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CONFIDENTIAL (FR)

July 3, 1979

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary of Recent Developments. Data for the past several months indicate a weakening of economic activity, that has been exacerbated by spreading shortages of motor fuels and surging energy prices. Retail sales in real terms, which had declined appreciably during the first quarter, fell substantially further in April and May and probably also in June; declining sales of larger domestic autos were an important part of this development. Indicators of near-term investment spending suggest slower growth. Inflation, spurred by the sharply higher prices for energy, has continued unabated.

Personal income growth rebounded somewhat in May from the strike-affected April pace, but in real terms, the May level was 1-1/2 percent below that of last December. Consumer spending continued to decline in May, as nominal retail sales edged down 0.2 percent, following a downward-revised decline of 1.1 percent in the preceding month. In real terms, total retail sales have dropped about 4-3/4 percent since the end of 1973, the steepest decline since the last recession. Spending for a major group of discretionary items--that is, the GAF composite for general merchandise, apparel, and furniture and appliances--rebounded in May; however, unit auto sales fell almost 400,000 units to an 11.0 million unit annual rate, with all of the decline occurring in intermediate and large domestic-type automobiles. A further decline in the sales rate for domestic cars was evident in the first 20 days of June, apparently reflecting heightened concerns about the availability and price of gasoline as well as limited supplies of fuel-efficient small cars. Such concerns also may have affected other types of consumer spending.

Nonresidential construction spending snapped back in May following weather and strike-related interruptions earlier this year. But business equipment investment slowed markedly during the first two months of the second quarter; shipments of nondefense capital goods bounced back only slightly in May, following a sharp drop in April at the time of the Teamsters' labor dispute. Furthermore, truck purchases have declined substantially in recent months. Near-term spending commitments also have been weaker than previously anticipated, as new orders for nondefense capital goods rose only moderately in May following a sharp April decline.

The book value of manufacturing and trade inventories rose at an annual rate of \$68 billion in April, substantially above the first quarter pace. This rapid rate of inventory accumulation reflected to some extent delays in shipments due to the trucking disputes. Manufacturers' stocks accounted for \$43 billion (annual rate) of the April increase, but in May when finished goods were shipped, out this accumulation moderated to a \$28 billion annual rate. Another \$10 billion annual rate of the total April inventory increase represented a buildup of mainly standard sized cars at dealers and these stocks are reported to have risen further in May and June. But the general sluggishness of consumer demand also played a part in the overall April accumulation. Because of the disruptions in shipments, the inventory to sales ratio for all manufacturing and trade rose in April, but was still in line with historical averages.

Housing starts rose slightly in May, reflecting a surge in the volatile multifamily starts, while single-family starts dropped further.

Total starts in May remained 12 percent below the fourth quarter of 1978. Sales of new and existing homes also have moved substantially lower since late last year.

With economic activity slowing, growth in labor demand has eased markedly in recent months, but the unemployment rate remained unchanged at 5.8 percent through May. Nonfarm payroll employment, which increased by an average of around 300,000 monthly in 1978 and early 1979, rose by about one-third that rate in April and May. The recent increases were mainly among service-producing industries, and in both of these months manufacturing employment declined about 30,000 with cutbacks widespread among industries. Although the factory workweek in May regained some of the strike-related April decline, the level remained well below the first quarter average.

Industrial production also rebounded in May, about recovering the previous month's drop. But the May level was only 0.4 percent above the first quarter average. Auto assemblies picked up sharply from April's depressed level and materials production rose briskly, especially by metals and parts producers. However, the auto industry announced cutbacks from earlier production plans for June in view of weak sales and inventory imbalances.

Consumer prices rose at a 13 percent annual rate in May, similar to the rate of increase since early this year. Price rises for fuel oil, gasoline, and utilities have accelerated greatly during recent months, reflecting the increased cost of imported crude oil as well as domestic

market forces and regulatory changes. The rise in food prices has moderated at the retail level, following price reductions at the producer level. Consumer prices of items other than food and energy continued to rise in May at the 11 percent annual rate of increase experienced in several preceding months, with sharply increasing homeownership costs contributing to this rapid pace. Price increases also continued to be large and widespread in other markets.

The index of workers average hourly earnings has risen moderately in the last few months, after increasing at a 9 percent annual rate in the first quarter. Recent raises were small in the trade and service sectors, where the minimum wage hike apparently caused a bunching of increases in the first quarter. The recent collective bargaining agreements in the airline and rubber industries provided sizable gains in wages and benefits that, according to COWPS, probably exceeded the pay standard.

Outlook. On the basis of incoming data the staff now estimates a second quarter decline in real GNP at about a 1.5 percent annual rate, implying a small decline in the level of economic activity over the first six months of 1979. Along with reduced housing construction, there has been a sharp cut in real consumer outlays. Capital spending is also estimated to have declined as truck purchases dropped, and shipments of equipment were curtailed partly reflecting work stoppages earlier in the quarter. With only partial adjustments of production levels to these reduced demands, inventory accumulation during the second quarter is

anticipated to have increased substantially. The gross business product fixed-weighted price index is estimated to have accelerated to an annual rate of nearly 11 percent during the second quarter; this compares with the 10-1/4 percent rise projected in May.

No major new fiscal initiatives have been incorporated in the projection, but the levels of receipts and expenditures have been modified to reflect the automatic responses to the changed forecast of the economy. On a unified basis, the Federal deficit is now expected to be \$28 billion in FY 1979 and \$33 billion in FY 1980--the latter \$6 billion higher than previously assumed. With respect to monetary policy, M-1 is assumed to increase about 6 percent, after adjustment for ATS effects, in both 1979 and 1980. In this setting, market interest rates are now projected to edge lower over the remainder of 1979 as nominal GNP is expected to grow more slowly than previously thought. Interest rates are projected to reverse this decline next year when larger increases in nominal GNP are expected to add to the demand for transaction balances.

With regard to other assumptions, the staff has incorporated substantially larger price increases for imported oil, with the average contract price of OPEC crude oil (including surcharges) now expected to jump immediately to about \$21 per barrel and hold there for the balance of 1979. This compares to an average price of \$16-1/2 in May and a \$13 per barrel price late last year. In 1980 the price is assumed to rise during the year by an additional \$2 a barrel.

Reflecting these oil price developments and the evidence of weaker economic performance in the spring, projected activity has been altered substantially since the last FOMC meeting. Over the second half of this year real GNP is projected to decline at a 2-1/4 percent annual rate, resulting in a net decline over the four quarters of the year of 1-1/4 percent. A very modest recovery is projected for 1980, with a rise over the year of about 3/4 of a percent. As compared with the previous Greenbook, nominal GNP is now projected to increase more slowly during 1979 (8 percent), but a bit faster during 1980 (nearly 10 percent).

We anticipate that the retrenchment of household spending will continue through much of the second half of 1979 as the ongoing fuel shortages, high rates of inflation, and curtailed income growth further shake consumer confidence. As in 1973 and 1974, the current inflation has been most acute in essential household budget items and the cutback in discretionary purchases is expected to be substantial, especially given the high rate of consumer indebtedness. Disruptions to accustomed household spending patterns and associated uncertainties are anticipated to boost savings for several quarters; the saving rate is estimated to have risen to about 5-3/4 percent in the second quarter, and is projected to hold near that level during the remainder of 1979. In addition, the recent further tightening in mortgage markets suggests that the drop in housing activity will be somewhat more pronounced than previously anticipated. Housing starts are now projected to decline to a 1.5 million unit annual rate in late 1979 and to show only a mild uptick by the end of 1980.

Repercussions from the decline in household spending are projected to be reflected in reduced business spending. In particular, because of intensive efforts to trim excess inventories, the rate of stock accumulation is projected to be reduced sharply in the third quarter and in view of the relative sluggishness of activity, inventory accumulation is expected to remain extremely low over the balance of the projection period. Furthermore, firms are expected to re-evaluate capital spending plans, as they typically do when demands weaken, and a mild contraction in business fixed investment is projected to begin in late 1979.

These cuts in output are projected to lead to reductions in employment and slower income growth. The unemployment rate is expected to rise to almost 8 percent by the end of 1980, compared with the 7.1 percent figure indicated in the last Greenbook. Compensation increases, however, will continue to show the lagged effects of past rates of inflation and hence are not expected to moderate despite appreciably reduced demands for labor. With weak productivity growth, unit labor costs are projected to continue to rise rapidly, adding to the price pressures already injected through the energy and food sectors. In addition, food price increases during 1980 are projected one percentage point larger than anticipated earlier, because of the domestic effects of anticipated grain shipments to the Soviet Union. In the second half of 1979 the overall rate of inflation is now projected to be at an almost 10-1/2 percent annual rate on a fixed-weighted basis--about the same as experienced in the first half of 1979

and 2 percentage points more than shown in the last projection. The general outlook for inflation in 1980 has also deteriorated with prices projected to be rising about 9-1/4 percent over the four quarters, instead of the 8 percent previously expected.

Details of the projection are shown in the following tables.

STAFF GNP PROJECTIONS

	Per cent changes, annual rate							
	Nominal GNP		Real GNP		Gross business product fixed-weight price index		Unemployment rate (per cent)	
	5/16/79	7/3/79	5/16/79	7/3/79	5/16/79	7/3/79	5/16/79	7/3/79
1976 <u>1/</u>	11.2	11.2	5.7	5.7	5.4	5.4	7.7	7.7
1977 <u>1/</u>	11.0	11.0	4.9	4.9	6.2	6.2	7.0	7.0
1978 <u>1/</u>	11.7	11.7	4.0	4.0	7.7	7.7	6.0	6.0
1979	11.6	10.6	2.9	1.6	9.2	9.7	6.0	6.2
1980	9.5	9.0	1.2	-0.5	8.3	9.7	6.8	7.6
1978-III <u>1/</u>	9.6	9.6	2.6	2.6	8.0	8.0	6.0	6.0
1978-IV <u>1/</u>	15.6	15.6	6.9	6.9	8.0	8.0	5.8	5.8
1979-I <u>1/</u>	9.5	9.8	.7	.8	9.8	9.9	5.7	5.7
1979-II	12.0	7.9	2.2	-1.5	10.3	10.9	5.9	5.8
1979-III	8.4	6.3	.8	-2.4	8.3	10.6	6.1	6.3
1979-IV	9.8	8.6	1.0	-2.0	8.3	10.1	6.3	6.9
1980-I	9.3	9.8	1.1	-0.1	8.5	9.7	6.5	7.3
1980-II	9.4	9.3	1.2	.2	8.2	9.5	6.7	7.5
1980-III	9.2	9.9	1.4	1.5	7.7	8.8	6.9	7.7
1980-IV	9.6	10.2	1.4	1.5	7.7	8.7	7.1	7.9
Change:								
77-IV to								
78-IV <u>1/</u>	13.1	13.1	4.4	4.4	8.7	8.7	-0.8	-0.8
78-IV to								
79-IV	9.9	8.2	1.2	-1.3	9.2	10.4	.5	1.1
79-IV to								
80-IV	9.4	9.8	1.3	.8	8.0	9.2	.8	1.0
Memo:								
Growth Over Annual Policy Period:								
78-IV to								
79 IV	9.9	8.2	1.2	-1.3	9.2	10.4	.5	1.1

1/ Actual.

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

	1979				1980			
	I	II	III	IV	Projected			
	I	II	III	IV	I	II	III	IV
Gross national product	2267.3	2311.1	2346.7	2395.4	2452.1	2507.0	2566.9	2630.0
Final purchases	2252.0	2285.0	2332.4	2390.6	2450.9	2508.1	2565.4	2626.3
Private	1793.6	1818.7	1854.0	1899.9	1950.7	1998.5	2046.3	2094.0
Excluding net exports	1797.3	1826.3	1867.5	1904.4	1942.9	1987.1	2033.5	2082.1
Personal consumption expenditures	1442.2	1465.8	1502.8	1539.1	1676.4	1514.6	1653.0	1693.3
Goods	779.2	786.3	806.0	824.1	841.7	859.9	878.7	898.1
Services	663.1	679.5	696.8	715.0	734.7	754.7	774.3	795.2
Gross private domestic investment	370.4	386.6	379.0	370.1	367.7	371.4	382.0	392.5
Residential construction	111.1	111.6	109.1	107.6	107.0	108.3	110.1	112.1
Business fixed investment	244.0	248.9	255.6	257.7	259.5	264.2	270.4	276.7
Change in business inventories	15.3	26.1	14.3	4.8	1.2	-1.1	1.5	3.7
Nonfarm	16.5	26.1	14.3	4.8	1.2	-1.1	1.5	3.7
Net exports of goods and services ^{1/}	-3.7	-7.6	-13.5	-4.5	7.8	11.4	12.8	11.9
Exports	235.0	238.6	254.1	266.4	276.4	285.7	292.5	298.6
Imports	238.7	246.2	267.6	270.9	268.6	274.3	279.7	286.7
Gov't. purchases of goods and services	458.4	466.3	478.4	490.7	500.2	509.6	519.1	532.3
Federal ^{2/}	164.5	163.4	168.0	173.9	176.9	179.8	182.2	188.2
State and local	293.9	302.9	310.4	316.8	323.3	329.8	336.9	344.1
Gross national product in constant (1972) dollars	1417.6	1412.2	1403.5	1396.6	1396.3	1396.9	1402.2	1407.3
Personal income	1836.0	1879.5	1933.1	1974.9	2016.0	2063.9	2122.1	2175.1
Wage and salary disbursements	1185.3	1210.0	1229.5	1248.6	1270.6	1295.9	1323.8	1355.4
Disposable personal income	1563.3	1596.9	1641.7	1675.2	1709.5	1748.4	1796.9	1838.7
Saving rate (per cent)	5.3	5.7	6.0	5.6	5.2	5.1	5.4	5.3
Corporate profits with I.V.A. and C.C. Adj.	168.7	168.3	159.3	164.2	170.9	171.8	175.5	178.6
Corporate profits before tax	229.8	227.1	211.2	216.3	224.4	225.6	227.6	231.9
Federal government surplus or deficit (-) (N.I.A. basis)	-16.9	-14.1	-34.6	-39.1	-34.2	-32.6	-37.5	-35.0
High employment surplus or deficit (-)	6.4	13.8	6.4	11.8	24.8	34.0	34.3	41.0
State and local government surplus or deficit (-) (N.I.A. basis)	27.5	22.3	19.9	19.9	19.8	19.5	18.9	18.5
Excluding social insurance funds	3.8	-2.0	-5.0	-5.6	-6.3	-7.2	-8.3	-9.3
Civilian labor force (millions)	102.5	102.3	103.1	103.7	104.1	104.5	104.9	105.3
Unemployment rate (per cent)	5.7	5.8	6.3	6.9	7.3	7.5	7.7	7.9
Nonfarm payroll employment (millions)	87.9	88.4	88.4	88.2	88.0	88.1	88.2	88.4
Manufacturing	20.9	20.9	20.7	20.3	20.1	20.0	20.0	20.0
Industrial production (1967=100)	151.5	151.7	149.7	147.6	146.7	146.4	147.1	147.8
Capacity utilization: all mfg. (percent)	86.1	85.4	83.3	81.1	79.8	78.9	78.6	78.3
Materials (per cent)	87.4	87.2	84.8	82.5	81.2	80.4	80.3	80.2
Housing starts, private (million units, A.R.)	1.62	1.75	1.60	1.50	1.50	1.55	1.60	1.60
New autos sales, (millions, A.R.)	11.55	10.83	10.50	10.10	9.90	9.90	10.00	10.05
Domestic models	9.13	8.13	8.00	7.90	7.90	7.95	8.10	8.15
Foreign models	2.42	2.70	2.50	2.20	2.00	1.95	1.90	1.90

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

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

July 3, 1979

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

	1979				1980			
	Projected							
	I	II	III	IV	I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	.8	-1.5	-2.4	-2.0	-.1	.2	1.5	1.5
Final purchases	.7	-3.6	-.1	-.1	.7	.6	1.0	1.0
Private	1.2	-4.4	-.9	-.4	.6	.5	1.0	1.0
Excluding net exports	.4	-4.1	-1.2	-1.7	-.9	.2	.9	1.2
Personal consumption expenditures	.7	-3.9	-.5	-.3	.6	.7	1.1	1.3
Goods	-3.6	-8.5	-2.9	-2.6	-.9	-.5	.3	.4
Services	6.3	1.9	2.2	2.3	2.3	2.1	1.9	2.3
Gross private domestic investment	3.7	9.3	-17.3	-18.8	-11.8	-5.5	3.9	3.8
Residential structures	-14.4	-9.9	-17.7	-14.8	-11.9	-5.5	-2.9	-1.4
Business fixed investment	4.9	-3.0	1.8	-5.3	-5.6	-1.2	1.2	1.3
Gov't. purchases of goods and services	-4.3	-.4	2.9	.9	.8	.9	1.0	1.2
Federal	-2.2	-7.3	5.3	1.4	1.3	1.3	.2	.8
State and local	-5.5	3.8	1.5	.6	.5	.7	1.5	1.4
Disposable personal income	2.8	-1.9	.5	-1.7	-.9	.1	2.6	.9
<u>Current dollars</u>								
Gross national product	9.8	7.9	6.3	8.6	9.8	9.3	9.9	10.2
Final purchases	9.5	6.0	8.6	10.4	10.5	9.7	9.5	9.8
Private	11.2	5.7	8.0	10.3	11.1	10.2	9.9	9.7
Excluding net exports	10.1	6.6	9.3	8.1	8.3	9.4	9.7	9.9
Personal consumption expenditures	11.4	6.7	10.5	10.0	10.1	10.1	9.9	10.1
Goods	9.1	3.7	10.4	9.3	8.8	8.9	9.0	9.1
Services	14.2	10.3	10.6	10.9	11.5	11.3	10.8	11.2
Gross private domestic investment	7.2	18.6	-7.6	-9.1	-2.6	4.1	11.9	11.5
Residential structures	-7.9	1.8	-8.7	-5.4	-2.2	4.9	6.8	7.5
Business fixed investment	12.2	8.2	11.2	3.3	2.8	7.4	9.7	9.7
Gov't. purchases of goods and services	3.4	7.1	10.8	10.7	8.0	7.7	7.7	10.6
Federal	5.1	-2.6	11.7	14.8	7.1	6.7	5.4	13.8
State and local	2.5	12.8	10.3	8.5	8.5	8.3	8.9	8.8
Disposable personal income	13.7	8.9	11.7	8.4	8.4	9.4	11.6	9.6
Personal income	10.9	9.8	11.9	8.9	8.6	9.8	11.8	10.4
Wage and salary disbursements	13.1	8.7	6.6	6.4	7.2	8.2	8.9	9.9
Corporate profits with IVA & C.C. Adj.	-16.7	-.9	-19.7	12.9	17.3	2.1	8.9	7.3
Corporate profits before tax	9.0	-4.6	-25.2	10.1	15.9	2.2	3.7	7.7
Nonfarm payroll employment	4.2	2.5	-.2	-.9	-.5	.1	.8	.8
Manufacturing	6.1	.2	-4.4	-6.3	-5.0	-1.9	.3	.0
Nonfarm business sector								
Output per hour	-4.3	-2.9	-1.0	.2	1.7	1.0	1.3	1.4
Compensation per hour	10.2	8.0	9.0	9.2	10.7	9.6	9.7	9.4
Unit labor costs	15.2	11.2	10.1	9.0	8.9	8.5	8.4	8.0
GNP implicit deflator ^{1/}	8.9	9.6	9.0	10.7	9.9	9.1	8.3	8.6
Gross business product fixed-weight price index ^{2/}	9.9	10.9	10.6	10.1	9.7	9.5	8.8	8.7
Industrial production	4.9	.5	-5.1	-5.7	-2.4	-.8	2.1	2.0

^{1/} Excluding Federal pay increases, the rates of change are: 1979 QI, 8.9 per cent; 1979 QIV, 10.2 per cent; 1980 QI, 9.9 per cent; 1980 QIV, 8.1 per cent.

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

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CLASS II FOMC

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

	1977				1978			
	I	II	III	IV	I	II	III	IV
Gross national product	1806.8	1867.0	1916.8	1958.1	1992.0	2087.5	2136.1	2214.8
Final purchases	1796.5	1850.0	1894.9	1945.0	1975.3	2067.4	2122.5	2201.3
Private	1421.5	1461.2	1495.4	1532.5	1558.6	1642.7	1682.7	1746.8
Excluding net exports	1430.0	1467.1	1502.4	1555.7	1582.7	1648.2	1693.4	1754.4
Personal consumption expenditures	1167.7	1188.6	1214.5	1255.2	1276.7	1322.9	1356.9	1403.9
Goods	639.1	649.2	657.1	684.1	684.9	717.1	731.2	762.5
Services	528.6	539.4	557.5	571.1	591.8	605.8	625.8	641.4
Gross private domestic investment	272.5	295.6	309.7	313.5	322.7	345.4	350.1	364.0
Residential construction	81.6	91.4	94.3	100.2	100.3	105.3	109.0	113.4
Business fixed investment	180.6	187.2	193.5	200.3	205.6	220.1	227.5	237.1
Change in business inventories	10.3	17.0	21.9	13.1	16.7	20.1	13.6	13.5
Nonfarm	11.1	16.5	22.0	10.4	16.9	22.1	14.6	13.4
Net exports of goods and services ^{1/}	-8.5	-5.9	-7.0	-23.2	-24.1	-5.5	-10.7	-7.6
Exports	170.9	178.1	180.8	172.1	181.7	205.4	210.1	221.9
Imports	179.4	184.0	187.8	195.2	205.8	210.9	220.8	229.5
Gov't. purchases of goods and services	375.0	388.8	399.5	412.5	416.7	424.7	439.8	454.5
Federal ^{2/}	138.3	142.9	146.8	152.2	151.5	147.2	154.0	162.5
State and local	236.7	245.9	252.7	260.3	265.2	277.6	285.8	292.0
Gross national product in constant (1972) dollar	1306.7	1325.5	1343.9	1354.5	1354.2	1382.6	1391.4	1414.7
Personal income	1470.7	1508.6	1543.7	1593.0	1628.9	1682.4	1731.7	1789.0
Wage and salary disbursements	946.4	973.4	993.6	1021.2	1050.8	1090.2	1113.2	1149.4
Disposable personal income	1248.0	1285.3	1319.1	1359.6	1391.6	1433.3	1468.4	1513.9
Saving rate (per cent)	4.2	5.3	5.6	5.4	5.9	5.3	5.2	4.8
Corporate profits with I.V.A. and C.C. Adj.	129.9	143.7	154.8	148.2	132.6	163.4	165.2	176.6
Corporate profits before tax	164.8	175.1	177.5	178.3	172.1	205.5	205.4	224.9
Federal government surplus or deficit (-) (N.I.A. basis)	-37.3	-40.3	-56.4	-58.6	-52.6	-23.6	-22.8	-20.8
High employment surplus or deficit (-)	-2.9	-10.8	-29.9	-31.6	-19.5	-5	1.8	-1.0
State and local government surplus or deficit (-) (N.I.A. basis)	29.5	28.5	31.2	29.0	31.5	29.8	23.4	28.8
Excluding social insurance funds	12.5	10.8	12.8	9.9	11.5	9.3	1.8	5.9
Civilian labor force (millions)	96.2	97.1	97.6	98.5	99.3	100.1	100.8	101.5
Unemployment rate (per cent)	7.4	7.2	6.9	6.6	6.2	6.0	6.0	5.8
Nonfarm payroll employment (millions)	80.8	82.0	82.7	83.5	84.3	85.7	86.1	87.0
Manufacturing	19.4	19.6	19.7	19.9	20.1	20.3	20.3	20.6
Industrial production (1967=100)	133.6	137.0	138.4	139.3	139.6	144.0	147.0	149.7
Capacity utilization: all mfg. (per cent)	81.2	82.7	83.0	82.9	82.1	84.0	85.0	85.9
Materials (per cent)	80.4	82.6	82.3	82.2	81.7	84.5	86.0	87.6
Housing starts, private (million units, A.R.)	1.81	1.93	2.02	2.09	1.80	2.10	2.04	2.08
New autos sales, (millions, A.R.)	11.12	11.70	10.92	10.75	10.80	12.12	11.16	11.07
Domestic models	9.28	9.34	8.88	8.77	8.80	10.01	9.19	9.06
Foreign models	1.84	2.36	2.04	1.98	2.00	2.11	1.98	2.00

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

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

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LASS II FOMCPER CENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1977				1978			
	I	II	III	IV	I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	7.3	5.9	5.7	3.2	-1	8.7	2.6	6.9
Final purchases	5.3	4.6	5.0	4.7	-1.6	8.6	3.7	7.2
Private	6.1	3.7	4.8	4.8	-1.1	11.0	2.8	8.0
Excluding net exports	6.9	3.8	4.3	8.7	-1.0	7.7	3.7	7.7
Personal consumption expenditures	5.1	1.4	4.1	9.0	-1.4	6.0	4.1	7.6
Goods	5.2	1.2	2.4	13.5	-8.1	9.7	2.6	11.5
Services	4.9	1.5	6.1	3.9	7.0	1.9	5.9	3.1
Gross private domestic investment	32.8	25.7	9.7	-2.9	11.3	15.2	-5.1	5.8
Residential structures	10.2	37.8	5.2	11.1	-5.2	2.7	-1.6	4.0
Business fixed investment	19.0	7.5	5.3	5.3	4.2	21.3	3.5	9.5
Gov't. purchases of goods and services	2.4	8.0	5.8	4.2	-3.5	-.2	7.2	4.0
Federal	5.1	10.7	6.4	2.9	-8.9	-15.3	14.3	8.8
State and local	.7	6.3	5.4	5.1	-.1	9.6	3.4	1.3
Disposable personal income	1.7	6.2	5.9	7.8	1.1	3.5	3.6	6.1
<u>Current dollars</u>								
Gross national product	13.7	14.0	11.1	8.9	7.1	20.6	9.6	15.6
Final purchases	11.0	12.5	10.1	11.0	6.4	20.0	11.1	15.7
Private	11.3	11.6	9.7	10.3	7.0	23.4	10.1	16.1
Excluding net exports	14.9	10.8	10.0	15.0	7.1	17.6	11.4	15.2
Personal consumption expenditures	12.5	7.3	9.0	14.1	7.0	15.3	10.7	14.6
Goods	12.1	6.5	5.0	17.5	.5	20.2	8.1	30.7
Services	13.1	8.4	14.1	10.1	15.3	9.8	13.9	10.3
Gross private domestic investment	48.0	38.5	20.5	5.1	12.2	31.3	5.5	16.9
Residential structures	25.1	57.8	13.5	27.3	.5	21.0	14.9	17.3
Business fixed investment	25.9	15.3	14.1	14.8	11.1	31.2	14.3	18.0
Gov't. purchases of goods and services	9.9	15.5	11.5	13.7	4.1	7.9	15.0	14.1
Federal	11.5	14.0	11.3	15.7	-2.0	-10.9	20.0	23.9
State and local	9.0	16.4	11.6	12.5	7.8	19.9	12.4	9.0
Disposable personal income	9.0	12.5	10.9	12.9	9.8	12.5	10.2	13.0
Personal income	11.7	10.7	9.6	13.4	9.3	13.8	12.2	13.9
Wage and salary disbursements	12.0	11.9	8.6	11.6	12.1	15.9	8.7	13.7
Corporate profits with IVA & C.C. Adj.	26.4	49.8	34.7	-16.0	-35.9	130.6	4.5	30.6
Corporate profits before tax	29.1	27.5	5.6	1.8	-13.2	103.3	-.2	43.7
Nonfarm payroll employment	3.9	5.6	3.6	4.0	3.8	6.9	2.1	4.0
Manufacturing	5.2	5.7	1.5	3.2	5.7	3.1	-.2	6.0
Nonfarm business sector								
Output per hour	2.4	-1.4	3.7	.5	-3.1	1.7	2.3	1.9
Compensation per hour	8.3	6.5	8.1	7.6	12.2	8.2	9.6	9.1
Unit labor costs	5.8	8.0	4.2	7.1	15.7	6.4	7.1	7.0
GNP implicit deflator <u>1/</u>	6.0	7.7	5.1	5.5	7.2	11.0	6.9	8.2
Gross business product fixed-weight price index <u>2/</u>	6.7	7.9	4.7	6.3	6.7	12.1	8.0	8.0
Industrial production	6.2	10.6	4.2	2.6	.9	13.2	8.6	7.6

1/ Excluding Federal pay increases, rates of change were: 1977:QI, 5.9 per cent; 1977:QIV, 4.8 per cent; 1978:QI, 7.2 per cent; 1978:QIV, 7.6 per cent.

2/ Uses expenditures in 1972 as weights.

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

	1973	1974	1975	1976	1977	1978	Projected	
							1979	1980
Gross national product	1306.6	1412.9	1528.8	1700.1	1887.2	2107.6	2330.1	2539.0
Final purchases	1288.6	1404.0	1539.6	1689.9	1871.6	2091.6	2315.0	2537.7
Private	1019.1	1101.3	1201.2	1330.4	1477.6	1657.7	1841.6	2022.4
Excluding net exports	1012.0	1095.3	1180.8	1323.0	1488.7	1669.7	1848.9	2011.4
Personal consumption expenditures	809.9	889.6	979.1	1090.2	1206.5	1340.1	1487.5	1634.3
Goods	457.5	498.3	541.5	599.2	657.4	724.0	798.9	869.6
Services	352.3	391.3	437.5	491.0	549.2	616.2	688.6	764.7
Gross private domestic investment	220.0	214.6	190.9	243.0	297.8	345.6	376.5	378.4
Residential construction	66.1	55.1	51.5	68.2	91.9	107.0	109.8	109.4
Business fixed investment	136.0	150.6	150.2	164.6	190.4	222.6	251.6	267.7
Change in business inventories	17.9	8.9	-10.7	10.2	15.6	16.0	15.1	1.3
Nonfarm	14.7	10.8	-14.3	12.2	15.0	16.7	15.4	1.3
Net exports of goods and services <u>1/</u>	7.1	6.0	20.4	7.4	-11.1	-12.0	-7.3	11.0
Exports	101.6	137.9	147.3	163.2	175.5	204.8	248.5	288.3
Imports	94.4	131.9	126.9	155.7	186.6	216.8	255.8	277.3
Gov't. purchases of goods and services	269.5	302.7	338.4	359.5	394.0	433.9	473.4	515.3
Federal <u>2/</u>	102.2	111.1	123.1	129.9	145.1	153.8	167.4	181.8
State and local	167.3	191.5	215.4	229.6	248.9	280.2	306.0	333.5
Gross national product in constant (1972) dollars	1235.0	1217.8	1202.3	1271.0	1332.7	1385.7	1407.5	1400.7
Personal income	1052.4	1154.9	1255.5	1380.9	1529.0	1708.0	1905.9	2094.3
Wage and salary disbursements	701.3	764.6	805.9	890.1	983.6	1100.9	1218.3	1311.4
Disposable personal income	901.7	984.6	1086.7	1184.4	1303.0	1451.8	1619.3	1773.4
Saving rate (per cent)	7.8	7.3	7.7	5.7	5.1	5.3	5.7	5.2
Corporate profits with I.V.A. and C.C. Adj.	99.1	83.6	95.9	127.0	144.2	159.5	165.1	174.2
Corporate profits before tax	115.8	126.9	120.4	155.9	173.9	202.0	221.1	227.4
Federal government surplus or deficit (N.I.A. basis)	-6.7	-10.7	-70.6	-53.8	-48.1	29.9	-26.2	-34.8
High employment surplus or deficit (-)	-1.3	14.9	-27.4	-20.2	-19.6	-5.7	9.6	33.5
State and local government surplus or deficit (-) (N.I.A. basis)	13.0	7.6	6.2	20.7	29.6	28.3	22.4	19.2
Excluding social insurance funds	4.1	-2.9	-6.2	5.5	11.5	7.1	-2.2	-7.8
Civilian labor force (millions)	88.7	91.0	92.6	94.8	97.4	100.4	102.9	104.7
Unemployment rate (per cent)	4.9	5.6	8.5	7.7	7.0	6.0	6.2	7.6
Nonfarm payroll employment (millions)	76.8	78.3	76.9	79.4	82.3	85.8	88.2	88.2
Manufacturing	20.2	20.1	18.3	19.0	19.6	20.3	20.7	20.0
Industrial production (1967=100)	129.8	129.3	117.8	129.8	137.1	145.2	150.1	147.0
Capacity utilization: all manufacturing (per cent)	87.5	84.2	73.6	80.2	82.5	84.3	84.0	78.9
Materials (per cent)	92.4	87.7	73.6	80.4	81.9	85.0	85.5	80.5
Housing starts, private (million units, A.R.)	2.05	1.34	1.16	1.54	1.99	2.02	1.62	1.56
New auto sales, (millions, A.R.)	11.42	8.91	8.66	10.12	11.13	11.29	10.75	9.96
Domestic models	9.65	7.49	7.08	8.63	9.07	9.27	8.29	8.02
Foreign models	1.77	1.42	1.58	1.50	2.06	2.02	2.46	1.94

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

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

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CLASS II FOMCPER CENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974	1975	1976	1977	1978	Projected	
							1979	1980
<u>Constant (1972) dollars</u>								
Gross national product	5.5	-1.4	-1.3	5.7	4.9	4.0	1.6	-.5
Final purchases	4.9	-7	.2	4.3	4.7	3.9	1.6	.2
Private	6.3	-1.4	-3	5.5	5.3	4.3	1.8	.0
Excluding net exports	5.1	-2.3	-1.0	6.4	6.0	4.5	1.4	-.7
Personal consumption expenditures	4.7	-.9	1.8	5.8	4.7	4.0	1.6	.1
Goods	5.0	-3.4	.7	6.4	5.0	3.4	-.2	-1.7
Services	4.4	2.3	3.2	5.0	4.4	4.6	3.8	2.2
Gross private domestic investment	10.0	-11.4	-22.3	21.6	13.2	7.3	.3	-8.9
Residential structures	-3.7	-24.6	-13.9	23.4	20.5	3.8	-8.0	-10.3
Business fixed investment	12.2	-.3	-13.0	4.7	9.1	8.1	3.9	-2.4
Gov't. purchases of goods and services	-.2	2.1	1.9	.1	2.4	2.2	.8	1.1
Federal	-5.4	-.8	.7	.1	5.2	-1.3	1.0	1.1
State and local	3.2	3.8	2.6	.1	.8	4.2	.7	1.1
Disposable personal income	6.7	-1.5	2.1	3.5	4.1	4.3	2.1	-.2
<u>Current dollars</u>								
Gross national product	11.6	8.1	8.2	11.2	11.0	11.7	10.6	9.0
Final purchases	10.9	8.9	9.7	9.8	10.8	11.8	10.7	9.6
Private	12.2	8.1	9.1	10.8	11.1	12.2	11.1	9.8
Excluding net exports	11.0	8.2	7.8	12.0	12.5	12.2	10.7	8.8
Personal consumption expenditures	10.5	9.8	10.1	11.4	10.7	11.1	11.0	9.9
Goods	11.4	8.9	8.7	10.7	9.7	10.1	10.3	8.9
Services	9.3	11.1	11.8	12.2	11.8	12.2	11.7	11.1
Gross private domestic investment	16.8	-2.5	-11.0	27.3	22.6	16.0	8.9	.5
Residential structures	6.6	-16.7	-6.5	32.5	34.8	16.4	2.6	-.4
Business fixed investment	16.4	10.8	-.3	9.6	15.7	16.9	13.0	6.4
Gov't. purchases of goods and services	6.5	12.3	11.8	6.2	9.6	10.1	9.1	8.8
Federal	.1	8.7	10.7	5.5	11.7	6.0	8.8	8.6
State and local	10.8	14.5	12.5	6.6	8.4	12.6	9.2	9.0
Disposable personal income	12.5	9.2	10.4	9.0	10.0	11.4	11.5	9.5
Personal income	11.7	9.7	8.7	10.0	10.7	11.7	11.6	9.9
Wage and salary disbursements	10.6	9.0	5.4	10.4	10.5	11.9	10.7	7.6
Corporate profits with IVA & C.C. Adj.	7.6	-15.6	14.7	32.4	13.5	10.6	3.5	5.5
Corporate profits before tax	20.4	9.6	-5.1	29.5	11.5	16.2	9.5	2.8
Nonfarm payroll employment	4.3	1.9	-1.7	3.2	3.6	4.3	2.8	.0
Manufacturing	5.2	-.4	-8.7	3.7	3.4	3.5	1.8	-3.3
Nonfarm business sector								
Output per hour	1.7	-2.9	1.9	3.5	1.3	.5	-1.0	.6
Compensation per hour	7.8	9.4	9.9	8.4	8.1	9.3	9.2	9.6
Unit labor costs	6.0	12.7	7.8	4.7	6.7	8.8	10.3	9.0
GNP implicit deflator	5.9	9.7	9.6	5.2	5.9	7.4	8.9	9.5
Gross business product fixed-weighted price index ^{1/}	5.7	10.4	9.4	5.4	6.2	7.7	9.7	9.7
Industrial production	8.4	-.4	-8.9	10.2	5.6	5.9	3.4	-2.0

^{1/} Uses expenditures in 1972 as weights.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Market interest rates generally have declined sharply since the May FOMC meeting, apparently in response to the widespread evidence that economic activity has weakened markedly in the second quarter. While the Federal funds rate remained essentially unchanged over the intermeeting period, private short-term market rates have dropped about 20 to 50 basis points and Treasury bill rates around 50 to 100 basis points. Downward pressures on bill rates were accentuated in part by a Treasury paydown of bills (mainly cash management issues) and by renewed demands from foreign central banks as the dollar weakened in foreign exchange markets. With money market rates falling, banks reduced their prime rates by one quarter percentage point to 11-1/2 percent. Bond yields have dropped around 40 basis points in the Treasury and corporate sectors and 15 basis points in the municipal market.

Incoming data since the May FOMC meeting suggest that nonfinancial business borrowing in the second quarter was somewhat stronger than in the first. Growth in funds raised from short- and intermediate-term sources was maintained in May at about the same relatively rapid rate recorded in April and over the first quarter. Partial data suggest that this pace may have been sustained in June, as business loans at weekly reporting banks and commercial paper issuance continued to rise sharply in the early weeks of the month. Meanwhile, public bond offerings, after dropping off a bit in May, expanded sharply in June and the average monthly volume for the second quarter is estimated to be well above that for the first. Underwriters report the June step-up was induced, in part, by decisions of some firms to take advantage of the decline in yields on corporate bonds.

Borrowing in the residential mortgage market also appears to have strengthened somewhat during the second quarter from the weather-depressed first quarter. The total of net lending picked up a bit further in May, and in June large commercial banks recorded a further sizable gain. Field reports from S&Ls through the early weeks of June suggest that demands for mortgage credit remain relatively strong. At the same time, however, the reports indicate that the thrift institutions are continuing to tighten their lending terms, apparently mainly in response to uncertainty about prospective deposit flows. Against this background, interest rates on new conventional mortgages have risen 35 basis points further to the 11-1/8 percent area since the May FOMC meeting.

Growth in consumer installment borrowing appears to have slowed a bit in May. Moreover, with auto purchases continuing to decline, as households are responding to the developing gas shortage and to the growing uncertainty about the economic outlook by cutting back on such purchases, the rate of expansion of installment loans likely moderated further in June.

In the government sector, borrowing by states and municipalities rebounded in June, after having been relatively light in May, and consequently average monthly borrowing over the second quarter was about in line with that of the first. The Treasury has issued about \$3-1/2 billion of coupon securities since the May FOMC meeting, which slightly more than offset the previously noted paydown of bills.

M-1 and M-2 are estimated to have increased in June at rates of 15 percent and 14-1/2 percent, respectively, up sharply from May's reduced pace of advance. An increase in savings deposits--the first recorded since last September and rapid growth of money market certificates contributed to the

acceleration of M-2. Deposit growth at S&Ls and MSBs combined is estimated at about a 7 percent annual rate in June (monthly average), about double the rate for May. This pick-up was accomplished despite continued slow growth of M1Cs at S&Ls.

Growth of commercial bank credit slowed a bit in May, but weekly reporting bank data suggest that growth rebounded in June. Banks continued to raise funds from their foreign branches and from domestic nondeposit sources in May and early June, while, at the same time, making substantial paydowns of large CDs.

Outlook. Assuming the Federal funds rate remains unchanged over the near-term, market rates may generally retrace part of their recent declines, since these reductions appear to have been based on the expectation of an easing in monetary policy. Such increases in rates will tend to temper pressures on the dollar in foreign exchange markets, thus reducing foreign central bank dollar support operations and the consequent purchase of Treasury bills. Accordingly, Treasury bill rates may move up somewhat more than other short-term rates. Taking a somewhat longer view, interest rates may begin to decline later in the summer, as demands for money and credit moderate with the weakening in economic activity.

Assuming that Treasury bill rates move back above the 9 percent level, thus once again removing the advantage of a deposit ceiling differential for thrifts, deposit flows at these institutions will likely remain around their depressed second-quarter pace. In the face of weak deposit growth and the recent tightening of FHLB policy on advances, it seems likely that the thrifts will rely increasingly on other nondeposit sources of funds, draw down holdings of liquid assets, and cut back their extension of new

mortgage commitments. Accordingly, with demands for mortgages also expected to moderate with the weakening of economic activity, growth in mortgage credit is likely to slow significantly. Growth in consumer installment credit also will probably moderate further over the quarter, as consumption demands are depressed by slow growth in disposable income and great uncertainty with regard to the economic outlook.

Business demands for credit are also expected to weaken over the summer, mainly reflecting a sharp cutback in inventory accumulation. Early indications from security underwriters suggest that firms are planning to issue only a moderate amount of long-term securities over this period, and thus businesses apparently intend to continue to rely mainly on short- and intermediate-term sources of funds.

The volume of debt issued by state and local governments may also pick up a bit during the summer, with the clarification of regulations on issuance of housing and debt refunding bonds. The Treasury's borrowing is expected to pick up seasonally in the third quarter.

INTERNATIONAL DEVELOPMENTS

Summary. Following nearly half a year during which the dollar had shown relative strength on exchange markets, the dollar again was subjected to considerable downward pressure starting in mid-June. The change in sentiment towards the dollar in exchange markets started to show up in early June and became more evident following the release of data showing an unexpected sharp acceleration in the growth of U.S. monetary aggregates. The market's perception of an easing of U.S. monetary conditions occurred at a time when major foreign countries were taking measures to tighten monetary conditions in response to an acceleration of inflation. Concern about the implications of a sharp OPEC oil price increase also was widely cited as a factor contributing to the downward pressure on the dollar.

During the last two weeks of May, the weighted average exchange value of the dollar appreciated by about 1 per cent. Since then, and mostly since mid-June, the average value of the dollar has depreciated by more than 3 per cent. The renewed pressure on the dollar was most pronounced against the pound, the Swiss franc, and the German mark, with these currencies appreciating against the dollar by about 6, 4 and 3.5 per cent, respectively, since the end of May. The strength of the pound seems to reflect the market's reassessment of the United Kingdom's economic prospects following the election of the Conservative Party and the announcement of its first budget on June 12, which included a tightening of monetary conditions.

The renewed downward pressure on the dollar was met by heavy intervention support from U.S. authorities.

For the seven-week period since the May green book, U.S. authorities were net sellers of \$1.7 billion equivalent of foreign currencies. The Desk sold about \$800 million equivalent of marks, which it acquired from drawing on its swap line with the Bundesbank, and somewhat less than \$100 million equivalent of Swiss francs, part of which were financed by drawing down balances and part from drawing on the System's swap line with the Swiss National Bank. The Treasury sold (net) about \$800 million equivalent of marks, which were taken from balances.

The U.S. merchandise trade deficit for April and May averaged \$32.6 billion at an annual rate, about \$7 billion above the deficit rate recorded in the first quarter. The value of exports for the two months combined was little changed from the first-quarter average. Increases in exports of non-agricultural industrial supplies about offset declines in exports of civilian aircraft and automotive equipment to Canada.

The value of imports for April-May rose by about 4 per cent from the first-quarter average. There was a 6 per cent reduction in the volume of oil imports in April-May compared with the first-quarter rate, but average oil import prices were 12 per cent higher than in the first quarter, resulting in a 7 per cent increase in the value of oil imports.

The value of non-oil imports in April-May advanced by 3 per cent from the first-quarter rate, primarily reflecting increased imports of industrial materials and foreign cars.

Data released for the U.S. current account for the first quarter of 1979 show a shift to a small surplus (\$0.6 billion, annual rate) from a small deficit (\$1.3 billion) in the final quarter of last year. Net direct investment income receipts were revised up to more than \$26 billion in the final quarter of last year, and increased further to nearly \$28 billion in the first quarter.

Bank-reported private capital transactions resulted in a net private capital inflow of \$2.4 billion in April, about half the monthly average for the first quarter of 1979. Data for May show an increase of \$3 billion in member bank net borrowing from overseas branches.

Over the seven weeks ending June 20, OPEC countries' holdings at the FRBNY declined slightly more than \$200 million. For the first four months of the year OPEC holdings of U.S. bank deposits and securities declined by about \$1.2 billion.

Economic activity in most major foreign countries has continued to expand during the first third of this year, with unemployment rates edging downwards. Rising inflation rates, aggravated in most instances by the surge in oil prices, continue to plague the industrial economies.

A number of foreign monetary authorities have responded to the intensification of inflationary pressures by shifting towards a policy of greater restraint.

Outlook. The staff's reassessment of the outlook for U.S. economic activity, the latest international oil developments, and the upward revision of net direct investment income receipts have led to a significant revision in the staff's projection for the U.S. trade and current-account balances for 1979 and 1980. The staff's projection for this year's trade deficit has been raised to about \$29 billion (compared with the mid-May projection of less than \$24 billion), while the current-account deficit foreseen for this year has been lowered to about \$5 billion (from about \$6.5 billion in mid-May). For 1980, the staff now projects a trade deficit of about \$17 billion, but foresees a current-account surplus of nearly \$14 billion.

Given the recent oil price increases announced by OPEC Ministers at the end of June, we now estimate that the average price of U.S. oil imports will rise to about \$21 per barrel by the fourth quarter this year, about a third higher than the average import price in May and about 60 per cent above the fourth quarter of 1978. For the fourth quarter of 1980, we now are assuming an average oil import price of about \$23.60 per barrel. The staff is assuming a significant reduction in the volume of oil imports for the next six quarters from the levels that the staff projected in mid-May, reflecting the weaker forecast for U.S. economic activity and an expected demand response to higher oil prices. Despite a projected reduction in the volume of oil imports, the latest surge in OPEC oil prices is expected to result in oil import bills of \$56 and \$65 billion in 1979 and 1980 respectively (about \$5 and \$7 billion more for the corresponding years than was projected in mid-May). The weakening in

U.S. economic activity also is expected to result in considerable moderation of U.S. demand for nonpetroleum imports.

We are still assuming that the average growth of real GNP for major U.S. trading partners will be more rapid than that in the United States during the projection period. This is expected to sustain U.S. exports during this period. But the latest steep increases in the oil price and possible further policy responses to the recent intensification of price inflation abroad cloud somewhat the prospects for sustaining the pace of expansion in economic activity that is now in progress abroad.

The OPEC current-account surplus, which was miniscule in 1978, is expected to soar to about \$40-45 billion this year. The steep increases in OPEC oil prices are expected to raise OPEC oil revenues in 1979 by about 40 per cent from 1978 levels to \$180 billion. The rate of increase of OPEC imports is expected to slow considerably, reflecting primarily a sharp curtailment of imports by Iran.

Given the assumptions that underlie the green book forecasts, and particularly those related to U.S. monetary policy, the staff expects that the weighted average value of the dollar in the second half of 1980 will not be significantly different from the average level for May and June. In addition, this projection assumes that the market will interpret the projected sharp shift towards a sizable U.S. current-account surplus in 1980 to be cyclical in nature, and therefore transitory.

	1978 ^F	1979 ^P	1980 ^P	1978 ^F		1979				1980 ^P			
				III	IV	I	II ^F	III ^F	IV ^F	I	II	III	IV
1. <u>U.S. Current Account Balance</u>	-13.9	-4.8	13.8	-12.9	-1.3	0.6	-5.9	-11.4	-2.4	10.4	14.5	15.6	14.3
2. <u>GNP Net Exports of Goods & Services 1/</u>	-10.3	-1.0	17.3	-6.4	-1.5	2.6	-1.2	-7.4	1.9	14.2	17.8	19.2	18.1
3. (using GNP account data) 2/	(-12.0)	(-7.3)	(11.0)	(-10.7)	(-7.6)	(-3.7)	(-7.6)	(-13.5)	(-4.5)	(7.8)	(11.4)	(12.8)	(11.9)
4. a) Merchandise Trade Balance	-34.2	-29.4	-17.0	-32.0	-25.5	-24.4	-28.4	-36.2	-28.6	-17.8	-15.9	-16.2	-18.3
5. Exports (excl. military)	141.9	176.0	204.8	146.0	157.3	165.0 ^e	168.0	180.6	190.1	197.6	203.5	207.3	210.9
6. Agricultural	29.9	32.4	36.3	31.7	31.3	30.6	30.7	33.3	35.0	36.5	36.8	36.1	35.7
7. Nonagricultural	112.0	143.6	168.5	114.2	126.0	134.8	137.3	147.4	155.1	161.1	166.7	171.2	175.2
8. Imports	176.1	205.4	221.9	178.0	182.7	189.8	196.4	216.8	218.7	215.3	219.4	223.5	229.2
9. Petroleum and petrol. products	42.3	55.7	65.5	43.5	43.2	46.6	48.9	62.3	65.1	63.8	65.0	65.8	67.3
10. Nonpetroleum	133.8	149.7	156.4	134.5	139.5	143.2	147.5	154.6	153.6	151.6	154.4	157.7	161.9
11. b) Other Transactions, net	23.9	28.4	34.3	25.6	24.0	27.0	27.2	28.8	30.5	32.0	33.7	35.4	36.4
12. Selected Invest. Income, net 3/	20.6	24.7	27.9	20.7	21.2	24.2	24.1	24.6	25.5	26.4	27.5	28.4	29.4
13. Other, net 4/	3.3	3.7	6.4	4.9	2.8	2.8	3.1	4.2	5.0	5.6	6.2	7.0	7.0
<u>Merchandise Trade in 1972 \$</u>													
14. Merchandise exports (excl. military)	73.6	81.3	84.8	75.0	78.3	80.4	79.1	82.1	83.6	84.5	84.9	84.9	84.8
15. (% change, annual rates)	(8.8)	(10.5)	(4.2)	(2.8)	(18.8)	(11.2)	(-6.6)	(16.1)	(7.4)	(4.5)	(2.0)	(0)	(-0.8)
16. Merchandise imports	75.9	76.4	73.3	76.3	76.7	77.2	76.1	77.1	75.3	73.0	73.1	73.3	74.0
17. (% change, annual rates)	(7.0)	(0.7)	(-4.0)	(10.0)	(2.4)	(2.0)	(-5.7)	(5.7)	(-9.5)	(-13.0)	(0.4)	(1.2)	(4.1)
<u>Foreign Outlook - Ten Industrial Countries 5/</u>													
18. Real GNP, % change, annual rates	3.2	3.4	2.8	2.5	4.4	1.9	4.4	3.6	3.1	2.4	2.3	2.4	2.5
19. Consumer Prices, 6/ % change, A.R.	5.4	7.7	8.5	4.2	4.2	8.7	10.2	11.1	9.0	8.1	7.7	7.3	7.1

1/ Using data from the international accounts.

2/ Lines 2 and 3 are defined identically but, data in line 3 differ from Int'l. Acct. data (line 2) in that they usually lag the Int'l Acct. data in publication of revisions and new information.

3/ Excluding U.S. Govt. interest payments to foreigners, and reinvested earnings of incorporated affiliates.

4/ Includes travel, transportation, fees and royalties, miscellaneous other service transactions, and military transactions.

5/ Geometric weights used to aggregate foreign real GNP and consumer prices - per cent share in ten-country total multilateral trade. Canada (9.1%), Japan (13.6%), United Kingdom (11.9%), Germany (20.8%), France (13.1%), Italy (9.0%), Belgium (6.4%), the Netherlands (8.3%), Switzerland (3.6%), Sweden (4.2%).

6/ Wholesale prices for Japan.

^p/ Projected.

^e/ Estimated.

^{*}/ Published data.

NOTE: A revised methodology for seasonally adjusting merchandise exports and imports was introduced with the January data. Data for 1978 have been revised accordingly. The new seasonal pattern results in a smaller 1978-IV trade deficit and a larger 1978-I deficit; there is no change in the annual figures. These changes will be incorporated in the published GNP data in July 1979.