(-), unified budget	-59.5	-57.9	-42.5	-108.1	-67.9	-73.5	-33.6	-32.1	16.3	-8.6	-49.2	-21.7	2.6	-39.9		
Surplus/deficit(-), off-budget agencies <sup>2</sup>	-14.2	-21.0	-18.2	-20.4	-15.3	-23.1	-2.2	-6.4	-5.5	-6.9	-4.3	-5.5	-5.2	-5.5		
Combined deficit to be financed	-73.7	-78.9	-60.7	-128.6	-83.2	-96.6	-35.8	-38.5	10.8	-15.5	-53.4	-27.2	-2.5	-45.4		
Means of financing combined deficits:																
Net borrowing from public	70.5	79.3	59.0	122.3	79.3	87.9	27.7	35.8	-2.6	18.5	36.2	33.7	11.3	41.1		
Decrease in cash operating balance	3.2	2.3	0.0	4.1	3.6	1.9	8.7	1.6	-5.7	-2.3	8.3	0.5	-7.0	2.3		
Other <sup>3</sup>	0.1	-2.7	1.7	2.1	0.3	6.8	-0.6	1.1	-2.5	-0.7	8.9	-7.0	-1.8	2.0		
Cash operating balance, end of period	21.0	18.7	18.7	14.6	12.3	10.4	12.3	10.7	16.4	18.7	10.4	9.9	16.9	14.6		
Memo: Sponsored agency borrowing <sup>4</sup>	21.4	37.7	n.a.	20.4	24.3	32.9	9.0	3.6	9.7	15.4	4.2	5.5	4.9	5.8		
<b>NIA Budget</b>																
							Seasonally adjusted annual rates									
Receipts	527.3	612.4	678.3	629.9	540.8	625.7	573.2	617.4	621.0	637.9	626.3	627.7	640.9	624.8		
Expenditures	578.2	666.5	719.3	742.5	602.0	687.2	641.1	664.0	668.2	692.8	723.7	729.1	744.5	772.9		
Purchases	190.2	219.8	247.4	246.0	198.9	227.1	212.0	221.6	219.5	226.0	241.5	241.2	247.7	253.8		
Defense	126.1	147.2	171.7	170.2	131.7	152.8	141.6	145.2	148.2	153.8	163.9	168.2	172.4	176.4		
Nondefense	64.1	72.6	75.7	75.8	67.2	74.3	70.4	76.4	71.3	72.1	77.6	73.0	75.3	77.4		
All other expenditures	388.0	446.7	471.9	496.5	403.1	460.1	429.1	442.4	448.7	466.8	482.2	487.9	496.8	519.1		
Surplus/deficit(-)	-50.9	-54.1	-41.0	-112.6	-61.2	-61.5	-67.9	-46.6	-47.2	-54.9	-97.2	-102.1	-103.7	-148.1		
High Employment (H.E.) surplus/deficit(-) evaluated at H.E. unemployment rate of:																
5.1 percent	-16.7	-0.4	n.a.	-17.1	-18.3	-1.4	-13.4	0.4	6.6	4.8	-17.4	-6.3	0.8	-45.4		
6.1 percent	-39.6	-26.0	n.a.	-44.3	-41.8	-27.6	-37.8	-25.0	-19.3	-22.0	-44.1	-33.4	-27.0	-72.6		
	*--actual		e--estimated		n.a.--not available											

1. OMB Mid-Session Review of the 1982 Budget, July 1981. On September 24, 1981, the Administration presented revised estimates of unified budget receipts and outlays for FY1982. The Fall Budget Program Fact Sheet estimates receipts of \$666.2 billion and outlays of \$709.3 billion for a deficit of \$43.1 billion.

2. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, and Rural Telephone Bank.

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

4. 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.

NOTE: Quarterly figures may not add to yearly totals due to rounding.

## DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. Most market interest rates have risen recently, breaking the downward trend of previous months. Both the federal funds and Federal Reserve discount rates have fallen about a percentage point since the November FOMC meeting; however, the publication of several sizable weekly money stock increases has led to doubts about the likelihood of further near-term easing of money market conditions. Other short-term rates have risen to levels  $1/4$  to  $1/2$  of a percentage point above those prevailing at the time of the last FOMC meeting. Bond yields generally also have moved slightly higher since mid-November, with reports of sharply higher budget-deficit figures striking a particularly negative note for market sentiment. By contrast, administered rates--the bank prime and primary mortgage rates--have continued to move lower in lagged response to earlier declines in market rates.

Growth in all the monetary aggregates picked up sharply in November and early December. M1-B accelerated to an  $8-1/4$  percent annual rate of growth in November; M2 registered its biggest gain of the year as the non-transaction component surged largely on the strength of renewed inflows into savings deposits and continued robust growth of money market funds. In part, the strength in the monetary aggregates may be a consequence of the sizable reduction in market interest rates in recent months--especially for those components like NOW, savings, and demand accounts whose yields are subject to fixed ceilings or, like MMFs, whose yields tend to lag movements in market rates. In addition, some inflows to highly liquid assets may reflect a buildup of precautionary balances in an uncertain financial and economic environment; this latter factor--rather than any strengthening

of demand for transactions balances or renewed shift from demand deposits-- may explain some of the unusual strength in other checkable deposits, which which contain a significant savings element.

With interest rates remaining quite high by historical standards and economic activity weakening, flows in credit markets to private borrowers in recent months have been below the pace recorded earlier this year. Consumer installment borrowing slowed substantially in October as sales of autos and other durables weakened, and is unlikely to have picked up significantly in November. Mortgage borrowing by households apparently has remained depressed; bank real estate lending slowed in October and November and savings and loan associations in October reduced their mortgage portfolios and new lending commitments.

Business credit needs are estimated to have fallen somewhat recently with a slowing in inventory accumulation and fixed investment spending, and a slackening of the pace of mergers and acquisitions and associated borrowing to retire outstanding equity. As long-term rates declined through mid-November, the focus of business borrowing shifted to the bond markets, and the volume of public offerings of corporate bonds jumped in November to a record high level. More recently the bond issuance has declined with the backup in rates, but still remains well above the pace of earlier this year. At the same time, business borrowing from shorter-term sources has moderated, especially at domestic banks where downward movements of the prime rate lagged those on commercial paper and Eurodollar loans.

In contrast, public sector borrowing has remained large. State and local bond offerings were swollen by a reemergence of tax-exempt housing

issues spurred in part by falling rates. The federal government continued to tap financial markets in size to finance its huge deficit.

Banks have reduced their holdings of Treasury issues in each of the last four months, and continuation of this trend in November, combined with the drop-off in lending to businesses, reduced bank credit expansion to only a 3 percent annual rate. With core deposit growth fairly substantial, banks allowed a sizable volume of large CDs to run off last month. At thrifts, however, the outstanding volume of large CDs has continued to increase, and the spread between rates on these obligations and those of banks has remained below the elevated levels set earlier this year.

Outlook. The staff forecast does not anticipate any significant change in interest rates in the very near term. However, as economic activity picks up in the first half of next year in an environment of persistent inflation, private demands for money and credit should strengthen somewhat, pressing against the System's tentative 1982 monetary targets--even with a continuation of considerable innovation in cash management. As a result, short-term rates are projected to rise moderately by midyear, but pressures on long-term rates are expected to be damped by evidence of slowing inflation.

Business financing requirements in the first quarter of 1982 may remain around current levels; projected declines in inventories would reduce borrowing needs, but profits also are likely to fall further. If bond yields stabilize near current levels, businesses can be expected to continue to place heavy demands on this segment of the credit markets in order to reduce reliance on short-term debt. Such a pattern of business finance would be consistent with moderate growth of bank credit, particularly if there is no

reemergence of merger activity. Despite the balance sheet restructuring, evidence of difficulties in the business sector could mount early in the new year with the continuation of depressed levels of economic activity. Typically, business failures and bankruptcies have peaked at or somewhat after recession troughs.

Consumer installment borrowing may begin to pick up a bit in the first quarter from current low levels as consumer spending strengthens. Mortgage borrowing by households is expected to remain depressed early next year, however, before picking up in lagged response to the modest upturn in housing starts projected for the first quarter. Although the liquidity positions of savings and loan associations have improved in recent months, these institutions are not expected to become aggressive lenders in mortgage markets, given the continued strains on their earnings and uncertainty about the interest rate outlook.

In the state and local sector, pressures to increase borrowing caused by reduced receipts from the federal government and tax payments, and an overhang of issues postponed as rates were rising may be offset by concerns that taxpayers are unwilling to shoulder ever-larger debt service burdens. The federal government's call on credit resources will remain substantial, and the credibility of plans to deal with potentially larger deficits in coming years will greatly affect market attitudes, and with them long-term interest rates.

## INTERNATIONAL DEVELOPMENTS

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Summary. The weighted average value of the dollar has appreciated on balance by less than 1 percent since the November Greenbook. A continuation of a decline of U.S. short-term interest rates relative to foreign rates contributed to downward pressure on the dollar in exchange markets in the early part of the period under review. A subsequent firming of U.S. interest rates more than offset the previous depreciation of the dollar.

Market pressure against the Belgian franc within the EMS intensified in the first two weeks of December, reflecting ongoing difficulties in forming a government.

. The National Bank of Belgium on December 10 raised its official lending rates by 2 percentage points to provide additional support to the franc. These measures and improved prospects for the formation of a new government appear to have reversed the pressure against the Belgian franc.

With the exception of the United Kingdom, there are no signs yet of a pickup in economic activity in foreign industrial countries, and another quarter of low growth is expected in the final quarter this year. Unemployment rates are continuing to rise in most industrial countries, with some countries recording postwar highs. While inflation rates abroad in recent months continue to be below those recorded in the first half of the year, rates in most countries, with the notable exception of Japan, continue to be high and are a major concern of foreign governments. As a result, monetary authorities abroad continue to be hesitant to relax monetary policies despite a substantial reduction in yields on dollar-denominated assets. During the past five weeks, the Bank of Japan lowered its discount rate by three-fourths of a percentage point, and central bank lending rates were lowered somewhat in Germany, the Netherlands, and Switzerland.

The U.S. foreign trade deficit in October widened substantially from the unusually low September rate. Despite erratic monthly movements, the average monthly deficit in July-October was larger than the monthly deficit recorded in the first two quarters this year. Since the second quarter, the value of exports has declined, while the value of imports (other than oil) has shown steady increases. These export and import trends reflect to an important extent the effects of the sharp appreciation of the dollar over the past year.

Developments related to international capital markets during the last half of 1981 again underscore the increasing integration of U.S. and foreign financial markets. Foreign bond issues in U.S. capital markets in the final six months of 1981 seem likely to exceed placements during the first half by at least 20 percent, and for the year

as a whole will approach a figure double the \$3.5 billion offered in 1980. Eurodollar holdings of U.S. nonbank residents rose from \$77 billion to \$87 billion between the end of June and the middle of September. About \$4 billion of the increase was in money-market mutual fund and unit investment trust holdings of Eurodollar CDs issued by London branches of U.S. banks. By late November, such holdings had risen another \$2½ billion. Bookings of credits to U.S. nonbank residents at foreign branches of U.S. banks expanded from a daily average of \$7 billion in June to \$12 billion in November. LIBOR pricing-options, often made available in connection with such lending facilities, have been selected by many borrowers recently, and a number of U.S. banks have booked such loans at offshore branches, primarily to minimize state and local taxes. New information that has become available in connection with financing of recent takeover-related loans shows that foreign banks participating in those facilities followed parallel booking practices. Because of the limited scope of available data, however, it is still not possible to estimate the full extent of loans to U.S. nonbank residents from foreign offices of foreign banks.

The OPEC surplus in the first half of the year reached almost \$45 billion, about the same as the surplus in the preceding half year. Lower export proceeds and a higher value of imports are expected to reduce the OPEC surplus to less than \$20 billion in the second half of 1981. Compared with investment patterns of earlier years, a much smaller proportion of the first half OPEC surplus was placed in Euro-currency deposits and a greater proportion was invested in U.S. securities. In the third quarter, the rate of OPEC investment flows to the United States

tapered off from the rate of the first half. Partial data for October-November suggest a rebound in the rate of increase of OPEC investment flows to the United States.

Foreign official reserve assets of G-10 countries and Switzerland held in the United States decreased by \$3 billion in September-October, . Partial data for November indicate an increase of nearly \$2 billion in such holdings

Outlook. Economic activity abroad is expected to enter a gradual expansion in 1982, reaching an annual rate of 2.5 percent by the second half of the year for the 10 foreign industrial countries combined. Although unemployment is expected to rise further from already historically high levels, the emphasis on reducing inflation is expected to lead most governments, with the exception of France, to move cautiously before embarking on expansionary policies.

The outlook for the U.S. trade and current accounts shows little change from that presented in the November Greenbook. After being in surplus, as we expect, by about \$5 billion this year, the current account is expected to move into deficit in the second half of next year. The value of exports next year is projected to show little change from this year's average, but the volume shipped is expected to decline for the second year in a row (year over year). This reflects both sluggish growth abroad and lagged effects of the dollar appreciation this past year. A moderate rise in the volume of agricultural exports projected for 1982 is expected to be more than offset by a decline in nonagricultural

exports. The value of imports is projected to change little from current levels until mid-1982. As the U.S. economy begins to pick up, the value (and volume) of imports is expected to rise also. For next year, the value of oil imports is projected to decline by some \$8 billion from what is expected this year; prices of oil imports are expected to change little during the year while the quantity imported is projected to fall during much of the year.

In coming months the average value of the dollar will continue to be influenced by such factors as relative interest-rate movements and international political developments. By the end of the projection period, however, the staff expects no significant change in the value of the dollar from recent levels.

OUTLOOK FOR U.S. NET EXPORTS AND RELATED ITEMS  
(BILLIONS OF DOLLARS, SEASONALLY ADJUSTED ANNUAL RATES)

December 16, 1981

	1980 ANN.	1981 <sup>P</sup> ANN.	1982 <sup>P</sup> ANN.	1981				1982 <sup>P</sup>			
				Q I	Q II	Q III	Q IV <sup>P</sup>	Q I	Q II	Q III	Q IV
<b>1. GNP NET EXPORTS</b>											
CURRENT \$, NET	23.3	23.0	15.9	29.2	20.8	22.0	20.0	21.3	18.0	13.4	10.9
EXPORTS OF G&S	339.8	364.4	363.5	367.4	368.2	364.1	357.8	354.8	358.7	366.0	374.5
IMPORTS OF G&S	316.5	341.4	347.6	338.2	347.5	342.1	337.8	333.5	340.6	352.7	363.6
CONSTANT 72 \$, NET	52.0	43.6	35.8	50.9	46.2	39.8	37.4	38.3	36.5	34.7	33.6
EXPORTS OF G&S	161.1	158.8	149.4	162.5	161.5	158.2	153.2	149.2	148.6	149.4	150.3
IMPORTS OF G&S	109.1	115.3	113.6	111.6	115.4	118.4	115.8	110.9	112.0	114.7	116.7
TERMS OF TRADE (1972=100) 1/	72.7	77.5	79.5	74.6	75.7	79.7	80.1	79.1	79.4	79.7	79.9
<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>											
EXPORTS (EXCL. MILITARY)	224.0	238.0	235.4	244.4	241.9	232.5	233.1	234.9	234.4	235.1	237.3
AGRICULTURAL	42.2	44.8	48.1	50.9	44.3	40.2	44.0	46.8	47.4	48.4	50.0
NONAGRICULTURAL	181.7	193.1	187.3	193.5	197.6	192.4	189.1	188.1	187.0	186.7	187.3
IMPORTS	249.3	263.1	266.9	263.1	269.6	260.8	261.3	259.8	261.2	269.2	277.3
PETROLEUM AND PRODUCTS	78.9	77.9	70.2	83.3	84.8	71.8	71.7	70.4	70.4	69.9	70.1
NONPETROLEUM	170.4	185.8	196.7	179.8	184.8	189.0	189.7	189.4	190.9	199.3	207.3
<b>3. U.S. CURRENT ACCOUNT BALANCE</b>											
OF WHICH: NET INVESTMENT INCOME	3.7	5.0	-3.3	13.1	4.3	2.4 <sup>P</sup>	0.4	3.7	0	-6.3	-10.5
	32.8	35.7	34.8	36.2	34.6	36.3 <sup>P</sup>	35.9	35.3	33.3	34.3	36.4
<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/</b>											
REAL GNP, % CHANGE, ANNUAL RATES	1.8	0.4	1.5	0.5	0.6	0.4	0.8	1.8	2.0	2.4	2.5
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	10.5	9.6	8.8	10.8	10.8	8.1	8.9	9.1	9.0	8.2	7.7

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 -- PERCENT 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%).

P/ PROJECTED.