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December 14, 1983

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

Recent Developments. Economic activity appears to be expanding at a relatively rapid rate in the fourth quarter, with industrial production and employment recording sizable further gains in November and the unemployment rate again declining sharply. Retail sales have risen substantially, and capital expenditures appear to be expanding further. However, housing activity has weakened in recent months and net exports appear to have dropped further. Price increases in recent months have been somewhat larger than early in the year.

The index of industrial production increased 0.8 percent in November, the same as in October. Output of business equipment and materials continued to rise rapidly in November. However, production of consumer goods and construction supplies rose only fractionally; auto assemblies remained at the 7.5 million unit annual rate posted in October. The rate of capacity utilization rose to 78.6 percent in October, and increased about 1/2 percentage point further in November.

The expansion of output in October and November was accompanied by substantial gains in employment. The civilian unemployment rate dropped by an additional 0.4 percentage point to 8.4 percent in November, bringing it nearly 2-1/2 percentage points below its peak of last December. Nonfarm payroll employment rose 370,000 with another sizable increase in factory jobs; the manufacturing workweek, however, edged down further. Greater reliance on hiring and rehiring suggests that producers have become more confident that gains in sales are sustainable.

To date, however, the strengthening in labor demand in this expansion has not drawn workers into the labor force in a major way. Indeed, the labor force participation rate in November was slightly below its level a year ago.

After slowing during the summer, consumer spending has picked up again recently, reflecting both continuing high levels of consumer confidence and strong gains in income. In November, retail sales rose 1.9 percent, 1/2 percentage point more than in each of the two preceding months. The strongest gains were reported at automotive stores and general merchandisers. Purchases of domestic autos, at just over a 7 million annual rate in October and November, were only slightly higher than the third-quarter average. But sales of imported cars in these two months averaged a 2.6 million unit annual rate, the strongest selling pace since early 1981; in November, stepped-up sales of European cars nearly offset slower sales of scarce Japanese units.

In recent months homebuilding has weakened in response to the rise in mortgage interest rates earlier this year. During October, housing starts fell to a 1.6 million unit annual rate, down from a 1.8 million unit average in the third quarter. Nevertheless, homebuilding is still well above the depressed levels of 1982, and there are indications--an increase in permits in October and a rise in new home sales in the past two months--that the recent drop in activity is leveling off. The comparative strength in housing appears attributable in part to the availability of mortgage credit at below-market rates from mortgage revenue bonds and to increased use of adjustable rate mortgages.

Although capital spending rose strongly in the third quarter, recent indicators have been mixed. Shipments of nondefense capital goods fell 3 percent in October to a level slightly above the third-quarter average, and spending on nonresidential construction was down 2 percent, offsetting the previous month's gain. Nevertheless, new orders of nondefense capital goods rose strongly in September and October, and the backlog of unfilled orders increased sharply in both months. In addition, sales of heavy trucks rebounded in October, and two sectors in the construction area that had been weak--oil drilling and nonoffice commercial building--have both strengthened significantly in recent months. Overall, the indicators suggest a further expansion in investment activity in the fourth quarter.

After six quarters of liquidation, nonfarm inventories increased in the third quarter, and current data indicate further inventory accumulation in the fourth quarter. Nevertheless, the stock buildup has only matched the rise in final demands and inventory-sales ratios generally remain quite low by historical standards.

Wage increases for most production workers generally continued moderate. In November the hourly earnings index was unchanged after rising about 1/2 percent in both September and October; since November last year, the wage index has risen 3.7 percent. Wage increases have been especially small in manufacturing and construction. Rapid cyclical productivity gains continued to damp the rise in labor costs as output per hour in the nonfarm business sector rose about 3 percent in the third quarter.

The consumer price index in October rose at a 5-1/4 percent annual rate, essentially unchanged from the average pace in the third quarter. An easing of energy prices offset a drought-induced increase in food prices. Excluding food and energy, the CPI in recent months has been rising at about a 6 percent rate, compared with a 4-1/4 percent pace in the first half of the year. Price increases in recent months have been particularly large for new and used cars. Producer prices of finished goods were up in October at a 3-3/4 annual rate, somewhat above the pace in the third quarter.

Outlook. The staff estimates that real GNP will increase by about 6-1/4 percent at an annual rate in the fourth quarter, a deceleration from the 7-3/4 percent rate of expansion in the third quarter. Consumption spending has been rising more strongly than in the third quarter, and a further swing toward inventory accumulation is projected. In addition, business fixed investment is expected to show continued strength. However, after strong advances in previous quarters, housing construction appears to be leveling off in the current quarter, and net exports are projected to continue weakening. Moreover, because of an expected reduction in inventories held by the Commodity Credit Corporation, total government purchases are forecasted to decline.

The staff's assumptions about monetary policy are little changed since the last Greenbook. M2 is assumed to grow 8 percent or slightly more during 1984--near in the middle of the FOMC's tentative range. Interest rates are projected to remain near current levels next year. For fiscal policy, the staff estimates the budget deficit for fiscal year 1984 at roughly \$190 billion, about the same as in the last

Greenbook; we continue to assume no significant new tax legislation affecting fiscal 1984.

The staff's projections of both real growth and inflation in 1984 have changed little since the last Greenbook. After rising 6-1/2 percent during 1983, real GNP is expected to grow about 4-1/4 percent during 1984. Growth in consumption spending and housing outlays are expected to moderate from the rapid pace of 1983, and the boost to real growth generated by inventory accumulation is expected to diminish. However, strength is likely to persist in the capital spending sector, reflecting rising capacity utilization and improved profitability. In addition, federal outlays for defense are expected to support the expansion of the economy. Exports of goods and services also are projected to be a source of strength; but with the dollar remaining stronger than expected in the last Greenbook, the gains are likely to occur somewhat later in 1984 than previously expected.

Reflecting the surprisingly rapid decline in unemployment in October and November, the average level of the unemployment rate is now projected to be somewhat lower in 1984 than in the last Greenbook. However, the jobless rate is expected to decline only slowly over the course of the year, as the continued expansion of employment is likely to induce a pickup in labor force growth; by yearend, the staff projects a 7-3/4 percent unemployment rate. With a large increase in payroll taxes and a lower unemployment rate, labor costs are projected to rise somewhat faster in 1984 than in 1983. Reflecting tighter conditions

in labor and product markets, and rising import prices stemming from an expected depreciation of the dollar, prices are expected to rise a little faster next year than in 1983. The fixed-weighted price index for gross business product is projected to increase 4-3/4 percent during the next year, about 1/2 percentage point more than during 1983.

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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				
11/9/83	12/14/83	11/9/83	12/14/83	11/9/83	12/14/83	11/9/83	12/14/83	11/9/83	12/14/83	
Annual changes:										
1981 <1>	12.2	12.2	2.6	2.6	9.5	9.5	9.3	9.3	7.6	7.6
1982 <1>	4.0	4.0	-1.9	-1.9	6.0	6.0	6.9	6.9	9.7	9.7
1983	7.9	7.9	3.5	3.4	4.2	4.2	5.0	5.0	9.6	9.6
1984	10.1	10.2	5.5	5.5	4.7	4.6	4.6	4.6	8.3	8.0
Quarterly changes:										
1982 Q1 <1>	-1.4	-1.4	-5.5	-5.5	4.9	4.9	5.8	5.8	8.8	8.8
Q2 <1>	6.6	6.6	1.0	1.0	4.5	4.5	6.4	6.4	9.4	9.4
Q3 <1>	2.7	2.7	-1.0	-1.0	5.8	5.8	5.4	5.4	10.0	10.0
Q4 <1>	2.5	2.5	-1.3	-1.3	3.8	3.8	3.9	3.9	10.7	10.7
1983 Q1 <1>	8.2	8.2	2.6	2.6	3.6	3.6	6.7	6.7	10.3	10.3
Q2 <1>	13.3	13.3	9.7	9.7	4.1	4.1	3.5	3.5	10.1	10.1
Q3 <1>	11.6	11.2	7.9	7.7	4.1	4.4	4.8	5.1	9.4	9.4
Q4	11.2	11.6	6.3	6.3	4.8	4.5	4.7	4.6	8.7	8.5
1984 Q1	9.8	10.0	4.8	4.8	4.7	4.8	4.7	4.7	8.6	8.1
Q2	8.9	8.7	4.2	4.1	4.8	4.8	4.7	4.7	8.4	8.0
Q3	8.8	8.8	4.2	4.2	4.9	4.8	4.7	4.5	8.2	7.9
Q4	9.0	8.9	4.2	4.1	5.0	4.9	4.9	4.8	8.0	7.8
Two-quarter changes: <2>										
1982 Q2 <1>	2.5	2.5	-2.3	-2.3	4.7	4.7	6.1	6.1	1.1	1.1
Q4 <1>	2.6	2.6	-1.2	-1.2	4.7	4.7	4.6	4.6	1.3	1.3
1983 Q2 <1>	10.7	10.7	6.1	6.1	3.9	3.9	5.1	5.1	-6	-6
Q4	11.4	11.4	7.1	7.0	4.5	4.4	4.8	4.9	-1.4	-1.6
1984 Q2	9.4	9.3	4.5	4.4	4.8	4.8	4.7	4.7	-3	-5
Q4	8.9	8.9	4.2	4.1	5.0	4.9	4.8	4.7	-4	-2
Four-quarter changes: <3>										
1981 Q4 <1>	10.8	10.8	2.0	2.0	8.7	8.7	9.2	9.2	.9	.9
1982 Q4 <1>	2.6	2.6	-1.7	-1.7	4.7	4.7	5.4	5.4	2.4	2.4
1983 Q4	11.1	11.1	6.6	6.5	4.2	4.2	4.9	5.0	-2.0	-2.2
1984 Q4	9.1	9.1	4.3	4.3	4.9	4.8	4.7	4.7	-7	-7

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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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.)

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2866.6	2912.5	3004.9	3032.2	3021.4	3070.2	3090.7	3109.6
Final sales	2855.7	2897.5	2971.4	3017.9	3047.1	3081.4	3095.6	3165.9
Private	2279.4	2314.0	2371.1	2395.1	2417.3	2449.8	2439.9	2486.2
Domestic final purchases	2247.5	2292.9	2348.3	2365.9	2387.4	2416.5	2439.0	2480.6
Personal consumption expenditures	1802.8	1835.8	1886.1	1904.1	1938.9	1972.8	2008.8	2046.9
Goods	953.2	964.0	984.6	978.5	989.1	997.6	1010.0	1025.1
Services	849.6	871.8	901.5	925.6	949.7	975.2	998.9	1021.8
Gross private domestic investment	455.5	472.1	495.8	476.2	422.9	432.5	425.3	377.4
Residential structures	111.6	109.5	101.7	94.3	87.3	91.0	87.9	96.8
Business fixed investment	333.1	347.6	360.6	367.6	361.3	352.7	342.3	337.0
Change in business inventories	10.9	15.0	33.6	14.3	-25.7	-11.2	-4.9	-56.4
Nonfarm	8.1	5.0	24.1	6.2	-27.6	-8.8	-2.3	-53.7
Net exports of goods and services <1>	31.9	21.1	22.8	29.2	29.9	33.3	.9	5.6
Exports	367.3	369.2	367.5	371.0	358.4	364.5	346.0	321.6
Imports	335.4	348.1	344.7	341.7	328.5	331.2	345.0	316.1
Gov't. purchases of goods and services	576.3	583.5	600.3	622.8	629.8	631.6	655.7	679.7
Federal <2>	215.7	220.4	232.4	248.5	249.7	244.1	261.7	279.2
State and local	360.5	363.2	367.9	374.3	380.0	387.5	394.0	400.5
Gross national product in constant (1972) dollars	1510.1	1512.5	1525.8	1506.9	1485.8	1489.3	1485.7	1480.7
Personal income	2338.3	2394.2	2490.9	2516.6	2528.1	2563.2	2591.3	2632.0
Wage and salary disbursements	1451.7	1478.1	1512.3	1530.6	1542.8	1563.8	1579.8	1586.0
Disposable personal income	1967.6	2010.4	2092.0	2120.5	2127.9	2159.0	2191.5	2227.8
Saving rate (percent)	5.7	6.0	7.2	7.5	6.1	5.9	5.6	5.4
Corporate profits with I.V.A. and C.C. Adj.	194.7	185.0	197.6	192.0	162.0	166.8	168.5	161.9
Corporate profits before tax	243.9	219.0	227.7	217.2	173.2	178.8	177.3	167.5
Federal government surplus or deficit (-) (N.I.A. basis)	-43.4	-47.3	-62.4	-95.8	-108.5	-113.2	-158.3	-208.2
High employment surplus or deficit (-) <3>	-15.4	-12.3	-29.7	-46.4	-38.1	-32.7	-64.9	-99.6
State and local government surplus or deficit(-) (N.I.A. basis)	35.3	36.7	37.3	32.0	28.8	32.0	31.3	32.9
Excluding social insurance funds	5.4	6.1	5.9	.2	-3.5	-.8	-2.1	-1.2
Civilian labor force (millions)	108.2	108.8	108.6	109.1	109.3	110.1	110.6	111.0
Unemployment rate (percent)	7.4	7.4	7.4	8.3	8.8	9.4	10.0	10.7
Nonfarm payroll employment (millions)	91.0	91.2	91.4	91.0	90.3	89.9	89.3	88.8
Manufacturing	20.2	20.3	20.3	19.9	19.4	19.1	18.7	18.3
Industrial production (1967=100)	151.8	152.5	153.0	146.3	141.7	139.4	138.2	135.2
Capacity utilization: all manufacturing (percent)	80.6	80.8	80.3	75.9	72.9	71.6	71.1	69.0
Materials (percent)	82.7	81.9	82.0	76.2	73.0	70.7	69.4	67.2
Housing starts, private (million units, A.R.)	1.39	1.18	.96	.87	.90	.95	1.12	1.26
New auto sales (millions, A.R.)	9.96	7.89	9.04	7.36	8.12	7.53	7.78	8.57
Domestic models	7.31	5.63	6.90	5.13	5.90	5.53	5.56	6.08
Foreign models	2.66	2.25	2.14	2.23	2.22	1.99	2.22	2.49

<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.

<3> Estimates in table are evaluated at a 6.0 percent high employment unemployment rate.

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

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	9.0	.7	3.6	-4.9	-5.5	1.0	-1.0	-1.3
Final sales	6.8	-.9	1.6	-2.3	-1.3	-.8	-1.5	4.5
Private	7.3	-.6	1.1	-3.7	-1.6	.1	-4.0	3.0
Domestic final purchases	6.6	.8	2.6	-3.9	.0	.8	-.9	3.4
Personal consumption expenditures	5.9	.5	3.5	-3.0	2.4	3.1	.9	3.6
Goods	8.3	-1.6	3.5	-6.8	2.0	1.5	-.1	5.1
Services	3.3	2.8	3.6	1.4	2.9	4.7	2.1	1.9
Gross private domestic investment	26.3	12.9	12.3	-22.4	-34.1	3.4	-5.8	-34.6
Residential structures	-2.3	-11.7	-30.7	-30.2	-28.5	17.9	-13.0	53.2
Business fixed investment	13.2	6.0	8.7	-1.6	-5.9	-14.3	-8.8	-6.6
Gov't. purchases of goods and services	4.5	-2.0	3.8	3.9	-.2	-5.0	9.4	10.6
Federal	12.5	2.2	15.2	10.0	.2	-14.0	26.3	28.3
National defense	6.7	13.4	6.3	7.5	-1.3	13.0	14.0	5.1
State and local	.1	-4.6	-2.7	.2	-.5	1.3	-.4	-.1
Disposable personal income	4.4	1.9	8.9	-1.4	-3.4	1.9	-.3	2.6
<u>Current Dollars</u>								
Gross national product	20.5	6.6	13.3	3.7	-1.4	6.6	2.7	2.5
Final sales	16.1	6.0	10.6	6.4	3.9	4.6	1.9	9.4
Private	16.9	6.2	10.2	4.1	3.8	5.5	-1.6	7.8
Domestic final purchases	15.3	8.3	10.0	3.0	3.7	5.0	3.8	7.0
Personal consumption expenditures	14.7	7.5	11.4	3.9	7.5	7.2	7.5	7.8
Goods	16.6	4.6	8.8	-2.5	4.4	3.5	5.1	6.1
Services	12.7	10.9	14.3	11.1	10.8	11.2	10.1	9.5
Gross private domestic investment	49.9	15.4	21.6	-14.9	-37.8	9.5	-6.5	-38.0
Residential structures	7.9	-7.5	-25.6	-26.0	-26.5	18.2	-13.0	46.9
Business fixed investment	21.4	18.7	15.8	8.0	-6.7	-9.1	-11.3	-6.0
Gov't. purchases of goods and services	12.9	5.1	12.0	15.9	4.6	1.2	16.1	15.5
Federal	18.8	8.9	23.6	30.7	2.1	-8.7	32.1	29.5
National defense	12.9	23.8	10.2	33.9	3.5	18.0	20.8	16.5
State and local	9.6	2.9	5.3	7.2	6.2	8.1	6.8	6.8
Disposable personal income	13.1	9.0	17.2	5.6	1.4	6.0	6.1	6.8
Personal income	13.6	9.9	17.2	4.2	1.8	5.7	4.5	6.4
Wage and salary disbursements	11.7	7.5	9.6	4.9	3.2	5.6	4.2	1.6
Corporate profits with I.V.A. and C.C. Adj.	51.1	-18.5	30.2	-10.9	-49.3	12.4	4.1	-14.8
Corporate profits before tax	17.2	-35.0	16.9	-17.2	-59.6	13.6	-3.3	-20.3
Nonfarm payroll employment	1.7	.9	1.1	-1.8	-3.0	-1.8	-2.7	-2.3
Manufacturing	.8	2.4	.1	-7.2	-9.5	-7.5	-7.7	-8.6
Nonfarm business sector								
Output per hour	5.2	.4	3.8	-4.4	.1	-.4	2.3	1.3
Compensation per hour	11.5	7.3	9.6	7.6	10.0	5.8	7.2	5.8
Unit labor costs	6.0	6.9	5.6	12.6	9.9	6.2	4.7	4.4
GNP implicit deflator <1>	10.6	5.9	9.4	9.0	4.3	5.6	3.7	3.8
Gross domestic business product								
fixed-weighted price index <2>	10.6	8.1	9.2	7.2	4.9	4.5	5.8	3.8
Excluding food and energy	9.0	8.9	10.6	8.2	5.8	6.4	5.4	3.9
Consumer price index (all urban)	10.5	8.5	12.1	7.1	3.0	5.3	7.7	1.9
Industrial production	8.4	1.9	1.4	-16.6	-11.8	-6.5	-3.4	-8.2

<1> Excluding Federal pay increases, rates of change were: 1981-Q1, 10.5 percent; 1981-Q4, 8.1 percent; 1982-Q1, 4.2 percent; 1982-Q4, 3.5 percent.

<2> Uses expenditures in 1972 as weights.

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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.)

	1983				Projected 1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3171.5	3272.0	3360.3	3453.6	3536.6	3611.1	3688.5	3768.0
Final sales	3210.9	3286.6	3351.7	3418.3	3487.1	3578.8	3657.2	3735.5
Private	2533.5	2603.2	2652.3	2714.4	2767.6	2825.9	2883.4	2943.3
Domestic final purchases	2516.5	2611.7	2672.5	2747.5	2815.3	2882.1	2945.2	3006.3
Personal consumption expenditures	2073.0	2147.0	2182.9	2246.6	2298.3	2348.2	2394.3	2441.0
Goods	1035.6	1077.3	1099.3	1131.6	1158.5	1183.6	1205.4	1226.6
Services	1037.4	1069.7	1083.6	1115.0	1139.8	1164.6	1188.9	1214.4
Gross private domestic investment	404.1	450.1	498.2	536.2	566.5	566.2	582.2	597.8
Residential structures	111.3	128.4	139.9	139.9	144.4	148.9	152.9	153.9
Business fixed investment	332.1	336.3	349.6	361.0	372.6	385.0	398.0	411.4
Change in business inventories	-39.4	-14.5	8.7	35.3	49.5	32.3	31.3	32.5
Nonfarm	-39.0	-10.3	18.8	36.9	45.5	36.3	30.3	31.5
Net exports of goods and services <1>	17.0	-8.5	-20.2	-33.1	-47.7	-56.2	-61.8	-63.0
Exports	326.9	327.1	341.1	346.3	351.9	361.5	371.3	382.5
Imports	309.9	335.6	361.3	379.4	399.6	417.7	433.1	445.5
Gov't. purchases of goods and services	677.4	683.4	699.4	703.9	719.5	752.9	773.8	792.2
Federal <2>	273.5	273.7	278.9	272.9	278.9	303.0	314.3	323.1
State and local	404.0	409.7	420.6	431.0	440.6	449.9	459.5	469.1
Gross national product in constant (1972) dollars	1490.1	1525.1	1553.6	1577.6	1596.3	1612.3	1628.8	1645.1
Personal income	2657.7	2713.6	2763.2	2847.6	2916.1	2968.6	3028.8	3090.9
Wage and salary disbursements	1610.7	1648.4	1682.0	1723.9	1762.1	1798.0	1834.0	1871.2
Disposable personal income	2255.9	2301.0	2363.1	2432.3	2487.5	2532.6	2582.6	2634.4
Saving rate (percent)	5.4	4.0	4.9	4.9	4.9	4.6	4.6	4.7
Corporate profits with I.V.A. and C.C. Adj.	181.8	218.2	246.2	260.0	265.4	261.4	272.6	282.7
Corporate profits before tax	169.7	203.3	227.2	235.6	236.0	227.0	234.2	240.3
Federal government surplus or deficit (-) (N.I.A. basis)	-183.3	-166.1	-188.5	-186.5	-180.2	-182.9	-186.0	-187.7
High employment surplus or deficit (-) <3>	-72.4	-65.2	-103.1	-111.0	-110.0	-118.2	-126.4	-132.2
State and local government surplus or deficit (-) (N.I.A. basis)	40.4	51.7	55.3	59.5	59.8	56.9	55.1	53.9
Excluding social insurance funds	5.5	16.1	18.7	22.3	22.0	18.5	16.0	14.1
Civilian labor force (millions)	110.5	111.2	112.2	112.1	112.8	113.3	113.8	114.3
Unemployment rate (percent)	10.3	10.1	9.4	8.5	8.1	8.0	7.9	7.8
Nonfarm payroll employment (millions)	88.8	89.5	90.3	91.4	92.2	92.9	93.6	94.3
Manufacturing	18.3	18.5	18.8	19.1	19.5	19.8	20.1	20.4
Industrial production (1967=100)	138.5	144.5	151.8	156.2	158.7	161.0	163.3	165.5
Capacity utilization: all manufacturing (percent)	70.7	73.9	77.4	79.2	80.1	81.0	81.8	82.5
Materials (percent)	70.1	73.5	77.5	79.6	81.0	82.1	83.3	84.3
Housing starts, private (million units, A.R.)	1.69	1.68	1.79	1.65	1.70	1.70	1.73	1.73
New auto sales (millions, A.R.)	8.46	9.10	9.22	9.70	9.75	10.00	10.15	10.25
Domestic models	6.06	6.81	6.92	7.15	7.40	7.50	7.60	7.70
Foreign models	2.40	2.28	2.31	2.55	2.35	2.50	2.55	2.55

<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.

<3> Estimates in table are evaluated at a 6.0 percent high employment unemployment rate.

CONFIDENTIAL - FR
CLASS II FOMC

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

	1983				Projected 1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	2.6	9.7	7.7	6.3	4.8	4.1	4.2	4.1
Final sales	.6	6.8	5.1	3.1	2.9	6.5	4.3	4.0
Private	3.0	8.8	5.1	4.9	3.4	4.4	3.8	3.9
Domestic final purchases	3.9	11.9	5.8	7.5	5.4	4.7	3.6	3.2
Personal consumption expenditures	2.9	10.0	3.0	7.5	4.4	3.6	2.4	2.4
Goods	4.4	13.5	4.4	8.3	5.1	3.9	2.2	2.1
Services	1.4	6.4	1.5	6.7	3.6	3.3	2.6	2.7
Gross private domestic investment	28.7	49.8	41.9	31.8	22.5	-5.4	7.7	6.9
Residential structures	57.3	79.5	30.1	-4.3	8.4	7.9	5.8	-2.6
Business fixed investment	-1.5	7.9	16.3	11.6	10.5	10.2	9.9	9.7
Gov't. purchases of goods and services	-8.8	-1.1	5.3	-4.6	1.1	16.2	6.6	4.6
Federal	-18.0	-2.8	6.0	-16.4	-2.1	39.9	12.1	7.4
National defense	6.5	7.4	1.8	14.4	9.6	9.2	7.3	5.9
State and local	-1.8	.0	4.7	4.0	3.2	2.9	2.9	2.7
Disposable personal income	2.9	3.5	7.2	7.6	4.2	2.2	2.4	2.6
<u>Current Dollars</u>								
Gross national product	8.2	13.3	11.2	11.6	10.0	8.7	8.8	8.9
Final sales	5.8	9.8	8.2	8.2	8.3	10.9	9.0	8.8
Private	7.8	11.5	7.8	9.7	8.1	8.7	8.4	8.6
Domestic final purchases	5.9	16.0	9.6	11.7	10.2	9.8	9.0	8.6
Personal consumption expenditures	5.2	15.1	6.9	12.2	9.5	9.0	8.1	8.0
Goods	4.2	17.1	8.4	12.3	9.9	9.0	7.6	7.2
Services	6.3	13.0	5.3	12.1	9.2	9.0	8.6	8.9
Gross private domestic investment	31.4	53.9	50.1	34.2	24.6	-.2	11.8	11.2
Residential structures	75.3	76.7	41.1	.0	13.5	13.1	11.2	2.6
Business fixed investment	-5.7	5.1	16.9	13.7	13.5	14.0	14.2	14.2
Gov't. purchases of goods and services	-1.3	3.6	9.7	2.6	9.2	19.9	11.6	9.9
Federal	-8.0	.3	7.7	-8.3	9.1	39.3	15.8	11.7
National defense	7.8	10.7	5.1	19.7	19.7	14.9	12.6	11.3
State and local	3.5	5.8	11.0	10.3	9.2	8.7	8.8	8.6
Disposable personal income	5.1	8.2	11.2	12.2	9.4	7.5	8.1	8.3
Personal income	4.0	8.7	7.5	12.8	10.0	7.4	8.4	8.5
Wage and salary disbursements	6.4	9.7	8.4	10.3	9.2	8.4	8.3	8.4
Corporate profits with I.V.A. and C.C. Adj.	59.0	107.5	62.1	24.3	8.6	-5.8	18.1	15.7
Corporate profits before tax	5.4	106.0	56.0	15.5	.8	-14.3	13.1	10.9
Nonfarm payroll employment	.1	2.9	3.6	5.2	3.4	3.2	3.0	3.1
Manufacturing	-.1	5.2	7.0	7.7	6.9	6.3	6.2	6.0
Nonfarm business sector								
Output per hour	3.7	6.6	3.1	3.0	1.3	.6	.9	1.1
Compensation per hour	6.8	4.3	4.2	4.5	6.8	5.2	5.3	5.4
Unit labor costs	3.0	-2.1	1.1	1.4	5.4	4.6	4.4	4.2
GNP implicit deflator <1>	5.5	3.3	3.3	4.9	4.9	4.4	4.5	4.6
Gross domestic business product								
fixed-weighted price index <2>								
Excluding food and energy	6.7	3.5	5.1	4.6	4.7	4.7	4.5	4.8
Consumer price index (all urban)	-4	4.3	4.7	5.4	5.2	5.2	5.4	5.3
Industrial production	10.1	18.4	21.4	12.1	6.6	5.9	5.8	5.5

<1> Excluding Federal pay increases, the rate of change in 1984-Q1 is 4.5 percent.
<2> Uses expenditures in 1972 as weights.

December 14, 1983

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

	1977	1978	1979	1980	1981	1982	---Projected---	
							1983	1984
Gross national product	1918.3	2163.9	2417.8	2631.7	2954.1	3073.0	3314.4	3651.0
Final sales	1895.3	2137.4	2403.5	2641.5	2935.6	3097.5	3316.9	3614.6
Private	1501.5	1705.5	1929.1	2103.7	2339.9	2421.3	2625.9	2855.0
Domestic final purchases	1505.5	1706.6	1915.9	2079.7	2313.6	2435.9	2637.0	2912.2
Personal consumption expenditures	1204.4	1346.5	1507.2	1668.1	1857.2	1991.9	2162.4	2370.4
Goods	657.0	728.5	813.5	883.5	970.0	1005.5	1085.9	1193.5
Services	547.4	618.0	693.7	784.5	887.1	986.4	1076.4	1176.9
Gross private domestic investment	324.1	386.6	423.0	401.9	474.9	414.5	472.1	578.2
Residential construction	95.8	111.2	118.6	102.9	104.3	90.8	129.9	150.0
Business fixed investment	205.2	248.9	290.2	308.8	352.2	348.3	344.7	391.7
Change in business inventories	23.0	26.5	14.3	-9.8	18.5	-24.5	-2.5	36.4
Nonfarm	21.9	25.4	8.6	-4.5	10.9	-23.1	1.6	35.9
Net exports of goods and services <1>	-4.0	-1.1	13.2	23.9	26.3	17.4	-11.2	-57.2
Exports	182.7	218.7	281.4	338.8	368.8	347.6	335.4	366.8
Imports	186.7	219.8	268.1	314.8	342.5	330.2	346.5	424.0
Gov't. purchases of goods and services	393.8	431.9	474.4	537.8	595.7	649.2	691.0	759.6
Federal <2>	143.4	153.6	168.3	197.0	229.2	258.7	274.7	304.8
State and local	250.4	278.3	306.0	340.8	366.5	390.5	416.3	454.8
Gross national product in constant (1972) dollars	1369.7	1438.6	1479.4	1475.0	1513.8	1485.4	1536.6	1620.6
Personal income	1540.4	1732.7	1951.2	2165.3	2435.0	2578.6	2745.5	3001.1
Wage and salary disbursements	983.2	1106.3	1237.6	1356.7	1493.2	1568.1	1666.2	1816.3
Disposable personal income	1314.0	1474.0	1650.2	1828.9	2047.6	2176.5	2338.1	2559.2
Saving rate (percent)	5.9	6.1	5.9	6.0	6.6	5.8	4.8	4.7
Corporate profits with I.V.A. and C.C.Adj.	167.3	192.4	194.8	175.4	192.3	164.8	226.5	270.5
Corporate profits before tax	194.7	229.1	252.7	234.6	227.0	174.2	208.9	234.4
Federal government surplus or deficit(-) (N.I.A. basis)	-45.9	-29.5	-16.1	-61.2	-62.2	-147.1	-181.1	-184.2
High employment surplus or deficit(-)	-30.6	-29.2	-18.6	-36.0	-25.9	-58.8	-87.9	-121.7
State and local government surplus or deficit (-) (N.I.A. basis)	28.0	30.3	30.4	30.6	35.3	31.3	51.7	56.4
Excluding social insurance funds	10.1	10.0	6.6	3.5	4.4	-1.9	15.6	17.6
Civilian labor force (millions)	99.0	102.3	105.0	106.9	108.7	110.2	111.5	113.6
Unemployment rate (percent)	7.1	6.1	5.8	7.1	7.6	9.7	9.6	8.0
Nonfarm payroll employment (millions)	82.5	86.7	89.8	90.4	91.2	89.6	90.0	93.2
Manufacturing	19.7	20.5	21.0	20.3	20.2	18.9	18.7	19.9
Industrial production (1967=100)	138.1	146.1	152.5	147.0	150.9	138.6	147.7	162.1
Capacity utilization: all manufacturing (percent)	82.2	84.7	86.0	79.6	79.4	71.1	75.3	81.3
Materials (percent)	82.6	85.6	87.6	80.4	80.7	70.1	75.2	82.7
Housing starts, private (million units, A.R.)	1.96	2.00	1.72	1.30	1.10	1.06	1.71	1.72
New auto sales (millions, A.R.)	11.13	11.29	10.68	9.04	8.56	8.00	9.12	10.04
Domestic models	9.07	9.29	8.36	6.62	6.24	5.77	6.74	7.55
Foreign models	2.06	2.00	2.32	2.42	2.32	2.23	2.38	2.49

<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.

CONFIDENTIAL - FR
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1977	1978	1979	1980	1981	1982	--Projected--	
							1983	1984
<u>Constant (1972) Dollars</u>								
Gross national product	5.5	5.0	2.8	-.3	2.6	-1.9	3.4	5.5
Final sales	5.1	4.9	3.5	.5	1.8	-.7	2.8	4.4
Private	6.0	5.6	4.0	.1	2.0	-1.3	3.4	4.5
Domestic final purchases	6.5	5.5	2.9	-1.0	2.7	-.1	4.9	5.7
Personal consumption expenditures	5.0	4.5	2.7	.5	2.7	1.4	4.4	4.6
Goods	5.1	4.2	1.9	-1.4	2.1	.1	5.7	5.3
Services	4.9	4.8	3.7	2.7	3.3	2.9	3.0	3.8
Gross private domestic investment	16.1	10.5	-.2	-11.8	9.2	-14.5	12.5	18.5
Residential structures	18.6	2.8	-5.3	-20.3	-5.1	-15.4	38.8	10.2
Business fixed investment	11.7	12.8	7.3	-2.4	5.2	-4.8	.3	11.0
Gov't. purchases of goods and services	1.5	2.0	1.3	2.2	.8	1.8	.5	3.9
Federal	3.7	-.1	1.8	4.2	3.8	5.6	.6	5.1
National defense	.8	.4	2.6	3.9	5.2	7.1	7.5	8.7
State and local	.2	3.3	1.1	1.0	-1.0	-.5	.4	3.2
Disposable personal income	4.0	4.9	2.7	.6	3.2	.5	3.3	4.4
<u>Current Dollars</u>								
Gross national product	11.7	12.8	11.7	8.8	12.2	4.0	7.9	10.2
Final sales	11.1	12.8	12.4	9.9	11.1	5.5	7.1	9.0
Private	11.7	13.6	13.1	9.0	11.2	4.6	7.3	8.7
Domestic final purchases	13.2	13.4	12.3	8.5	11.2	5.1	8.5	10.4
Personal consumption expenditures	11.1	11.8	11.9	10.7	11.3	7.3	8.6	9.6
Goods	9.8	10.9	11.7	8.6	9.8	3.7	8.0	9.9
Services	12.7	12.9	12.2	13.1	13.1	11.2	9.1	9.3
Gross private domestic investment	25.7	19.3	9.4	-5.0	18.2	-12.7	13.9	22.5
Residential structures	33.1	16.1	6.6	-13.2	1.4	-13.0	43.1	15.5
Business fixed investment	17.9	21.3	16.6	6.4	14.1	-1.1	-1.0	13.6
Gov't. purchases of goods and services	8.8	9.7	9.8	13.4	10.8	9.0	6.4	9.9
Federal	11.0	7.1	9.6	17.1	16.3	12.9	6.2	10.9
National defense	8.0	8.0	11.5	17.3	17.4	16.5	12.4	14.9
State and local	7.5	11.2	9.9	11.4	7.5	6.6	6.6	9.2
Disposable personal income	10.0	12.2	12.0	10.8	12.0	6.3	7.4	9.5
Personal income	10.7	12.5	12.6	11.0	12.5	5.9	6.5	9.3
Wage and salary disbursements	10.5	12.5	11.9	9.6	10.1	5.0	6.3	9.0
Corporate profits with I.V.A. and C.C.Adj.	21.1	15.0	1.3	-9.9	9.6	-14.3	37.5	19.4
Corporate profits before tax	17.1	17.7	10.3	-7.1	-3.3	-23.2	19.9	12.2
Nonfarm payroll employment	3.9	5.1	3.6	.6	.8	-1.7	.4	3.6
Manufacturing	3.6	4.2	2.6	-3.6	-.6	-6.5	-1.0	6.7
Nonfarm business sector								
Output per hour	2.2	.6	-1.5	-.7	1.9	-.1	3.3	2.0
Compensation per hour	7.5	8.6	9.0	10.4	9.8	7.8	5.7	5.3
Unit labor costs	5.2	8.0	10.7	11.1	7.7	7.9	2.3	3.3
GNP implicit deflator	5.8	7.4	8.6	9.2	9.4	6.0	4.2	4.5
Gross domestic business product								
fixed-weighted price index <1>	6.1	8.0	9.9	10.0	9.5	6.0	4.2	4.6
Excluding food and energy	6.3	7.8	8.6	8.5	9.3	6.9	5.0	4.6
Consumer price index (all urban)	6.5	7.6	11.3	13.5	10.3	6.2	3.3	5.1
Industrial production	5.9	5.8	4.4	-3.6	2.6	-8.1	6.6	9.8

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1982*	Fiscal Year 1983*	FY1984e 2/		CY 1982*	CY1983e/ F.R. Board	FRB Staff Estimates								
			Admin. 1/	F.R. Board			Calendar quarters; not seasonally adjusted								
							1982			1983			1984		
						IV*	I*	II*	III*	IV	I	II	III		
Unified budget receipts	618	601	668	667	609	612	137	140	167	157	148	158	186	174	
Unified budget outlays	728	796	848	856	740	802	205	201	196	194	211	213	217	215	
Surplus/deficit(-), unified budget	-111	-195	-180	-189	-131	-190	-68	-61	-29	-37	-63	-55	-31	-41	
Surplus/deficit(-), off-budget agencies ³	-17	-12	-14	-12	-15	-11	-1	-2	-4	-5	0	-3	-5	-5	
Combined deficit to be financed	-128	-208	-194	-202	-146	-202	-69	-63	-34	-42	-63	-58	-35	-45	
Means of financing combined deficit:															
Net borrowing from public	135	212	194	181	161	186	62	56	47	48	36	53	49	43	
Decrease in cash operating balance	-11	-8	0	17	-8	11	10	4	-13	-9	28	-1	-10	0	
Other ⁴	4	3	0	3	-8	5	-2	3	-1	4	-0	6	-4	2	
Cash operating balance, end of period	29	37	20	20	20	9	20	15	28	37	9	10	20	20	
Memo: Sponsored agency borrowing ⁵	20	-3	n.a.	14	17	1	-2	-3	0	1	2	4	4	4	
NIA Budget							Seasonally adjusted annual rates								
Receipts	628	634	701	700	617	647	613	623	653	646	667	698	709	727	
Expenditures	740	820	873	884	764	828	821	807	819	834	853	878	892	913	
Purchases	251	276	300	292	259	275	279	274	274	279	273	279	303	314	
Defense	173	197	227	224	179	202	191	194	199	202	211	221	229	236	
Nondefense	78	80	73	68	79	73	89	79	74	77	62	58	74	79	
All other expenditures	489	544	573	592	506	553	542	533	545	555	580	599	589	599	
Surplus/deficit(-)	-112	-187	-172	-184	-147	-181	-208	-183	-166	-189	-186	-180	-183	-186	
High Employment (N.R.) surplus/deficit(-) evaluated at the unemployment rate of 6 percent	-46	-85	-83	-116	-59	-88	-100	-72	-65	-103	-111	-110	-118	-126	
	*—actual		e—estimated				n.a.—not available								

1. Mid-Session Review of the 1984 Budget, July 1983.

2. The August CBO estimate of the First Concurrent Resolution on the Budget -- Fiscal Year 1984 indicated revenues of \$677 billion and outlays of \$860 billion. The lack of Congressional action on revenue measures led CBO to reestimate FY1984 receipts to be \$666 billion and outlays to be \$858 billion.

3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the Strategic Petroleum Reserve.

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

5. FRB staff estimates and actuals include Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage-backed securities), Federal Land Banks, Federal Intermediate Credit Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis.

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

Recent developments. M1 growth continued weak in November, registering essentially no change. Growth in nontransactions balances--particularly small time deposits--remained strong, however, and M2 rose at just under an 8 percent rate during the month. The rate of M3 growth spurted to 12.5 percent, but much of this acceleration reflected a transitory adjustment of managed liabilities as Treasury balances dropped sharply while bank credit growth remained fairly strong. All the monetary aggregates remained within their longer-run ranges, although M1 was near its lower bound and M3 near its upper limit.

Interest rates moved up, on balance, during the intermeeting period. The federal funds rate remained, on average, in the 9-1/4 to 9-1/2 percent range that has prevailed since August, but market expectations changed in response to evidence of continued, and perhaps surprising, strength in the economic recovery. Short-term rates increased by about 30 to 40 basis points while longer-term Treasury yields moved up slightly less.

Commitment rates on conventional fixed-rate mortgages did not rise along with other rates. After trending downward in late summer and early fall, these interest rates have leveled out during most of the period, remaining in a narrow range around 13.4 percent. Similarly, ARM rates have been fairly stable. Nonetheless, rates appear to have been high enough during the fall to cause some softening of mortgage demand. In October, new commitments for mortgages at S&Ls slowed considerably from the rapid third-quarter pace.

As in the case of mortgage rates, lending rates for consumer credit have flattened out recently after a period of decline. In contrast to

home loans, however, consumer credit growth has strengthened recently. Consumer installment credit advanced at a rapid 16 percent rate in October, about doubling the September pace and exceeding the average third-quarter rate. Growth of consumer loans at banks remained brisk in November but was somewhat below the heady 25 percent rate in October.

Financing demands of nonfinancial business, on the other hand, are remaining fairly moderate in the current quarter, despite the rise of investment (fixed capital and inventories) above internal funds. Growth in short-term financing at banks and in the commercial paper market, which had picked up in the summer, has accelerated only a little further since then. Meanwhile, at the prevailing level of longer-term corporate bond rates, nonfinancial corporations--especially industrial firms--have been issuing only a small volume of bonds. Equity issuance by nonfinancial firms has also slowed in the past couple of months as the stock market has shown no sustained vigor.

In the municipal sector, interest rates have risen in response to the pressure of large supplies. Although there was a temporary lull in November, offerings of long-term bonds by state and local governments in December have accelerated to a very rapid pace. Issuance of tax-exempt bonds for private purposes is the dominant feature of the current period as state and local agencies strive to raise the maximum amount permitted prior to the possible imposition of new restrictions. Authorization for mortgage subsidy bonds for owner-occupied residences lapses on December 30 until further congressional action is taken. Also under consideration are new limitations on industrial development bonds.

In the federal sector, credit demands also remain strong as the growing structural deficit has offset the effect of the economic recovery. Marketable borrowing in the current quarter, however, appears likely to fall somewhat short of the Treasury's November estimate owing to delays in raising the debt ceiling.

Outlook. The monetary and credit aggregates appear likely to remain within their ranges for this year, although M3 may be well the upper end of its target, while M1 will be low in its range. As the new year begins with a continued solid pace of economic expansion, however, demands for money and credit may strengthen, putting some upward pressures on interest rates over the winter months.

Federal borrowing requirements will again be sizable in the first quarter. It appears that issuance of marketable debt will be within the range of \$50 billion to \$55 billion that the Treasury tentatively projected in November, while the cash balance will remain near the more normal level likely to be reached by the end of this year.

In the private business sector, financing needs are likely to increase: the staff's GNP projection points to a widening financing gap. Since there appears to be a reluctance by businesses to borrow in the long-term market, these demands are likely to impinge to a considerable degree on the banks and on the commercial paper market. Equity issuance also could remain an important source of funds, although not as large as in the first half of this year without some further gains in the stock market.

Household sector borrowing seems likely to remain fairly strong in the next few months. In view of the sizable growth in personal income and the favorable attitudes of both borrowers and lenders, consumer credit

growth seems likely to remain rapid, tapering off only gradually with the ebbing of some pent-up spending desires and some slowing of purchases of durable goods that are associated with buying new homes. Mortgage lending may slow somewhat, but only a small decline seems probable in the near term in view of the large stock of outstanding commitments remaining to be taken down.

Following the turn of the year, the pace of bond offerings by state and local governments is likely to slow appreciably as their role in financial intermediation to households and businesses is at least temporarily reduced. Borrowing by these governments for their own purposes seems unlikely to decline, however, in view of a backlog of capital spending projects.

INTERNATIONAL DEVELOPMENTS

Recent developments. The dollar has appreciated considerably further since the last FOMC meeting, rising over 3 percent on a trade-weighted average basis. Gains against most continental European countries were about 3-1/2 percent; against sterling the rise was nearly 5 percent, but the dollar was up only about 1 percent against the yen and Canadian dollar. Relative interest rates moved only slightly in favor of dollar assets over the period, while the reported U.S. trade deficit for October was up sharply. Support for the dollar probably came in some degree from the response of asset holders to continued political problems in the Middle East and elsewhere. Weakness in the mark was likely related to German political difficulties, and sterling's relative weakness was probably connected with softness in the oil market. On the whole, however, it is difficult to find sufficient cause in current developments for the upsurge of the dollar since early October.

. U.S. authorities purchased \$50 million equivalent of marks on December 5. During the period the U.S. subscriptions to the IMF's quota and GAB increase were approved (totalling SDR 7.6 billion) and monetary authorities of the industrial countries -- not including

the U.S. authorities -- also agreed to provide SDR 3 billion in interim financing to the Fund.

Economic recovery in Europe has continued at a slow pace. The recovery in Germany and the United Kingdom has been weak, and France's austerity program will retard any increase in activity. Italy has just begun to show signs of recovering from a prolonged recession. In contrast, Canadian activity has matched the U.S. pace, and Japan is likely to show slightly faster growth reflecting recent policy actions. Inflation in most industrial countries abroad remains moderate, but has not shown signs of further deceleration. Unemployment rates have been generally unchanged recently, though they remain well above year-ago levels except in Canada.

On balance, the international debt situation has improved somewhat over the past month, but with many troublespots remaining. Brazil, the largest debtor, reached agreement with the IMF on a revised program and progress was made on arrangements for official and commercial bank financing in 1984. Both Mexico and Chile are meeting their objectives under their IMF programs, but are naturally concerned with the depressed conditions in their economies. Peru, Argentina and the Philippines are still negotiating with the IMF on their programs for 1984, and Venezuela's new government still is reluctant to come to terms with the IMF or settle overdue private sector interest payments.

In the U.S. international accounts, a record trade deficit was registered in October as imports rose sharply while exports were about unchanged from the third-quarter rate. The increase in imports was spread over many product categories, reflecting rising U.S. demand and

the strong dollar. Petroleum imports were about unchanged in value from the third-quarter rate, though prices were up slightly (but probably temporarily). The continued sluggishness of exports reflects both the slow pace of recovery abroad and the drag from the relatively high value of the dollar.

After registering sizable inflows in the third quarter, private capital transactions, mainly through banking channels, resulted in a net outflow in October. Much of the shift reflected net outflows from U.S. banks to their foreign offices in October, but partial data show a reversal to large net inflows from foreign offices in November. Also contributing to net outflows in October was a slowdown in foreign purchases of U.S. corporate stocks.

Data for foreign lending by U.S.-chartered banks (including loans by their foreign branches) in the third quarter show a small decline in claims on non-OPEC developing countries. Through September the net increase in these loans this year has been only about \$1/2 billion.

Outlook. The contrast between the strong pace of recovery in the United States and the slower pace in Europe has become somewhat more prominent, though the staff's projection of a 2-1/2 percent growth for foreign industrial countries during 1984 is above the 1983 rate. At economic policy meetings the views expressed by European officials suggest little inclination to change policies even if there were developments that resulted in a lower dollar.

Projected U.S. external deficit in 1983 and 1984 have not been changed significantly in the past month; the effects of a somewhat higher average level of the dollar have been about offset over the year

ahead by a lower estimate for oil imports resulting from a downward revision of trends in oil consumption. The staff continues to expect that the effect on the dollar of the balance between supportive factors (interest rates and political developments) and the normally negative consequences of huge current and anticipated trade and current account deficits will be a relatively moderate depreciation of about 10 percent from the early months of next year to the fourth quarter.

DECEMBER 14, 1983

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

	1982 ANN.	1983-P ANN.	1984-P ANN.	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983 Q3	1983-P Q4	1984-P Q1	1984-P Q2	1984-P Q3	1984-P Q4
1. GNP NET EXPORTS													
CURRENT \$, NET	17.4	-11.2	-57.2	1.0	5.5	17.0	-8.5	-20.2	-33.1	-47.7	-56.2	-61.8	-63.0
EXPORTS OF G+S	347.6	335.4	366.8	346.0	321.6	326.9	327.1	341.1	346.3	351.9	361.5	371.3	382.5
IMPORTS OF G+S	330.2	346.5	424.0	345.0	316.1	309.9	335.6	361.3	379.4	399.7	417.7	433.1	445.5
CONSTANT 72 \$, NET	28.9	11.5	-3.0	24.0	23.0	20.5	12.3	10.4	2.9	-3.2	-4.2	-3.5	-1.3
EXPORTS OF G+S	147.3	138.7	144.0	146.4	136.5	137.3	136.2	140.6	140.7	140.7	142.8	144.9	147.8
IMPORTS OF G+S	118.4	127.2	147.1	122.4	113.5	116.8	123.9	130.2	137.8	143.9	147.0	148.4	149.1
TERMS OF TRADE (1972=100) 1/	84.6	88.8	88.4	83.9	84.6	89.7	88.7	87.4	89.4	90.0	89.1	87.8	86.6
2. U.S. MERCHANDISE TRADE BALANCE 2/													
EXPORTS (EXCL. MILITARY)	211.2	200.3	212.5	209.0	193.4	198.0	195.7	203.1	205.3	207.0	209.4	213.4	220.2
AGRICULTURAL	37.2	37.0	39.4	33.8	33.1	36.0	35.3	37.8	38.7	38.9	39.3	39.4	40.0
NONAGRICULTURAL	174.0	163.4	173.1	175.2	160.3	162.0	160.3	165.3	166.6	168.0	170.0	174.1	180.2
IMPORTS	247.6	263.2	324.2	261.3	238.8	233.3	254.3	274.6	290.3	306.5	319.6	330.5	346.1
PETROLEUM AND PRODUCTS	61.2	55.7	65.8	68.9	60.5	42.0	52.1	66.3	62.6	63.6	65.7	66.6	67.2
NONPETROLEUM	186.4	207.5	258.4	192.3	178.3	191.3	202.2	208.3	227.7	242.9	253.9	263.9	272.6
3. U.S. CURRENT ACCOUNT BALANCE													
OF WHICH: NET INVESTMENT INCOME	-11.2	-40.3	-88.7	-26.4	-26.5	-14.3	-38.8	-47.0 ^P	-61.2	-77.2	-87.0	-94.1	-96.6
	27.3	26.3	26.5	27.3	24.0	20.4	23.7	30.9 ^P	30.0	27.4	26.9	26.0	25.6
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/													
REAL GNP, % CHANGE, ANNUAL RATES	0.0	1.2	2.3	-1.5	0.7	2.3	1.8	2.4	2.1	2.4	2.4	2.5	2.8
CONSUMER PRICES, % CHANGE, ANNUAL RATES	8.1	5.7	5.4	6.0	6.0	4.5	6.0	5.3	5.8	5.4	5.4	5.2	5.1

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.

GERMANY (20.8%), JAPAN (13.6%), FRANCE (13.1%), UNITED KINGDOM (11.8%), CANADA (9.1%), ITALY (9.0%), THE NETHERLANDS (8.3%), BELGIUM (6.4%), SWEDEN (4.2%), SWITZERLAND (3.6%)

P/ PROJECTED

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 19, 1983

To FOMC

Subject: Greenbook Correction

From Normand Bernard NB

The growth in commercial paper issued by nonfinancial firms in November should read 5.2%, not 15.2%, in (1) the table entitled "commerical bank credit and short-and intermediate-term business credit" on p. III-6 in the greenbook and (2) in the same table in the greenbook supplement.