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September 10, 1980

## **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee  
By the staff of the Board of Governors of the Federal Reserve System

## DOMESTIC NONFINANCIAL DEVELOPMENTS

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Summary. The decline in overall economic activity has moderated considerably in recent months, as residential construction activity and auto sales have picked up. Payroll employment increased in August for the first time since February, and the limited information available on industrial production suggests a rise in August, following six months of decline. Business investment spending, however, remains weak. Food price increases have been particularly large in the past two months, reflecting supply developments and the effects of weather conditions, and strong upward price pressures persist in other areas as well.

The labor market surveys for August showed surprising strength in employment. Payrolls rose 200,000, following a drop of more than 1-1/4 million over the preceding five months. About half of the August gain in jobs occurred in the manufacturing sector, which had been hardest hit by layoffs earlier in the year. The factory workweek also increased considerably in August, after declining during the previous six months. Total employment as measured by the household survey was about unchanged, and the unemployment rate inched down to 7.6 percent.

Nominal consumer outlays rose in July, led by increased purchases of motor vehicles. Spending for most other major types of goods also increased, with retail sales excluding autos and nonconsumption goods advancing about 1/2 percent--slightly less than June's 3/4 percent gain. Over these two months, however, sales of these goods in real terms remained relatively flat. In August, sales of domestic autos remained well above the depressed second quarter pace; in contrast, sales of foreign-made cars fell back after surging in July.

Personal income advanced sharply in July, following several months of sluggish growth. Most of the increase, however, reflected larger transfer payments as social security recipients received their annual cost-of-living adjustment. Wage and salary disbursements declined slightly in July, but should show a rise for August with the reported gains in hours worked. Surveys of consumer attitudes in August indicated less pessimism about future income and employment conditions.

Activity in the housing sector has picked up markedly since the spring. In July sales of new homes rose sharply for the third consecutive month and were well above the depressed rate of this past spring. As a result, the inventory of unsold homes has been reduced to its lowest level in more than four years. Sales of existing houses likewise surged again in July. Housing starts and permits also increased, and advance readings suggest that permits continued to rise rapidly early in August. Mortgage rates, however, have risen considerably in recent weeks, and qualitative reports suggest some retarding of the rebound in housing activity.

In contrast to the pickup in the household sector, business demands for fixed capital continued to show weakness in July, and commitments data suggest some additional falloff in coming months. Shipments of nondefense capital goods in nominal terms were little changed in July, while nonresidential construction outlays fell abruptly. Although new orders for capital goods and contracts for new construction have both moved up recently, these indicators of investment spending are still well below their recent peaks. Moreover, in the second quarter capital appropriations by large manufacturers

fell substantially after rising sharply in the first. In addition, the Commerce Department's August survey of business plans for new plant and equipment investment in 1980 indicates an 8-3/4 percent increase from 1979, a cutback of more than 1 percent from the May survey. In real terms, the survey indicates an appreciable decline in spending during the second half of 1980.

Lower levels of production appear to have brought inventories into better alignment with sales. In June total manufacturing and trade stocks in real terms declined for the second month in a row. In July the book value of manufacturers' inventories increased at a relatively moderate pace for the third consecutive month, suggesting a further decline in real terms. Manufacturers' shipments also advanced in July, and, as a result, the stock-sales ratio for this sector fell for the first time since January. In the wholesale trade sector, the ratio of stocks to sales declined as well in July, despite a sizable increase in the book value of inventories.

Price pressures generally have remained intense, with sporadic signs of easing in consumer prices in recent months attributable primarily to transitory developments in the housing and energy sectors. A substantial decline in contracted mortgage rates kept the consumer price index unchanged in July, while the dramatic slowdown in energy price increases since the first quarter has exerted a moderating influence on both producer and consumer prices in recent months. Nevertheless, increases in producer prices in July and August returned to the nearly 20 percent annual rate of the first quarter, largely as a result of a weather- and supply-related acceleration in food prices.

Outlook. Overall economic activity is now projected to fall at a 3 percent annual rate in the third quarter and to edge slightly lower in the fourth. These are more moderate declines than were indicated last month, as recent data now suggest a stronger near-term rebound in residential construction and an earlier firming of consumer spending than had been anticipated. However, weaker capital spending, particularly in the current quarter, appears to be offsetting some of the additional strength in the housing and consumer sectors. Reflecting the smaller decline now expected in output and the recent labor market data, the unemployment rate is now expected to rise somewhat more gradually than projected last month--to a little over 8 percent by the end of the year.

The staff continues to project a bottoming out of the recession in the very near term, with weakness this fall concentrated in business spending. Inventories, which still are high relative to sales, are likely to be reduced through year end. The staff also anticipates a further curtailment of real business investment outlays--particularly for construction projects, which typically have long lead times. In addition, weak income growth and efforts by households to build savings are expected to restrain consumer spending.

The monetary policy assumptions underlying the projection are essentially unchanged from the last Greenbook. M-1A growth is assumed to lie in the lower part of the Committee's range for 1980 and to be about 4-1/2 percent over 1981 (abstracting from the impact of nationwide NOW accounts). Interest rates are expected to rise moderately further in 1981, reaching levels slightly higher than those previously

projected. The fiscal policy assumptions are also little changed, with corporate and personal income taxes assumed to be cut by \$28 billion effective January 1. This is about the same magnitude as the tax reduction proposed by the administration. The budget deficits for fiscal year 1980 and 1981 are each projected to be around \$60 billion, roughly similar to the last Greenbook.

The projected recovery in 1981 is sluggish by historical standards, as real GNP is expected to rise only about 2 percent over the year--an increase similar to that indicated last month. The relatively restrictive monetary policy stance suggests that credit market conditions will impinge on housing construction. Also, the high cost of capital at a time when there is likely to be considerable slack in industrial capacity is expected to hold down business fixed investment. In addition, a climate of budget restraint is expected to provide little room for growth in purchases by state or local government units. The small advance in output anticipated for 1981 will limit employment gains, and the jobless rate is therefore expected to remain about flat throughout the year at a level slightly under 8-1/2 percent.

The staff outlook for inflation through the end of 1981 was revised up about 1/4 percentage point, due primarily to a sharper rise in food prices anticipated over the next six to nine months. As a result, the gross business product fixed-weighted price index is now expected to increase about 10 percent at an annual rate through the end of this year, only about 1 percentage point below the pace experienced in the first half. Over the four quarters of next year this index is projected to rise 9-1/4 percent, as rapid increases in labor costs continue to

prevent a significant reduction in the rate of price inflation. Improvement in the overall pace of inflation also will be constrained by the acceleration of food prices and the reemergence of energy price pressures as the cost of imported oil rises and the control of domestic oil prices continues to be phased out.

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



## STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
				Total		Excluding food and energy				
8/6/80	9/10/80	8/6/80	9/10/80	8/6/80	9/10/80	8/6/80	9/10/80	8/6/80	9/10/80	
<b>Annual changes:</b>										
1978 <u>1/</u>	12.0	12.0	4.4	4.4	7.6	7.6	7.2	7.2	6.0	6.0
1979 <u>1/</u>	11.3	11.3	2.3	2.3	9.5	9.5	8.1	8.1	5.8	5.8
1980	7.6	7.9	-1.4	-1.2	9.9	10.1	7.9	8.3	7.5	7.4
1981	9.4	9.7	.1	.1	9.4	9.7	7.8	8.2	8.6	8.3
<b>Quarterly changes:</b>										
1979-Q1 <u>1/</u>	10.6	10.6	1.1	1.1	10.0	10.0	7.7	7.7	5.7	5.7
1979-Q2 <u>1/</u>	6.7	6.7	-2.3	-2.3	10.1	10.1	7.9	7.9	5.8	5.8
1979-Q3 <u>1/</u>	11.9	11.9	3.1	3.1	10.4	10.4	7.6	7.6	5.8	5.8
1979-Q4 <u>1/</u>	10.5	10.5	2.0	2.0	8.4	8.4	6.6	6.6	5.9	5.9
1980-Q1 <u>1/</u>	10.8	10.8	1.2	1.2	11.2	11.2	8.8	8.5	6.1	6.1
1980-Q2 <u>1/</u>	.4	.6	-9.1	-9.0	9.4	10.4	8.7	9.8	7.5	7.5
1980-Q3	3.1	5.3	-4.1	-2.9	9.6	9.7	8.0	8.9	8.1	7.8
1980-Q4	9.9	10.9	-1.0	-.5	9.8	10.3	7.7	8.2	8.5	8.1
1981-Q1	12.0	11.6	1.9	1.2	9.9	10.3	8.1	8.4	8.8	8.4
1981-Q2	11.8	11.6	3.0	2.5	9.4	9.5	7.7	8.0	8.7	8.4
1981-Q3	10.2	9.9	2.1	2.0	8.4	8.5	7.3	7.4	8.6	8.3
1981-Q4	10.8	10.9	2.0	1.9	8.5	8.6	7.2	7.4	8.5	8.3
<b>Two-quarter changes:</b>										
1979-Q4 <u>1/</u>	11.2	11.2	2.5	2.5	9.3	9.3	7.1	7.1	.1	.1
1980-Q2 <u>1/</u>	5.5	5.6	-4.1	-4.0	10.4	10.9	8.6	9.2	1.6	1.6
1980-Q4	6.4	8.1	-2.6	-1.7	9.7	10.0	7.9	8.5	1.0	.6
1981-Q2	11.9	11.6	2.5	1.9	9.6	9.9	7.9	8.2	.2	.3
1981-Q4	10.5	10.4	2.0	2.0	8.5	8.5	7.2	7.4	-.2	-.1
<b>Four-quarter changes:</b>										
1978-Q4 <u>1/</u>	13.4	13.4	4.8	4.8	8.6	8.6	8.1	8.1	-.7	-.7
1979-Q4 <u>1/</u>	9.9	9.9	1.0	1.0	9.7	9.7	7.5	7.5	.1	.1
1980-Q4	6.0	6.8	-3.3	-2.9	10.0	10.4	8.2	8.9	2.6	2.2
1981-Q4	11.2	11.0	2.2	1.9	9.0	9.2	7.6	7.8	.0	.2

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

September 10, 1980

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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.)

	1980				1981			
	Q1	Q2	Q3	Q4	Projection			
					Q1	Q2	Q3	Q4
Gross national product	2522.8	2524.6	2557.7	2625.0	2697.9	2773.1	2839.6	2914.0
Final purchases	2516.1	2511.0	2567.7	2640.0	2705.7	2768.1	2829.6	2901.0
Private	1998.9	1982.7	2030.8	2086.7	2141.3	2192.7	2242.1	2295.9
Excluding net exports	2012.5	1985.2	2025.1	2076.4	2129.5	2183.0	2235.0	2291.1
Personal consumption expenditures	1629.5	1628.6	1664.5	1705.8	1752.4	1798.4	1841.0	1885.1
Goods	872.2	850.5	865.5	884.1	906.4	930.2	951.2	973.8
Services	757.3	778.0	799.0	821.7	846.0	868.2	889.8	911.3
Gross private domestic investment	387.7	370.3	350.6	355.6	369.3	389.6	404.0	419.0
Residential construction	110.4	89.0	91.5	100.5	105.5	110.5	117.0	124.0
Business fixed investment	272.6	267.7	269.1	270.1	271.6	274.1	277.0	282.0
Change in business inventories	4.7	13.6	-10.0	-15.0	-7.8	5.0	10.0	13.0
Nonfarm	4.4	14.2	-10.0	-15.0	-7.8	5.0	10.0	13.0
Net exports of goods and services <sup>1/</sup>	-13.6	-2.5	5.7	10.3	11.8	9.7	7.1	4.8
Exports	308.1	307.1	307.2	312.9	325.4	336.1	346.2	355.9
Imports	321.7	309.7	301.5	302.6	313.6	326.3	339.1	351.1
Gov't. purchases of goods and services	517.2	528.3	536.9	553.3	564.4	575.4	587.5	605.1
Federal <sup>2/</sup>	186.2	193.3	196.5	206.5	211.1	215.3	219.5	229.1
State and local	331.0	335.0	340.4	346.8	353.3	360.1	368.0	376.0
Gross national product in constant (1972) dollars	1444.7	1410.9	1400.6	1398.7	1402.9	1411.8	1418.7	1425.5
Personal income	2057.4	2079.5	2139.5	2189.5	2229.3	2282.3	2344.5	2403.4
Wage and salary disbursements	1303.7	1310.4	1326.6	1356.1	1381.9	1411.0	1439.6	1474.7
Disposable personal income	1737.4	1755.0	1808.1	1847.7	1897.3	1938.4	1991.2	2036.5
Saving rate (percent)	3.7	4.8	5.5	5.2	5.1	4.7	5.0	4.9
Corporate profits with I.V.A. and C.C. Adj.	175.0	156.0	144.5	148.1	153.5	161.8	165.9	170.5
Corporate profits before tax	260.4	208.8	210.5	215.1	220.5	228.8	232.9	241.5
Federal government surplus or deficit (-) (N.I.A. basis)	-22.9	-48.0	-69.4	-67.3	-72.5	-62.2	-70.0	-66.1
High employment surplus or deficit (-)	3.4	5.8	4.8	19.0	20.1	32.3	27.7	35.4
State and local government surplus or deficit (-) (N.I.A. basis)	24.6	20.2	22.8	23.8	25.3	26.6	26.5	26.5
Excluding social insurance funds	-4.2	-9.7	-7.6	-7.2	-6.3	-5.6	-6.3	-6.9
Civilian labor force (millions)	104.2	104.7	105.2	105.5	105.8	106.2	106.5	106.8
Unemployment rate (percent)	6.1	7.5	7.8	8.1	8.4	8.4	8.3	8.3
Nonfarm payroll employment (millions)	91.1	90.5	90.0	90.0	89.9	90.2	90.5	90.8
Manufacturing	21.0	20.3	19.8	19.7	19.6	19.8	19.9	20.0
Industrial production (1967=100)	152.2	144.5	139.5	138.3	138.5	139.4	139.7	140.2
Capacity utilization: all mfg. (percent)	83.8	78.2	74.4	73.3	72.9	72.8	72.5	72.3
Materials (percent)	85.4	78.9	74.0	72.5	72.0	72.1	72.0	71.9
Housing starts, private (million units, A.R.)	1.26	1.05	1.30	1.30	1.30	1.35	1.35	1.35
New autos sales, (millions, A.R.)	10.65	7.68	8.80	8.90	9.00	9.20	9.40	9.70
Domestic models	7.87	5.53	6.50	6.55	6.60	6.70	6.85	7.10
Foreign models	2.77	2.14	2.30	2.35	2.40	2.50	2.55	2.60

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

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

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

	1980				1981			
	Q1	Q2	Q3	Q4	Projection			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.2	-9.0	-2.9	-5	1.2	2.5	2.0	1.9
Final purchases	1.5	-9.8	-6	.2	.2	.7	1.2	1.5
Private	.9	-12.5	-5	.2	.2	.8	1.2	1.6
Excluding net exports	-8	-13.7	-1.1	.2	.5	.9	1.2	1.7
Personal consumption expenditures	.5	-9.8	-3	-1	1.0	1.2	1.3	1.3
Goods	-1.8	-17.2	-1.0	-1.9	-5	.8	.8	1.2
Services	3.2	-.9	.5	2.0	2.5	1.6	1.9	1.5
Gross private domestic investment	-8.3	-25.2	-20.9	-4.1	6.3	14.1	6.5	6.7
Residential structures	-26.2	-61.8	2.0	33.5	11.4	9.9	14.8	15.2
Business fixed investment	1.7	-15.3	-7.1	-6.7	-5.9	-4.3	-3.4	-.4
Gov't. purchases of goods and services	4.2	1.9	-.7	-.1	-.1	.3	1.3	1.4
Federal	13.1	10.6	.7	.6	.6	1.1	1.7	1.5
State and local	-.7	-3.0	-1.6	-.5	-.5	-.2	1.1	1.3
Disposable personal income	.9	-5.9	2.9	-1.2	.8	-.6	2.7	.8
<u>Current dollars</u>								
Gross national product	10.8	.6	5.3	10.9	11.6	11.6	9.9	10.9
Final purchases	11.0	-.8	9.3	11.7	10.3	9.6	9.2	10.5
Private	10.4	-3.2	10.1	11.5	10.9	10.0	9.3	10.0
Excluding net exports	10.7	-5.3	8.3	10.5	10.6	10.4	9.9	10.4
Personal consumption expenditures	13.0	-.2	9.1	10.3	11.4	10.9	9.8	9.9
Goods	12.5	-9.6	7.2	8.9	10.5	10.9	9.3	9.8
Services	13.6	11.4	11.2	11.9	12.4	10.9	10.3	10.0
Gross private domestic investment	.5	-16.8	-19.6	5.8	16.3	23.9	15.6	15.7
Residential structures	-19.3	-57.8	11.7	45.5	21.4	20.3	25.7	26.2
Business fixed investment	11.6	-7.0	2.1	1.5	2.2	3.7	4.3	7.4
Gov't. purchases of goods and services	13.4	8.9	6.7	12.8	8.3	8.0	8.7	12.5
Federal	18.7	16.1	6.8	22.0	9.2	8.2	8.0	18.7
State and local	10.5	4.9	6.6	7.7	7.7	7.9	9.1	9.0
Disposable personal income	13.5	4.1	12.7	9.1	11.2	9.0	11.4	9.4
Personal income	10.9	4.4	12.0	9.7	7.5	9.8	11.4	10.4
Wage and salary disbursements	10.9	2.1	5.0	9.2	7.8	8.7	8.4	10.1
Corporate profits with IVA & C.C. Adj.	-3.1	-36.9	-26.4	10.3	15.4	23.4	10.5	11.6
Corporate profits before tax	31.9	-58.7	3.2	9.1	10.4	15.9	7.4	15.6
Nonfarm payroll employment	2.5	-2.8	-2.1	-.2	.0	1.2	1.4	1.4
Manufacturing	-.8	-11.8	-8.8	-3.6	-1.4	3.3	2.1	2.1
Nonfarm business sector								
Output per hour	-1.1	-2.9	-1.9	-.8	1.0	1.3	.8	.7
Compensation per hour	10.7	10.7	9.4	9.0	11.6	8.4	8.2	8.4
Unit labor costs	12.0	14.1	11.5	9.8	10.5	7.0	7.3	7.6
GNP implicit deflator <sup>1/</sup>	9.5	10.6	8.5	11.5	10.3	8.9	7.8	8.8
Gross domestic business product								
fixed-weighted price index <sup>2/</sup>	11.2	10.4	9.7	10.3	10.3	9.5	8.5	8.6
Excluding food and energy	8.8	8.7	8.9	8.2	8.4	8.0	7.4	7.4
Consumer price index (all urban)	17.2	13.8	7.0	11.4	11.8	10.7	9.6	9.3
Industrial production	.0	-18.8	-13.1	-3.4	.6	2.6	.9	1.4

<sup>1/</sup> Excluding Federal pay increases, the rates of change are: 1980-Q1, 9.4 percent; 1980-Q4, 10.9 percent; 1981-Q1, 10.2 percent; 1981-Q4, 8.2 percent.

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

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

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2011.3	2104.2	2159.6	2235.2	2292.1	2329.8	2396.5	2456.9
Final purchases	1988.5	2078.4	2139.5	2214.5	2272.9	2296.4	2381.9	2451.4
Private	1569.1	1650.1	1698.6	1760.7	1812.8	1829.8	1904.1	1950.2
Excluding net exports	1591.3	1657.7	1705.4	1765.2	1808.8	1837.9	1906.4	1962.1
Personal consumption expenditures	1287.2	1331.2	1369.3	1415.4	1454.2	1475.9	1528.6	1580.4
Goods	691.2	722.1	740.2	770.2	784.9	789.9	818.1	846.9
Services	596.0	609.1	629.1	645.1	669.3	686.0	710.6	733.5
Gross private domestic investment	327.0	352.3	356.2	370.5	373.8	395.4	392.3	387.2
Residential construction	100.5	107.7	110.2	113.7	111.2	112.9	116.0	116.4
Business fixed investment	203.7	218.8	225.9	236.1	243.4	249.1	261.8	265.2
Change in business inventories	22.8	25.8	20.0	20.6	19.1	33.4	14.5	5.6
Nonfarm	22.0	25.3	18.5	19.3	18.8	32.6	12.6	2.1
Net exports of goods and services <sup>1/</sup>	-22.2	-7.6	-6.8	-4.5	4.0	-8.1	-2.3	-11.9
Exports	184.4	205.7	213.8	224.9	238.5	243.7	267.3	280.4
Imports	206.6	213.3	220.6	229.4	234.4	251.9	269.5	292.4
Gov't. purchases of goods and services	419.4	428.3	440.9	453.8	460.1	466.6	477.8	501.2
Federal <sup>2/</sup>	150.9	148.2	152.3	159.0	163.6	161.7	162.9	178.4
State and local	268.5	280.1	288.6	294.8	296.5	304.9	314.9	322.8
Gross national product in constant (1972) dollar	1367.8	1395.2	1407.3	1426.6	1430.6	1422.3	1433.3	1440.3
Personal income	1634.8	1689.3	1742.5	1803.1	1852.6	1892.5	1946.6	2005.0
Wage and salary disbursements	1052.0	1090.0	1116.8	1154.3	1189.3	1212.4	1238.1	1270.5
Disposable personal income	1395.0	1437.3	1476.5	1524.8	1572.2	1601.7	1640.0	1683.1
Saving rate (percent)	5.3	5.0	4.8	4.7	5.0	5.4	4.3	3.5
Corporate profits with I.V.A. and C.C. Adj.	141.2	169.4	175.2	184.8	178.9	176.6	180.8	176.4
Corporate profits before tax	177.5	207.2	212.0	227.4	233.3	227.9	242.3	243.0
Federal government surplus or deficit (-) (N.I.A. basis)	-49.4	-24.6	-20.4	-16.3	-11.7	-7.0	-11.3	-15.7
High employment surplus or deficit (-)	-27.2	-10.6	-7.4	-8.3	-1.7	13.2	9.0	7.0
State and local government surplus or deficit (-) (N.I.A. basis)	30.2	29.6	22.7	27.1	27.6	19.7	25.3	25.8
Excluding social insurance funds	7.9	6.5	-9	3.3	2.6	-6.3	-1.8	-2.2
Civilian labor force (millions)	99.1	100.2	100.8	101.5	102.3	102.4	103.2	103.7
Unemployment rate (percent)	6.2	6.0	6.0	5.8	5.7	5.8	5.8	5.9
Nonfarm payroll employment (millions)	85.0	86.4	87.2	88.2	89.1	89.7	90.2	90.6
Manufacturing	20.2	20.4	20.5	20.9	21.1	21.1	21.1	21.0
Industrial production (1967=100)	140.8	145.1	147.9	150.7	152.2	151.9	152.3	152.2
Capacity utilization: all mfg. (percent)	82.0	83.9	85.2	86.4	86.7	85.9	85.4	84.6
Materials (percent)	82.6	85.0	86.4	88.2	88.0	87.3	87.2	86.3
Housing starts, private (million units, A.R.)	1.86	2.10	2.03	2.06	1.67	1.82	1.81	1.59
New autos sales, (millions, A.R.)	10.80	12.09	11.16	11.06	11.56	10.65	10.79	9.80
Domestic models	8.80	10.01	9.21	9.14	9.30	8.16	8.63	7.43
Foreign models	2.00	2.09	1.96	1.92	2.25	2.49	2.16	2.37

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

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

CONFIDENTIAL - FR  
CLASS II FOMC

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

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.9	8.3	3.5	5.6	1.1	-2.3	3.1	2.0
Final purchases	.4	8.7	4.6	5.7	1.1	-3.9	6.4	3.6
Private	.8	10.7	4.4	6.7	1.8	-4.1	7.8	3.1
Excluding net exports	1.0	7.9	4.1	6.9	.4	-2.9	5.3	3.1
Personal consumption expenditures	.8	5.6	4.8	6.8	.6	-2.9	4.9	4.1
Goods	-4.7	9.2	4.2	9.9	-4.4	-7.3	6.0	4.7
Services	7.9	1.4	5.5	3.2	7.1	2.5	3.6	3.5
Gross private domestic investment	12.3	15.7	-5.0	6.6	-.5	8.5	-12.8	-11.6
Residential structures	-4.7	11.0	-4.9	-1.1	-14.3	-7.2	-1.5	-4.5
Business fixed investment	4.6	23.2	3.9	11.3	4.8	-.8	10.7	-.3
Gov't. purchases of goods and services	-1.2	.9	5.0	1.8	-1.8	-3.3	1.0	6.0
Federal	-7.4	-12.3	8.2	3.2	7.2	-11.3	-2.6	16.0
State and local	2.7	9.3	3.3	1.0	-6.6	1.6	3.1	.8
Disposable personal income	2.0	4.0	4.2	6.4	2.1	-1.4	.2	1.1
<u>Current dollars</u>								
Gross national product	8.4	19.8	10.9	14.8	10.6	6.7	11.9	10.5
Final purchases	7.5	19.3	12.3	14.8	11.0	4.2	15.8	12.2
Private	7.7	22.3	12.3	15.4	12.4	3.8	17.3	10.0
Excluding net exports	8.8	17.8	12.0	14.8	10.3	6.6	15.8	12.2
Personal consumption expenditures	9.0	14.4	11.9	14.2	11.4	6.1	15.0	14.3
Goods	3.3	19.1	10.4	17.2	7.9	2.6	15.1	14.8
Services	16.1	9.1	13.8	10.6	15.8	10.4	15.1	13.5
Gross private domestic investment	13.3	34.8	4.5	17.1	3.6	25.2	-3.0	-5.1
Residential structures	2.4	32.0	9.5	13.5	-8.5	6.1	11.7	1.4
Business fixed investment	10.6	33.3	13.7	19.3	12.9	9.6	22.0	5.4
Gov't. purchases of goods and services	6.5	8.8	12.3	12.2	5.6	5.8	10.0	21.1
Federal	-.9	-7.0	11.7	18.7	12.1	-4.6	3.1	43.8
State and local	11.1	18.5	12.6	8.9	2.3	11.9	13.8	10.4
Disposable personal income	10.3	12.7	11.4	13.8	13.0	7.7	9.9	10.9
Personal income	10.0	14.0	13.2	14.7	11.4	8.9	11.9	12.6
Wage and salary disbursements	11.7	15.3	10.2	14.1	12.7	8.0	8.8	10.9
Corporate profits with IVA & C.C. Adj.	-27.5	107.2	14.4	23.8	-12.2	-5.0	9.9	-9.4
Corporate profits before tax	-11.5	85.7	9.6	32.4	10.8	-8.9	27.8	1.2
Nonfarm payroll employment	4.7	7.0	3.7	4.7	4.3	2.4	2.3	1.7
Manufacturing	5.4	3.5	2.6	6.3	4.6	.6	-.6	-1.7
Nonfarm business sector								
Output per hour	-.9	1.8	2.4	.7	-3.3	-3.9	-1.5	.8
Compensation per hour	11.4	7.3	8.5	8.7	10.2	8.1	8.5	9.5
Unit labor costs	12.4	5.4	5.9	7.9	14.0	12.5	10.1	8.6
GNP implicit deflator <sup>1/</sup>	6.3	10.6	7.2	8.7	9.3	9.3	8.5	8.4
Gross domestic business product fixed-weighted price index <sup>2/</sup>	6.6	10.5	8.8	8.7	10.0	10.1	10.4	8.4
Excluding food and energy	5.5	9.4	8.9	8.7	7.7	7.9	7.6	7.7
Consumer price index (all urban)	7.8	10.2	8.8	9.1	11.1	13.6	12.9	13.2
Industrial production	1.4	12.8	7.9	7.8	4.0	-.8	1.1	-.3

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

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

CONFIDENTIAL - FR  
CLASS II FOMC

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

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
Gross national product	1412.9	1528.8	1702.2	1899.5	2127.6	2368.8	2557.0	2806.1
Final purchases	1404.0	1539.6	1692.1	1877.6	2105.2	2350.6	2558.7	2801.1
Private	1101.3	1201.2	1330.8	1481.4	1669.6	1874.2	2024.8	2218.0
Excluding net exports	1095.3	1180.8	1322.8	1491.3	1679.9	1878.8	2024.8	2209.6
Personal consumption expenditures	889.6	979.1	1089.9	1210.0	1350.8	1509.8	1657.1	1819.2
Goods	498.3	541.5	601.3	660.1	730.9	809.9	868.1	940.4
Services	391.3	437.5	488.5	549.8	619.8	699.8	789.0	878.8
Gross private domestic investment	214.6	190.9	243.0	303.3	351.5	387.2	366.0	395.5
Residential construction	55.1	51.5	68.1	91.9	108.0	114.1	97.8	114.2
Business fixed investment	150.6	150.2	164.9	189.4	221.1	254.9	269.9	276.2
Change in business inventories	8.9	-10.7	10.0	21.9	22.3	18.2	-1.7	5.0
Nonfarm	10.8	-14.3	12.1	20.7	21.3	16.5	-1.6	5.0
Net exports of goods and services <sup>1/</sup>	6.0	20.4	8.0	-9.9	-10.3	-4.6	.0	8.3
Exports	137.9	147.3	163.3	175.9	207.2	257.5	308.8	340.9
Imports	131.9	126.9	155.4	185.8	217.5	262.1	308.9	332.6
Gov't. purchases of goods and services	302.7	338.4	361.3	396.2	435.6	476.4	533.9	583.1
Federal <sup>2/</sup>	111.1	123.1	129.7	144.4	152.6	166.6	195.6	218.7
State and local	191.5	215.4	231.6	251.8	283.0	309.8	338.3	364.3
Gross national product in constant (1972) dollars	1217.8	1202.3	1273.0	1340.5	1399.2	1431.6	1413.7	1414.7
Personal income	1154.9	1255.5	1381.6	1531.6	1717.4	1924.2	2116.5	2314.9
Wage and salary disbursements	764.6	805.9	890.0	984.0	1103.3	1227.6	1324.2	1426.8
Disposable personal income	984.6	1086.7	1184.5	1305.1	1458.4	1624.3	1787.1	1965.9
Saving rate (percent)	7.3	7.7	5.8	5.0	4.9	4.5	4.8	4.9
Corporate profits with I.V.A. and C.C. Adj.	83.6	95.9	126.8	150.0	167.7	178.2	155.9	162.9
Corporate profits before tax	126.9	120.4	156.0	177.1	206.0	236.6	223.7	230.9
Federal government surplus or deficit (N.I.A. basis)	-10.7	-70.6	-53.6	-46.3	-27.7	-11.4	-51.9	-67.7
High employment surplus or deficit (-)	8.9	-21.5	-17.8	-22.1	-13.4	6.9	8.2	28.9
State and local government surplus or deficit (-) (N.I.A. basis)	7.6	6.2	17.9	26.8	27.4	24.6	22.9	26.2
Excluding social insurance funds	-2.9	-6.2	2.3	7.3	4.2	-1.9	-7.2	-6.3
Civilian labor force (millions)	91.0	92.6	94.8	97.4	100.4	102.9	104.9	106.3
Unemployment rate (percent)	5.6	8.5	7.7	7.0	6.0	5.8	7.4	8.3
Nonfarm payroll employment (millions)	78.3	77.0	79.4	82.5	86.7	89.9	90.4	90.4
Manufacturing	20.1	18.3	19.0	19.7	20.5	21.1	20.2	19.8
Industrial production (1967=100)	129.3	117.8	130.5	138.2	146.1	152.2	143.6	139.4
Capacity utilization: all manufacturing (percent)	83.8	72.9	79.5	81.9	84.4	85.7	77.4	72.6
Materials (percent)	87.1	73.4	81.1	82.7	85.6	87.2	77.7	72.0
Housing starts, private (million units, A.R.)	1.34	1.16	1.54	1.99	2.02	1.75	1.23	1.34
New auto sales, (millions, A.R.)	8.91	8.66	10.12	11.13	11.28	10.70	9.01	9.32
Domestic models	7.49	7.08	8.63	9.07	9.29	8.38	6.61	6.81
Foreign models	1.42	1.58	1.50	2.06	1.99	2.32	2.39	2.51

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

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

CONFIDENTIAL - FR  
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
<u>Constant (1972) dollars</u>								
Gross national product	-1.4	-1.3	5.9	5.3	4.4	2.3	-1.3	.1
Final purchases	-.7	.2	4.5	4.8	4.4	2.7	-.4	-.3
Private	-1.4	-.3	5.6	5.6	5.0	3.2	-1.1	-.4
Excluding net exports	-2.3	-1.0	6.5	6.2	5.0	2.6	-2.0	-.5
Personal consumption expenditures	-.9	1.8	5.9	5.0	4.5	2.6	-.7	.0
Goods	-3.4	.7	6.9	5.1	4.1	1.3	-3.1	-1.5
Services	2.3	3.2	4.8	4.9	5.1	4.3	2.1	1.6
Gross private domestic investment	-11.4	-22.3	21.6	15.4	7.1	.4	-13.2	-.5
Residential structures	-24.6	-13.9	23.3	20.7	4.2	-5.7	-21.9	6.5
Business fixed investment	-.3	-13.0	4.8	8.6	8.4	6.2	-2.8	-5.9
Gov't. purchases of goods and services	2.1	1.9	.2	2.0	1.8	.4	2.3	.3
Federal	-.8	.7	-.2	4.4	-2.0	.9	7.0	1.5
State and local	3.8	2.6	.5	.6	4.0	.2	-.3	-.4
Disposable personal income	-1.5	2.1	3.7	4.2	4.6	2.3	-.5	.2
<u>Current dollars</u>								
Gross national product	8.1	8.2	11.3	11.6	12.0	11.3	7.9	9.7
Final purchases	8.9	9.7	9.9	11.0	12.1	11.7	8.9	9.5
Private	8.1	9.1	10.8	11.3	12.7	12.3	8.0	9.5
Excluding net exports	8.2	7.8	12.0	12.7	12.6	11.8	7.8	9.1
Personal consumption expenditures	9.8	10.1	11.3	11.0	11.6	11.8	9.8	9.8
Goods	8.9	8.7	11.0	9.8	10.7	10.8	7.2	8.3
Services	11.1	11.8	11.7	12.5	12.7	12.9	12.7	11.4
Gross private domestic investment	-2.5	-11.0	27.3	24.8	15.9	10.2	-5.5	8.0
Residential structures	-16.7	-6.5	32.3	35.0	17.5	5.7	-14.3	16.8
Business fixed investment	10.8	-.3	9.8	14.9	16.7	15.2	5.9	2.3
Gov't. purchases of goods and services	12.3	11.8	6.8	9.7	9.9	9.4	12.1	9.2
Federal	8.7	10.7	-5.4	11.3	5.7	9.2	17.4	11.8
State and local	14.5	12.5	7.5	8.7	12.4	9.5	9.2	7.7
Disposable personal income	9.2	10.4	9.0	10.2	11.7	11.4	10.0	10.0
Personal income	9.7	8.7	10.0	10.9	12.1	12.0	10.0	9.4
Wage and salary disbursements	9.0	5.4	10.4	10.6	12.1	11.3	7.9	7.7
Corporate profits with IVA & C.C. Adj.	-15.6	14.7	32.2	18.3	11.8	6.3	-12.5	4.5
Corporate profits before tax	9.6	-5.1	29.6	13.5	16.3	14.9	-5.5	3.2
Nonfarm payroll employment	2.0	-1.7	3.1	3.9	5.1	3.7	.6	.0
Manufacturing	-.4	-8.7	3.7	3.6	4.2	2.8	-4.2	-2.0
Nonfarm business sector								
Output per hour	-3.1	1.9	3.5	1.5	.5	-1.1	-1.7	.9
Compensation per hour	9.1	9.9	8.3	7.9	8.6	9.0	9.9	9.2
Unit labor costs	12.7	7.9	4.7	6.3	8.0	10.2	11.8	8.1
GNP implicit deflator	9.7	9.6	5.2	6.0	7.3	8.8	9.4	9.6
Gross domestic business product								
fixed-weighted price index <sup>1/</sup>	10.4	9.4	5.3	6.2	7.6	9.5	10.1	9.7
Excluding food and energy	8.1	9.5	5.8	6.3	7.2	8.1	8.3	8.2
Consumer price index (all urban)	11.0	9.1	5.8	6.5	7.7	11.3	13.4	10.6
Industrial production	-.4	-8.9	10.8	5.9	5.7	4.2	-5.6	-2.9

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

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

September 10, 1980

	Fiscal Year 1979*	FY 1980 e/		FY 1981 e/2/		CY 1979*	CY80e/ P.R. Board	FRB Staff Estimates									
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data									
								1979				1980			1981		
								IV*	I*	II*	III	IV	I	II	III		
Unified budget receipts	465.9	517.9	519.1	604.0	574.2	480.5	531.6	114.0	114.6	156.2	134.2	126.5	126.8	171.3	149.5		
Unified budget outlays	493.7	578.8	578.6	633.8	637.1	508.7	595.6	138.6	141.8	148.1	150.1	155.6	154.7	160.6	166.2		
Surplus(+)/deficit(-), unified budget	-27.7	-60.9	-59.5	-29.8	-62.9	-28.2	-64.0	-24.6	-27.2	8.2	-15.9	-29.1	-27.9	10.7	-16.7		
Surplus(+)/deficit(-), off-budget agencies 3/	-12.4	-16.1	-13.7	-21.7	-20.0	-13.2	-14.0	-1.0	-3.8	-4.4	-4.5	-1.3	-6.9	-6.6	-5.2		
Combined deficit to be financed	-40.2	-77.0	-73.2	-51.5	-82.9	-41.4	-78.0	-25.6	-31.0	3.8	-20.4	-30.4	-34.8	4.1	-21.9		
Means of financing combined deficits:																	
Net borrowing from public	33.7	69.7	68.1	45.8	76.5	37.3	77.6	18.9	19.1	5.4	24.7	28.4	23.8	1.9	22.4		
Decrease in cash operating balance	-1.8	4.2	4.2	5.0	5.0	0.4	-0.1	8.3	7.7	-5.9	-5.9	4.0	8.0	-4.0	-3.0		
Other 4/	8.3	3.1	0.9	0.7	1.5	3.5	0.6	-1.7	4.1	-3.1	1.6	-2.0	3.0	-2.0	2.5		
Cash operating balance, end of period	24.2	20.0	20.0	15.0	15.0	15.9	16.0	15.9	8.2	14.1	20.0	16.0	8.0	12.0	15.0		
Memo: Sponsored agency borrowing 5/	19.1	16.2	21.9	16.7	19.7	25.5	19.7	7.5	7.7	5.3	1.4	5.2	3.7	5.8	5.0		
<b>NIA Budget</b>																	
								Seasonally adjusted annual rates									
Receipts 6/	483.7	532.1	530.7	612.3	577.2	497.6	543.2	524.7	538.4	531.4	543.3	559.8	566.6	585.6	600.7		
Expenditures	493.6	572.9	573.4	642.0	646.2	509.0	595.2	540.4	561.3	579.5	612.7	627.1	639.1	647.8	670.7		
Purchases (total)	162.4	188.4	188.6	211.3	213.1	166.6	195.6	178.4	186.2	193.3	196.5	206.5	211.1	215.3	219.5		
Defense	105.9	121.6	121.7	143.1	143.1	108.3	127.4	114.6	119.6	124.1	128.4	137.3	141.2	145.1	148.7		
Nondefense	56.5	66.8	66.9	68.2	70.0	58.4	68.3	63.8	66.6	69.2	68.1	69.2	69.9	70.2	70.8		
All other expenditures	331.2	384.5	384.8	430.7	433.1	342.4	399.6	362.0	375.1	386.2	416.2	420.6	428.0	432.5	451.2		
Surplus (+)/deficit (-) 6/	-9.9	-40.8	-42.7	-29.7	-69.0	-11.4	-52.0	-15.7	-22.9	-48.0	-69.4	-67.3	-72.5	-62.2	-70.0		
High employment surplus (+)/deficit (-) (NIA basis)	3.0	n.a.	5.2	n.a.	24.8	6.9	8.2	7.0	3.4	5.8	4.8	19.0	20.1	32.3	27.7		
		*--actual	e--estimated			n.a.--not available											

1. OMB Mid-Session Review of the 1981 Budget, July 1980 and BEA NIA translations, July 1980.
2. In the First Concurrent Resolution on the Budget, Fiscal Year 1981, June 1980, the Congress called for receipts of \$613.8 billion and outlays of \$613.6 billion.
3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.
4. Checks issued less checks paid, accrued items and other transactions.
5. FRB staff estimates include Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives marketable debt on an offerings basis.
6. BEA NIA translations, July 1980. The fiscal year totals are based on unadjusted data and do not conform to the average of four seasonally adjusted quarters. The FRB staff estimates, therefore, have been adjusted in order to make the BEA and the staff estimates comparable.

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DOMESTIC FINANCIAL DEVELOPMENTS

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Summary. With the decline in economic activity slowing, demands for money and credit have strengthened, exerting upward pressures on interest rates. M-1A expansion, which had been quite rapid in June and July, accelerated to a record 17-3/4 percent annual rate in August. The pick up of the growth of this aggregate following declines early in the second quarter may reflect not only faster increases in the nominal volume of transactions, but also a lagged response to previous declines in interest rates and a cessation of the unusual weakening of money demand evident earlier. Growth of the non-transactions components of M-2, although remaining robust in August, moderated substantially from earlier months. Much of the weakening occurred at money market mutual funds, where upward adjustments of returns to shareholders lagged increases in market interest rates, prompting outflows in the latter part of August and early September. Rising market yields also contributed to a slowing of growth of savings deposits in August and a resumption of the expansion of small time deposits as declines in MMCs apparently moderated.

The increasing demand for bank reserves associated with strength in the monetary aggregates was reflected in a rise in the Federal funds rate over the intermeeting period. In response to this increase, and to incoming economic and financial data indicating further upward movements might be forthcoming, short-term interest rates generally have risen about 1-1/4 to 1-1/2 percentage points since the August FOMC meeting. Bond yields, by contrast, are on balance only about 1/4 of a percentage point higher than in mid-August. This relatively small increase in bond yields may indicate that a portion of the tightening in money market conditions

had been anticipated, and that long-term investors may be coming to the view that rising interest rates could sap the vigor of the recovery.

Rising interest rates have reflected firming credit demands, as well as developments in money markets. Household borrowing appears to have rebounded in recent months from the depressed pace of the spring. New extensions of consumer installment credit picked up substantially in July, moderating the decline in credit outstanding. And, in August, the run off of loans to individuals at large commercial banks slowed further. Increases in consumer borrowing likely have been encouraged by the easier terms and more ample availability of credit resulting from the dismantling of the special restraint program and earlier reductions in market interest rates.

Mortgage borrowing by households also appears to have strengthened-- especially at depository institutions. Real estate loans at commercial banks rose in August for the second consecutive month, and in July, new mortgage commitments at S&Ls increased around 60 percent. On the other hand, recent increases in average rates on new commitments for home mortgages to around 13 percent are reported to be discouraging some potential borrowers, and activity in VA/FHA loans has been curtailed by large discounts reflecting the wide spread between government rate ceilings on such loans and market yields. State and local government support for single family mortgages has tapered off a bit in recent months as funds have become more readily available at traditional lenders and as the rate on subsidized mortgages made with tax-exempt funds has risen relative to yields on nonsubsidized mortgages.

Total borrowing by businesses also picked up in August. The increase was centered entirely at banks, where business loans are estimated to have increased at around a 20 percent annual rate. A portion of the strength in bank business loans may have occurred in reaction to movements in market interest rates. A rise in commercial paper rates relative to the prime rate apparently contributed to a decline in commercial paper outstanding of nonfinancial corporations. In addition, increases in bond yields led to a fall off in offerings of longer-term securities and encouraged reliance on shorter-term borrowing.

Upward movements in bond yields also led to a substantial volume of cancellations of tax-exempt bond sales--especially housing issues--and a decline in total state and local borrowing. The federal government continued to tap the securities markets in volume to finance its deficit.

Outlook. With inflation continuing rapid, and the recession expected to end soon, demands for money and credit are projected to continue to increase in coming months. The strength of these demands, relative to the System's targets for growth in the monetary aggregates, seems likely to produce higher interest rates by year end.

Household borrowing is expected to rebound further in coming months. Installment credit outstanding is likely to resume growing as purchases of durable goods increase. Household mortgage borrowing should pick up in association with the rebound in housing activity and lending commitments. However, the increase in such credit may be limited by the reaction of borrowers to recent upward movements in mortgage rates. Pressures on these rates are likely to remain fairly intense, in light of the relatively narrow spread of mortgage over bond yields and prospects that

higher short-term rates will be slowing the growth and raising the cost of funds at S&Ls.

Business borrowing is likely to remain sizable in coming months, despite the further liquidation of inventories, as external financing needs remain historically large. With bond yields projected to edge only slightly higher through year end, issuance of long-term securities will probably remain substantial, as desires to restructure balance sheets keep offerings well above the pace of 1979 and early 1980.

Borrowing by state and local governments is likely to rise substantially in the weeks immediately ahead, as indicated by a near-record calendar of prospective offerings. Over the longer term, this sector's need for funds will be bolstered by a deteriorated budget position. With the Federal government deficit expected to remain close to third quarter levels, the Treasury will also continue to require a sizable volume of new credit in coming months.

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INTERNATIONAL DEVELOPMENTS

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Summary. The dollar has fluctuated over a narrow range over the past five weeks, with the weighted average exchange rate of the dollar easing by about 1/2 percent over this period. Sharp gains by the Japanese yen and the pound against the dollar were partially offset by an appreciation of the dollar against continental currencies and the Canadian dollar. The pound showed continued strength, reaching a \$2.42 level in early September, its highest rate against the dollar since early 1975. The pound's performance is attributable to a recent firming of U.K. interest rates as well as apparent renewed demand by Middle Eastern countries for sterling-denominated assets.

. Net U.S. intervention amounted to about \$730 million of dollar sales, primarily against German marks, allowing the System to reduce its swap debt with the Bundesbank by about \$425 million equivalent and for the Treasury to rebuild balances.

Latest output data for major foreign economies confirm a widespread slowing in economic activity abroad, with Canada and the United Kingdom recording negative GNP growth rates in the first two quarters this year. Inflationary pressures in most foreign countries continue to show some easing, but the average inflation rate for the ten major foreign economies in recent months still hovers in the 10 percent range. With the exception of the 0.75 point reduction in the Japanese discount rate in August, monetary authorities abroad have

not actively eased their monetary policies and continue to focus attention on containing inflation.

The U.S. trade deficit of some \$3 billion (a.r.) in July was in sharp contrast to the \$30 billion annual rate recorded in the second quarter. While exports were essentially unchanged, imports declined by some \$26 billion (a.r.) from the second quarter. A 20 percent decline in the volume of oil imports accounted for virtually the entire reduction in imports.

In international financial markets, the outflow of funds through banks that has been underway since spring continued through July, although at a reduced pace. Partial data for August show a continued outflow. The cumulative outflow through banks for the first seven months of this year amounted to \$17 billion, compared with an inflow of nearly \$15 billion through this channel for the full year 1979. Foreign official reserve assets in the United States (excluding those of OPEC) increased by nearly \$6 billion over the June-July period. The total OPEC current-account surplus in the first half this year reached some \$60 billion, a \$20 billion increase from the preceeding half year. About an eighth of this surplus was placed in OPEC official reserve holdings in the United States. These holdings increased slightly further in July, and OPEC holdings at the FRBNY rose by about an additional \$1.5 billion in August. The cumulative increase in OPEC reserve holdings in the United States for the first eight months this year of about \$9 billion exceeds the \$6.5 billion increase of such holdings recorded for the full year 1979.

Outlook. The staff now foresees somewhat larger current-account surpluses for the United States through 1981 than last month.

The current account is now expected to be in surplus by about \$5 billion this year and \$11 billion next year. A major factor contributing to this month's improved U.S. current-account outlook is a reassessment of U.S. oil imports over the projection period. The slackening in oil consumption here and abroad and a reduction in stockbuilding have eased upward pressure on world oil prices. We now foresee somewhat lower oil prices, higher than expected U.S. petroleum output, and a reduction in U.S. petroleum inventories for the projection period. The staff now projects a 40 percent increase in oil prices this year (Q4/Q4) and a 13-1/2 percent increase next year (Q4/Q4). This month's projection assumes an average price per barrel of oil of \$35.85 in 1981 compared with a \$37.79 price per barrel assumed in last month's projection.

The emerging current-account surplus this year is expected to occur primarily as a reflection of the volume of imports declining more rapidly than the volume of exports, in view of the relatively weaker prospects for U.S. economic activity than that abroad. Next year, the projected U.S. recovery will lead to a faster rise in U.S. imports than in U.S. exports, and, as a result, the current-account position is expected to be reduced somewhat during the course of the year, but to remain in surplus throughout the year.

The relatively strong U.S. current-account outlook compared with that of other major countries, as well as the relative firmness of U.S. interest rates expected over the projection period, are expected to result in some appreciation of the average value of the dollar over the year ahead.

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

September 10, 1980

	1979 ANN.	1980 ANN.	1981 ANN.	1980 Q I	1980 Q II	1980 QIII	1980 Q IV	1981 Q I	1981 Q II	1981 QIII	1981 Q IV
<b>1. GNP NET EXPORTS</b>											
CURRENT \$, NET	-4.6	0.0	8.4	-13.6	-2.5	5.7	10.3	11.8	9.7	7.1	4.8
EXPORTS OF G&S	257.5	308.8	340.9	308.1	307.1	307.2	312.9	325.4	336.1	346.2	355.9
IMPORTS OF G&S	262.1	308.9	332.6	321.7	309.7	301.5	302.6	313.6	326.4	339.1	351.1
CONSTANT 72 \$, NET	17.6	28.2	29.2	25.0	28.0	29.7	29.9	29.3	29.2	29.3	29.1
EXPORTS OF G&S	119.9	126.7	126.0	131.7	128.4	123.9	122.6	123.6	125.2	127.0	128.3
IMPORTS OF G&S	102.3	98.5	96.8	106.7	100.4	94.2	92.7	94.2	96.0	97.7	99.3
TERMS OF TRADE (1972=100) 1/	83.8	77.8	78.7	77.6	77.5	77.5	78.1	79.1	79.0	78.5	78.4
<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>											
EXPORTS (EXCL. MILITARY)	182.1	220.3	241.8	218.8	219.2	219.4	223.8	232.1	239.1	245.2	250.9
AGRICULTURAL	35.4	41.3	47.4	41.5	38.8	42.1	42.8	45.9	47.3	47.9	48.5
NONAGRICULTURAL	146.6	179.0	194.4	177.3	180.4	177.3	181.0	186.1	191.8	197.2	202.4
IMPORTS	211.5	249.3	265.5	262.3	249.3	242.7	242.9	250.8	260.6	270.6	280.0
PETROLEUM AND PRODUCTS	60.0	84.0	97.9	86.4	84.0	79.9	85.8	92.4	96.0	99.4	103.8
NONPETROLEUM	151.5	165.3	167.6	175.9	165.3	162.8	157.1	158.4	164.6	171.2	176.2
<b>3. U.S. CURRENT ACCOUNT BALANCE</b>											
OF WHICH: NET INVESTMENT INCOME	-0.8	4.5	10.9	-10.3	2.4	11.0	14.8	15.5	12.6	9.2	6.3
<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/</b>											
REAL GNP, % CHANGE, ANNUAL RATES	3.7	1.9	1.0	3.1	-1.8	0.6	0.2	1.1	1.7	2.2	2.5
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	7.8	11.6	8.4	14.5	12.6	9.1	8.9	8.4	7.7	7.0	6.7

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

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- PER CENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE. CANADA (9.1%), JAPAN (13.6%), UNITED KINGDOM (11.9%), GERMANY (20.8%), FRANCE (13.1%), ITALY (9.0%), BELGIUM (6.4%), THE NETHERLANDS (8.3%), SWITZERLAND (3.6%), SWEDEN (4.2%).

4/ WHOLESALE PRICES FOR JAPAN.

P/ PROJECTED.