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November 12, 1980

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. The upturn in economic activity continued into October, as employment and industrial production both posted further sizable gains. But consumer spending for goods in real terms declined, and activity in real estate markets apparently has faltered. Developments in food prices and homeownership costs have recently produced erratic movements in monthly price measures, but underlying inflationary pressures remain strong.

Labor demand increased further in October, and the number of workers on nonfarm payrolls rose about a quarter million. Employment gains were widespread, with further strong increases in durable goods manufacturing and construction, as well as continued gains in trade and services employment. The average workweek in manufacturing lengthened slightly, and is now 0.6 hour above the trough in July. Despite this strength, the jobless rate edged up to 7.6 percent in October, remaining in the 7-1/2 to 7-3/4 percent range that has prevailed since May. Given the increases in total hours worked and average hourly earnings, wage and salary income probably rose at about the same pace as over the previous two months.

Industrial production apparently rose close to 1-1/2 percent in October. A sharp advance in output of motor vehicles and related materials was a significant factor in the October rise, but gains apparently occurred in most other major market groupings as well. Moreover, incoming data indicate sizable upward revisions in output for August and September.

Consumer spending declined in real terms in October, following a small gain in September. Sales of new domestic-model autos--at a 6-3/4 million unit annual rate--were only slightly above the September rate despite the introduction of the innovative 1981 models, while sales of imports remained at the 2-1/4 million unit rate that has prevailed on average since April. Excluding autos, nominal retail sales increased only 0.3 percent, and most likely they declined in real terms. Real outlays at general merchandise, appliance, and furniture stores have declined on balance during the last two months after rising substantially over the summer.

Housing activity once again has begun to respond to tighter financial conditions as mortgage rates have moved above 14 percent. Sales of new single-family houses declined for the second consecutive month in September. Although total private housing starts rose 9 percent in September to a 1-1/2 million unit annual rate, a good deal of the advance reflected a spurt in federally-subsidized activity. Moreover, advance data on newly-issued permits indicate a sizable drop in early October.

Business fixed investment rose somewhat on balance in September, following substantial weakness earlier in the quarter. Shipments of nondefense capital goods posted a sizable gain in September, while nonresidential construction edged down further. Data on commitments, however, suggest further weakness in business outlays over the near term. Despite a substantial rise in September, new orders for non-defense capital goods in September are still below recent levels of shipments; with the orders backlog falling--especially for machinery--future equipment spending is likely to be weak. The dollar volume of

nonresidential construction contracts fell sharply in September, suggesting continued lack of growth in this sector as well.

Firms continued to bring stocks closer into line with sales in September. The book value of manufacturers' inventories increased at a \$10-1/2 billion annual rate, and the stock/sales ratio dropped sharply. The book value of wholesale inventories was little changed in September, following a sizable increase in August. In real terms, manufacturing and wholesale stocks probably edged down further, continuing the general downward movement of the previous four months.

In spite of the relatively wide margin of unutilized physical and labor resources at present, underlying inflationary pressures remain strong. Wage rates--as measured by the index of average hourly earnings--rose 0.8 percent in October and were nearly 9-1/2 percent above a year earlier. The producer price index for finished goods rose 0.8 percent in October, after a small decline in September. Half of the change was caused by higher prices for motor vehicles, following liquidation discounts in September, while much of the rest of the October increase was due to a reacceleration in food prices; energy prices were about unchanged over the month. Excluding food and energy, the October increase was 1.1 percent--about in line with the average monthly change so far this year. Consumer prices rose 1.0 percent in September, following no change in July and a relatively small increase in August. Much of the acceleration was due to a further surge in retail food prices, but sharp increases were reported for a number of other goods and services as well. Costs of energy items and mortgage interest were relatively stable.

Outlook. The recent strength in employment and production has led the staff to revise up the estimate of real GNP growth in the fourth quarter of 1980 to about 2-1/4 percent at an annual rate, compared with the 1 percent rate projected last month. Despite the gains in the early autumn, economic activity still is expected to wane toward year's end, largely in response to the recent sharp increases in interest rates.

M-1A is assumed to grow 4-1/4 percent over 1981 abstracting from the impact of the introduction of nationwide NOW accounts. Interest rates have risen more during the last month than had been indicated in the October projection, and they generally are expected to be somewhat higher in 1981 than previously indicated. The fiscal policy assumptions have been revised in light of the election results. Tax liabilities are assumed to be reduced \$35 billion in 1981--about \$7 billion more than assumed last month--with individuals now receiving a larger share of the reductions. However, the effects on the deficit of the bigger tax cut are largely offset by additional net spending reductions of about \$5 billion; the budget deficit is projected to be about \$55 billion in fiscal year 1981. On a high employment basis the budget continues to show a movement toward surplus over the course of 1981.

The slow pace of money growth in the context of a relatively restrictive fiscal policy is likely to constrain the rise in nominal GNP to around 9-1/2 percent over 1981. With the momentum of prices and wages likely to preclude a significant deceleration in inflation during 1981, there would be very little room for real growth. Output is expected to fall in the early part of 1981, and to rise only fractionally during the remainder of the year.

The taut financial conditions associated with the monetary policy assumption are likely to have their initial impact on housing starts, which are expected to fall to a 1.1 million unit annual rate in the first quarter of 1981 and to remain near that level through the rest of the year. Business fixed investment is projected to continue its decline in response to both financial conditions and low capacity utilization rates. At the same time, stagnant real disposable income is expected to limit gains in consumption, even though the personal saving rate is projected to average only 4 percent for 1981, well below historical levels, as consumers attempt to maintain their living standards. From the fourth quarter of 1980 to the fourth quarter of 1981, real personal consumption expenditures are expected to grow only 3/4 percent, with particular weakness in autos, where sales of domestically-produced automobiles are projected to remain near current levels.

With economic activity projected to be sluggish during 1981, the unemployment rate is expected to move up throughout the year to 8.4 percent in the fourth quarter. Despite the relatively wide margin of unused physical and labor resources, inflation pressures are likely to remain quite strong. Average hourly compensation is projected to rise 9-3/4 percent over the four quarters of 1980 and, reflecting the momentum of past price increases, to slow only to 9-1/4 percent during 1981. With productivity anticipated to be little changed next year, labor costs are projected to continue rising rapidly and the gross business product price index is expected to increase about 9-3/4 percent. The CPI is projected to rise somewhat faster--11-1/2 percent over 1981--reflecting the effects of rapidly rising mortgage interest costs.

Detailed data for this projection 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				
10/15/80	11/12/80	10/15/80	11/12/80	10/15/80	11/12/80	10/15/80	11/12/80	10/15/80	11/12/80	
Annual changes:										
1978 1/	12.0	12.0	4.4	4.4	7.6	7.6	7.2	7.2	6.0	6.0
1979 1/	11.3	11.3	2.3	2.3	9.5	9.5	8.1	8.1	5.8	5.8
1980	8.6	8.7	- .8	- .7	10.1	10.2	8.4	8.5	7.2	7.2
1981	9.8	9.8	- .1	- .2	10.0	10.1	8.6	7.3	8.1	8.2
Quarterly changes:										
1979-Q1 1/	10.6	10.6	1.1	1.1	10.0	10.0	7.7	7.7	5.7	5.7
1979-Q2 1/	6.7	6.7	-2.3	-2.3	10.1	10.1	7.9	7.9	5.8	5.8
1979-Q3 1/	11.9	11.9	3.1	3.1	10.4	10.4	7.6	7.6	5.8	5.8
1979-Q4 1/	10.5	10.5	2.0	2.0	8.4	8.4	6.6	6.6	5.9	5.9
1980-Q1 1/	10.8	10.8	1.2	1.2	11.2	11.2	8.5	8.5	6.1	6.1
1980-Q2 1/	.1	.1	-9.6	-9.6	10.4	10.4	9.8	9.7	7.5	7.5
1980-Q3 1/	10.7	10.2	1.1	1.0	9.7	10.4	9.6	10.5	7.6	7.6
1980-Q4	12.0	15.0	.9	2.3	10.4	10.3	8.6	9.1	7.6	7.6
1981-Q1	10.4	8.2	.0	-1.6	10.5	10.4	8.8	8.5	7.8	7.9
1981-Q2	10.3	9.6	1.0	.7	9.7	9.8	8.3	8.1	8.0	8.2
1981-Q3	8.9	9.9	.5	1.2	9.1	9.4	8.0	8.0	8.2	8.3
1981-Q4	9.4	10.4	.5	.9	9.1	9.3	7.9	7.9	8.3	8.4
Two-quarter changes: ^{2/}										
1979-Q4 1/	11.2	11.2	2.5	2.5	9.3	9.3	7.1	7.1	.1	.1
1980-Q2 1/	5.3	5.3	-4.4	-4.4	10.9	10.9	9.1	9.1	1.6	1.6
1980-Q4	11.3	12.6	1.0	1.6	10.0	10.4	9.1	9.8	.1	.1
1981-Q2	10.3	8.9	.5	- .5	10.1	10.1	8.6	8.2	.4	.6
1981-Q4	9.1	10.1	.5	1.0	9.1	9.3	7.9	7.9	.3	.2
Four-quarter changes: ^{3/}										
1978-Q4 1/	13.4	13.4	4.8	4.8	8.6	8.6	8.1	8.1	- .7	- .7
1979-Q4 1/	9.9	9.9	1.0	1.0	9.7	9.7	7.5	7.5	.1	.1
1980-Q4	8.3	8.9	-1.7	-1.4	10.5	10.6	9.1	9.5	1.7	1.7
1981-Q4	9.7	9.5	.5	.3	9.6	9.7	8.3	8.1	.7	.8

1/ Actual.

2/ Percent change from two quarters earlier.

3/ Percent change from four quarters earlier.

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

	1980				1981			
	Q1	Q2	Q3	Q4	Projection			
					Q1	Q2	Q3	Q4
Gross national product	2520.8	2521.3	2583.0	2674.8	2727.9	2791.1	2857.5	2928.9
Final purchases	2516.1	2509.9	2600.9	2671.1	2726.5	2789.1	2855.3	2926.7
Private	1998.9	1981.6	2064.2	2112.2	2158.2	2209.8	2264.0	2318.2
Excluding net exports	2012.5	1983.8	2045.6	2102.0	2147.8	2197.7	2250.1	2302.5
Personal consumption expenditures	1629.5	1626.6	1681.8	1726.4	1771.7	1822.8	1869.1	1911.5
Goods	872.2	849.8	875.7	895.5	917.1	944.5	969.1	990.8
Services	757.3	776.9	806.1	830.9	854.6	878.3	900.0	920.7
Gross private domestic investment	387.7	368.5	346.0	379.3	377.5	376.9	383.2	393.2
Residential construction	110.4	88.9	92.5	100.0	98.0	95.0	97.5	101.0
Business fixed investment	272.6	268.2	271.4	275.6	278.1	279.9	283.5	290.0
Change in business inventories	4.7	11.4	-17.9	3.7	1.4	2.0	2.2	2.2
Nonfarm	4.4	12.3	-13.1	3.7	1.4	2.0	2.2	2.2
Net exports of goods and services ^{1/}	-13.6	-2.2	18.6	10.2	10.4	12.1	13.9	15.7
Exports	308.1	307.0	312.1	320.1	339.1	349.1	356.1	363.2
Imports	321.7	309.2	293.5	309.9	328.7	337.0	342.2	347.5
Gov't. purchases of goods and services	517.2	528.3	536.7	558.9	568.3	579.3	591.3	608.5
Federal ^{2/}	186.2	193.3	194.6	209.4	211.8	216.0	221.0	231.2
State and local	331.0	335.0	342.1	349.5	356.5	363.3	370.3	377.3
Gross national product in constant (1972) dollars	1444.7	1408.6	1412.1	1420.2	1414.5	1416.9	1421.0	1424.1
Personal income	2057.4	2080.5	2141.1	2207.6	2247.5	2294.5	2358.2	2411.4
Wage and salary disbursements	1303.7	1310.4	1327.6	1372.5	1396.7	1422.5	1449.5	1481.8
Disposable personal income	1737.4	1755.9	1807.5	1858.3	1888.0	1952.5	2006.1	2047.3
Saving rate (percent)	3.7	4.9	4.6	4.7	3.8	4.2	4.4	4.2
Corporate profits with I.V.A. and C.C. Adj.	175.0	152.8	163.7	174.7	162.4	164.6	168.1	173.9
Corporate profits before tax	260.4	204.8	228.2	242.1	229.0	232.4	237.1	244.1
Federal government surplus or deficit (-) (N.I.A. basis)	-22.9	-49.2	-59.9	-55.3	-39.1	-61.2	-70.9	-70.2
High employment surplus or deficit (-) ^{3/}	3.4	6.1	6.7	16.5	47.6	28.5	25.1	32.7
State and local government surplus or deficit (-) (N.I.A. basis)	24.6	19.5	23.2	24.7	21.3	21.7	21.9	23.3
Excluding social insurance funds	-4.2	-10.4	-9.1	-8.2	-12.2	-12.4	-12.8	-12.0
Civilian labor force (millions)	104.2	104.7	105.1	105.4	105.8	106.1	106.4	106.7
Unemployment rate (percent)	6.1	7.5	7.6	7.6	7.9	8.2	8.3	8.4
Nonfarm payroll employment (millions)	91.1	90.5	90.1	90.8	90.8	90.8	91.0	91.1
Manufacturing	21.0	20.3	19.9	20.2	20.1	20.1	20.1	20.2
Industrial production (1967=100)	152.5	144.6	141.8	146.7	146.0	145.7	145.7	146.0
Capacity utilization: all mfg. (percent)	83.4	77.9	75.5	77.9	76.8	76.2	75.7	75.4
Materials (percent)	85.5	78.7	76.5	78.1	76.9	75.9	75.3	75.1
Housing starts, private (million units, A.R.)	1.26	1.05	1.41	1.25	1.10	1.15	1.20	1.20
New autos sales, (millions, A.R.)	10.65	7.68	8.79	8.95	8.80	9.30	9.40	9.45
Domestic models	7.87	5.53	6.51	6.70	6.60	6.90	6.95	7.00
Foreign models	2.77	2.14	2.28	2.25	2.20	2.40	2.45	2.45

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

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

^{3/} Evaluated at a 6.1 percent unemployment, the high employment budget would show a deficit of \$11 billion in 1980-Q4 and a surplus of \$3 billion in 1981-Q4.

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CLASS II POMCPERCENT 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	-9.6	1.0	2.3	-1.6	.7	1.2	.9
Final purchases	1.5	-10.2	3.7	-2	-1.3	.6	1.1	.9
Private	.9	-12.8	5.1	-4	-1.6	.6	1.1	.8
Excluding net exports	-.8	-14.1	4.0	1.3	-1.2	.1	.5	.4
Personal consumption expenditures	.5	-10.6	5.2	1.0	.1	2.0	1.0	.1
Goods	-1.8	-18.1	5.5	-8	-1.7	2.0	.8	-.4
Services	3.2	-1.3	4.9	3.0	2.1	1.9	1.2	.7
Gross private domestic investment	-8.3	-25.9	-19.6	24.0	-9.8	-8.6	-2.0	1.9
Residential structures	-26.2	-61.8	5.6	24.2	-16.1	-19.7	1.3	5.2
Business fixed investment	1.7	-14.6	-3.2	-2.9	-4.8	-5.9	-3.2	1.0
Gov't. purchases of goods and services	4.2	1.4	-1.9	1.0	-.2	.6	1.2	1.2
Federal	13.1	9.5	-3.9	3.3	.6	2.5	3.5	3.2
State and local	-.7	-3.2	-.8	-.3	-.7	-.6	-.2	.0
Disposable personal income	.9	-6.0	3.4	1.6	-3.9	4.1	1.8	-.8
<u>Current dollars</u>								
Gross national product	10.8	.1	10.2	15.0	8.2	9.6	9.9	10.4
Final purchases	11.0	-1.0	15.3	11.2	8.6	9.5	9.8	10.4
Private	10.4	-3.4	17.7	9.6	9.0	9.9	10.2	9.9
Excluding net exports	10.7	-5.6	13.1	11.5	9.0	9.6	9.9	9.6
Personal consumption expenditures	13.0	-.7	14.3	11.0	10.9	12.0	10.6	9.4
Goods	12.5	-9.9	12.8	9.4	10.0	12.5	10.8	9.3
Services	13.6	10.8	15.9	12.9	11.9	11.6	10.3	9.5
Gross private domestic investment	.5	-18.4	-22.3	44.4	-1.9	-.6	6.9	10.9
Residential structures	-19.3	-57.8	16.8	36.6	-7.8	-11.7	10.9	15.2
Business fixed investment	11.6	-6.3	4.9	6.3	3.6	2.6	5.2	9.5
Gov't. purchases of goods and services	13.4	8.9	6.5	17.6	6.9	8.0	8.5	12.2
Federal	18.7	16.1	2.7	34.1	4.7	8.2	9.6	19.8
State and local	10.5	5.0	8.7	8.9	8.3	7.9	7.9	7.8
Disposable personal income	13.5	4.3	12.3	11.7	6.5	14.4	11.4	8.5
Personal income	10.9	4.6	12.2	13.0	7.4	8.6	11.6	9.3
Wage and salary disbursements	10.9	2.1	5.4	14.2	7.2	7.6	7.8	9.2
Corporate profits with IVA & C.C. Adj.	-3.1	-41.9	31.7	29.7	-25.3	5.5	8.8	14.5
Corporate profits before tax	31.9	-61.7	54.1	26.8	-19.9	6.0	8.3	12.5
Nonfarm payroll employment	2.5	-2.7	-1.6	2.8	.1	.2	.8	.5
Manufacturing	-.8	-11.7	-7.2	4.7	-1.0	.1	.8	1.0
Nonfarm business sector								
Output per hour	-1.1	-3.7	2.6	-1.5	-2.1	.3	.5	.3
Compensation per hour	10.7	10.8	8.4	9.3	11.7	8.6	8.4	8.4
Unit labor costs	12.0	15.0	5.7	11.0	14.1	8.3	7.9	8.1
GNP implicit deflator ^{1/}	9.5	10.7	9.1	12.4	9.9	8.8	8.6	9.4
Gross domestic business product								
fixed-weighted price index ^{2/}	11.2	10.4	10.4	10.3	10.4	9.8	9.4	9.3
Excluding food and energy	8.8	8.7	10.5	9.1	8.5	8.1	8.0	7.9
Consumer price index (all urban)	17.2	13.8	7.2	11.1	13.5	12.4	10.4	9.6
Industrial production	.0	-19.2	-7.5	14.6	-1.9	-1.5	-.7	.7

^{1/} Excluding Federal pay increases, the rates of change are: 1980-Q1, 9.4 percent; 1980-Q4, 11.7 percent; 1981-Q1, 9.9 percent; 1981-Q4, 8.8 percent.

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

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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.)

	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 ^{1/}	-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 ^{2/}	150.9	148.2	152.3	159.0	163.6	161.7	162.9	178.4
State and local	268.5	280.1	288.6	294.8	296.5	304.9	314.9	322.8
Gross national product in constant (1972) dollar	1367.8	1395.2	1407.3	1426.6	1430.6	1422.3	1433.3	1440.3
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	1233.1	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	152.7	152.3	152.6	152.5
Capacity utilization: all mfg. (percent)	82.0	83.9	85.2	86.4	86.9	85.9	85.3	84.4
Materials (percent)	82.6	85.0	86.4	88.2	88.4	87.5	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

^{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.

November 12, 1980

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 ^{1/}	6.3	10.6	7.2	8.7	9.3	9.3	8.5	8.4
Gross domestic business product								
fixed-weighted price index ^{2/}	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	5.4	-1.0	.8	-.3

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

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

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

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
Gross national product	1412.9	1528.8	1702.2	1899.5	2127.6	2368.8	2575.0	2826.3
Final purchases	1404.0	1539.6	1692.1	1877.6	2105.2	2350.6	2574.5	2824.4
Private	1101.3	1201.2	1330.8	1481.4	1669.6	1874.2	2039.2	2237.5
Excluding net exports	1095.3	1180.8	1322.8	1491.3	1679.9	1878.8	2036.0	2224.5
Personal consumption expenditures	889.6	979.1	1089.9	1210.0	1350.8	1509.8	1666.1	1843.8
Goods	498.3	541.5	601.3	660.1	730.9	809.9	873.3	955.4
Services	391.3	437.5	488.5	549.8	619.8	699.8	792.8	888.4
Gross private domestic investment	214.6	190.9	243.0	303.3	351.5	387.2	370.4	382.7
Residential construction	55.1	51.5	68.1	91.9	108.0	114.1	97.9	97.9
Business fixed investment	150.6	150.2	164.9	189.4	221.1	254.9	272.0	282.9
Change in business inventories	8.9	-10.7	10.0	21.9	22.3	18.2	.5	1.9
Nonfarm	10.8	-14.3	12.1	20.7	21.3	16.5	1.8	1.9
Net exports of goods and services ^{1/}	6.0	20.4	8.0	-9.9	-10.3	-4.6	3.3	13.0
Exports	137.9	147.3	163.3	175.9	207.2	257.5	311.8	351.9
Imports	131.9	126.9	155.4	185.8	217.5	262.1	308.6	338.8
Gov't. purchases of goods and services	302.7	338.4	361.3	396.2	435.6	476.4	535.3	586.8
Federal ^{2/}	111.1	123.1	129.7	144.4	152.6	166.6	195.9	220.0
State and local	191.5	215.4	231.6	251.8	283.0	309.8	339.4	366.8
Gross national product in constant (1972) dollars	1217.8	1202.3	1273.0	1340.5	1399.2	1431.6	1421.4	1419.1
Personal income	1154.9	1255.5	1381.6	1531.6	1717.4	1924.2	2121.6	2327.9
Wage and salary disbursements	764.6	805.9	890.0	984.0	1103.3	1227.6	1328.5	1437.6
Disposable personal income	984.6	1086.7	1184.5	1305.1	1458.4	1624.3	1789.8	1973.5
Saving rate (percent)	7.3	7.7	5.8	5.0	4.9	4.5	4.5	4.2
Corporate profits with I.V.A. and C.C. Adj.	83.6	95.9	126.8	150.0	167.7	178.2	166.6	167.3
Corporate profits before tax	126.9	120.4	156.0	177.1	206.0	236.6	233.9	235.7
Federal government surplus or deficit (N.I.A. basis)	-10.7	-70.6	-53.6	-46.3	-27.7	-11.4	-46.9	-60.4
High employment surplus or deficit (-)	8.9	-21.5	-17.8	-22.1	-13.4	6.9	8.2	33.5
State and local government surplus or deficit (-) (N.I.A. basis)	7.6	6.2	17.9	26.8	27.4	24.6	23.0	22.0
Excluding social insurance funds	-2.9	-6.2	2.3	7.3	4.2	-1.9	-8.0	-12.4
Civilian labor force (millions)	91.0	92.6	94.8	97.4	100.4	102.9	104.8	106.2
Unemployment rate (percent)	5.6	8.5	7.7	7.0	6.0	5.8	7.2	8.2
Nonfarm payroll employment (millions)	78.3	77.0	79.4	82.5	86.7	89.9	90.6	90.9
Manufacturing	20.1	18.3	19.0	19.7	20.5	21.1	20.3	20.1
Industrial production (1967=100)	129.3	117.8	130.5	138.2	146.1	152.5	146.4	145.5
Capacity utilization: all manufacturing (percent)	83.8	72.9	79.5	81.9	84.4	85.6	78.6	76.0
Materials (percent)	87.1	73.4	81.1	82.7	85.6	87.4	79.7	75.8
Housing starts, private (million units, A.R.)	1.34	1.16	1.54	1.99	2.02	1.75	1.24	1.16
New auto sales, (millions, A.R.)	8.91	8.66	10.12	11.13	11.28	10.70	9.01	9.24
Domestic models	7.49	7.08	8.63	9.07	9.29	8.38	6.65	6.86
Foreign models	1.42	1.58	1.50	2.06	1.99	2.32	2.36	2.37

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

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
<u>Constant (1972) dollars</u>								
Gross national product	-1.4	-1.3	5.9	5.3	4.4	2.3	-7	-2
Final purchases	-.7	.2	4.5	4.8	4.4	2.7	.0	-.3
Private	-1.4	-.3	5.6	5.6	5.0	3.2	-.5	-.4
Excluding net exports	-2.3	-1.0	6.5	6.2	5.0	2.6	-1.4	-.4
Personal consumption expenditures	-.9	1.8	5.9	5.0	4.5	2.6	-.1	.6
Goods	-3.4	.7	6.9	5.1	4.1	1.3	-2.4	-.7
Services	2.3	3.2	4.8	4.9	5.1	4.3	2.6	2.2
Gross private domestic investment	-11.4	-22.3	21.6	15.4	7.1	.4	-11.8	-4.9
Residential structures	-24.6	-13.9	23.3	20.7	4.2	-5.7	-21.9	-9.3
Business fixed investment	-.3	-13.0	4.8	8.6	8.4	6.2	-1.9	-4.6
Gov't. purchases of goods and services	2.1	1.9	.2	2.0	1.8	.4	2.2	.3
Federal	-.8	.7	-.2	4.4	-2.0	.9	6.4	2.0
State and local	3.8	2.6	.5	.6	4.0	.2	-.3	-.7
Disposable personal income	-1.5	2.1	3.7	4.2	4.6	2.3	-.3	.3
<u>Current dollars</u>								
Gross national product	8.1	8.2	11.3	11.6	12.0	11.3	8.7	9.8
Final purchases	8.9	9.7	9.9	11.0	12.1	11.7	9.5	9.7
Private	8.1	9.1	10.8	11.3	12.7	12.3	8.8	9.7
Excluding net exports	8.2	7.8	12.0	12.7	12.6	11.8	8.4	9.3
Personal consumption expenditures	9.8	10.1	11.3	11.0	11.6	11.8	10.4	10.7
Goods	8.9	8.7	11.0	9.8	10.7	10.8	7.8	9.4
Services	11.1	11.8	11.7	12.5	12.7	12.9	13.3	12.1
Gross private domestic investment	-2.5	-11.0	27.3	24.8	15.9	10.2	-4.3	3.3
Residential structures	-16.7	-6.5	32.3	35.0	17.5	5.7	-14.2	-.1
Business fixed investment	10.8	-.3	9.8	14.9	16.7	15.2	6.7	4.0
Gov't. purchases of goods and services	12.3	11.8	6.8	9.7	9.9	9.4	12.4	9.6
Federal	8.7	10.7	5.4	11.3	5.7	9.2	17.6	12.3
State and local	14.5	12.5	7.5	8.7	12.4	9.5	9.6	8.1
Disposable personal income	9.2	10.4	9.0	10.2	11.7	11.4	10.2	10.3
Personal income	9.7	8.7	10.0	10.9	12.1	12.0	10.3	9.7
Wage and salary disbursements	9.0	5.4	10.4	10.6	12.1	11.3	8.2	8.2
Corporate profits with IVA & C.C. Adj.	-15.6	14.7	32.2	18.3	11.8	6.3	-6.5	.4
Corporate profits before tax	9.6	-5.1	29.6	13.5	16.3	14.9	-1.1	.8
Nonfarm payroll employment	2.0	-1.7	3.1	3.9	5.1	3.7	.8	.3
Manufacturing	-.4	-8.7	3.7	3.6	4.2	2.8	-3.5	-1.0
Nonfarm business sector								
Output per hour	-3.1	1.9	3.5	1.5	.5	-1.1	-1.0	-.6
Compensation per hour	9.1	9.9	8.3	7.9	8.6	9.0	9.6	9.6
Unit labor costs	12.7	7.9	4.7	6.3	8.0	10.2	10.8	10.2
GNP implicit deflator	9.7	9.6	5.2	6.0	7.3	8.8	9.5	9.9
Gross domestic business product								
fixed-weighted price index ^{1/}	10.4	9.4	5.3	6.2	7.6	9.5	10.2	10.1
Excluding food and energy	8.1	9.5	5.8	6.3	7.2	8.1	8.5	8.7
Consumer price index (all urban)	11.0	9.1	5.8	6.5	7.7	11.3	13.4	11.4
Industrial production	-.4	-8.9	10.8	5.9	5.7	4.4	-4.0	-.6

^{1/} Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

November 12, 1980

	Fiscal Year 1980	FY 1981 e/ Admin. F.R. 1/ Board		CY 80 e/ F.R. Board		CY 81 e/ F.R. Board		FRB Staff Estimates							
		Calendar quarters; unadjusted data								1981					
		1980				1981				I*	II*	III*	IV	I	II
Unified budget receipts	520.0	600.1	585.3	534.2	599.0	114.6	156.2	135.2	128.1	135.4	171.9	149.8	141.8		
Unified budget outlays	579.0	636.5	640.1	595.6	656.6	141.8	148.1	150.5	155.0	157.9	161.6	165.6	171.5		
Surplus(+)/deficit(-), unified budget	-59.0	-36.4	-54.9	-61.3	-57.7	-27.2	8.2	-15.4	-26.9	-22.5	10.3	-15.8	-29.7		
Surplus(+)/deficit(-), off-budget agencies 2/	-14.2	-21.7	-22.0	-15.2	-22.3	-3.8	-4.4	-4.9	-2.1	-6.0	-7.4	-6.4	-2.5		
Combined deficit to be financed	-73.2	-58.1	-76.9	-76.5	-80.0	-31.0	3.8	-20.3	-29.0	-28.5	2.9	-22.2	-32.2		
Means of financing combined deficits:															
Net borrowing from public	70.5	52.4	67.7	75.0	79.5	19.1	5.4	27.1	23.4	18.5	3.1	22.7	35.2		
Decrease in cash operating balance	3.2	5.0	6.0	0.9	-1.0	7.7	-5.9	-6.9	6.0	7.0	-4.0	-3.0	-1.0		
Other 3/	-0.6	0.7	3.2	0.8	1.5	4.1	-3.1	0.1	-0.3	3.0	-2.0	2.5	-2.0		
Cash operating balance, end of period	21.0	15.0	15.0	15.0	16.0	8.2	14.1	21.0	15.0	8.0	12.0	15.0	16.0		
Memo: Sponsored agency borrowing 4/	24.1	16.7	24.9	22.6	22.0	7.7	5.3	3.2	7.7	4.8	6.8	5.5	5.0		
NIA Budget															
						Seasonally adjusted annual rates									
Receipts 5/	531.9	605.0	591.3	548.8	602.7	538.4	529.9	551.0	576.0	601.8	587.8	602.7	618.3		
Expenditures	573.0	647.1	649.0	595.7	663.3	561.3	579.1	611.0	631.6	641.1	649.2	673.9	688.8		
Purchases (total)	188.1	211.3	214.6	195.9	220.0	186.2	193.3	194.6	209.4	211.8	216.0	221.0	231.2		
Defense	121.8	143.1	145.4	127.8	151.2	119.6	124.1	129.1	138.3	142.7	147.9	152.9	161.2		
Nondefense	66.3	68.2	69.1	68.1	68.8	66.6	69.2	65.5	71.1	69.1	68.1	68.1	70.0		
All other expenditures	384.9	435.8	434.4	399.8	443.3	375.1	385.8	416.4	422.2	429.3	433.2	452.9	457.6		
Surplus(+)/deficit(-) 5/	-41.1	-42.1	-57.7	-46.9	-60.6	-22.9	-49.2	-60.0	-55.6	-39.3	-61.4	-71.2	-70.5		
High employment (H.E.) surplus(+)/deficit(-)															
evaluated at H.E. unemployment rate of:															
5.1 percent	5.8	n.a.	29.4	8.2	33.5	3.4	6.1	6.7	16.5	47.6	28.5	25.1	32.7		
6.1 percent	-19.0	n.a.	1.4	-17.5	4.8	-20.7	-19.3	-19.4	-10.7	19.2	0.6	-3.7	3.1		

*-actual e--estimated n.a.--not available

- OMB/BEA Mid-Session Review estimates adjusted by FRB staff for the effects of Administration's revitalization program. In its report on the Second Concurrent Resolution, the House Budget Committee recommended receipts of \$606.7 billion and outlays of \$631.7 billion.
- Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.
- Checks issued less checks paid, accrued items and other transactions.
- 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.
- BEA (NIPA) 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.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. The monetary aggregates continued to grow rapidly in October, and credit flows appear to have remained close to recent levels. With the tightening of bank reserve positions putting upward pressures on the federal funds rate and incoming economic data indicating that nominal demands for money and credit likely would remain strong, market interest rates rose sharply over the intermeeting period. Short-term rates advanced around 1-3/4 to 2-3/4 percentage points, and bond yields moved from 3/4 to 1-1/4 percentage points higher. The rise in bond yields brought them to around the record high levels established in late March. Stock prices declined, on balance, from mid-October.

Growth in M-1A and M-1B slowed again in October, but remained well above the FOMC's fourth-quarter targets. The rates of expansion of the broader measures of the money stock accelerated slightly. The decline in money market mutual fund assets moderated in October. In addition, at banks and thrift institutions inflows to small time accounts picked up, and strength in these deposits more than offset slower expansion of savings accounts.

Bank credit expansion moderated somewhat in October, although net additions to both loan and security holdings remained quite large. The slower growth was attributable entirely to a falloff in net loan extensions. To fund their asset growth, banks turned again to managed liabilities. Changing yield relationships favored borrowing in the Eurodollar markets, and bank issuance of domestic CDs dropped off while funds flowed in from foreign branches for the first time in seven months.

Total business borrowing from short- and intermediate-term sources of funds appears to have diminished somewhat in October as business loan growth at banks was a little below that in September and the runoff in commercial paper that began in June accelerated. Bond issuance, which had been cut back in August and September as yields rose, remained at September's depressed level. Offerings of equities, on the other hand, were at a near-record pace, spurred by the rise in share prices through mid-month that pushed price-earnings ratios to two-year highs.

Bond offerings by state and local governments remained fairly sizable in October, but showed signs of declining substantially late in the month and early in November when tax-exempt yields were nearing historic peaks. The Treasury made somewhat more limited demands on credit markets in October than on average in other recent months. In early November, however, it stepped up its borrowing, raising a large amount of new cash in conjunction with the mid-quarter refunding operation.

Household borrowing likely expanded in October, but at a slower rate than in other recent months. Commercial bank real estate lending picked up, and S&L mortgage acquisitions also may have risen, given the increase in commitments outstanding in September. However, widespread field reports have indicated that rising mortgage rates have led to reduced commitment activity of late--especially in conventional fixed-rate mortgages. The progressive strengthening in consumer installment credit continued in September as credit extensions came into more normal alignment with retail sales. Credit growth may have moderated in October, however, judging from early reports from large banks and the weakness in retail sales.

Outlook. Interest rates are likely to remain at current levels or move higher through yearend, as continued rapid inflation is reflected in the private sector's demands for money and credit.

Business credit flows in such an environment would be focused on short- and intermediate-term sectors since businesses are unlikely to reenter bond markets in size at current rate levels. Total business financing needs are expected to increase a bit in coming months as inventory liquidation ceases. Household mortgage borrowing may continue to rise, given the level of commitments outstanding, but its rate of increase should taper off as the more recent effects of higher interest rates on commitment activity begin to be felt. In the public sectors, state and local governments also have begun to cut back on bond issuance. The Treasury will be an active borrower, especially in note and bill auctions, including sizable offerings of cash management bills in November and December.

Interest rates may begin to edge lower around yearend as demands for money and credit moderate in lagged response to recent interest rate increases, and in reaction to slower growth of nominal GNP. Nevertheless, nominal GNP growth is expected still to be quite rapid in 1981, and the strength of associated demands for money and credit is likely to require a continued high level of interest rates to constrain money growth to within the Committee's ranges.

Summary. The dollar appreciated by nearly 5 percent on a weighted-average from mid-October through the first week in November, largely reflecting the strong rise in dollar interest rates, and then dropped by 2 percent, apparently based on a reassessment of the outlook for U.S. interest rates. Over the period since the last Greenbook the dollar rose about 4-1/2 percent against the mark and other Continental currencies. The German mark and Belgian franc moved to their lower intervention limits within the EMS, while the French franc and Dutch guilder reached their upper limits.

. Sterling appreciated over most of the period, but fell back as expectations of some easing in monetary policy began to develop. The Japanese yen rose somewhat on average reflecting improving trade figures and reports of moves to encourage capital inflows.

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The price of gold fell abruptly after early November, dropping below \$600 per ounce for a short time. The main influence on the gold price was probably high dollar interest rates.

The economic situation in other industrial countries in the third quarter featured weakness in economic activity coupled with some marked

reductions in the rate of price increase. In the United Kingdom the rate of consumer price inflation dropped to about 8-1/2 percent from over 20 percent in the second quarter; in Japan and Germany prices decelerated, but in France and Italy inflation was slightly higher. On average, the rate of inflation of foreign G-10 countries and Switzerland dropped from 13-1/2 percent in the second quarter to 8-1/2 percent in the third.

The July-August rate of industrial production was below the second quarter rate in all major foreign countries except France. Partly reflecting the economic slowdown, current-account deficits were being reduced for Germany and Japan during the third quarter, and the U.K. surplus was rising.

Up to now the German authorities have resisted any easing of monetary policy, citing the weak DM and large current-account deficit, and in the United Kingdom interest rates have been held firm although the inflation rate has declined sharply. In Japan, there was another cautious easing of monetary policy on November 5, and steps toward ease were taken in the Netherlands and France, partly to relieve pressure within the EMS.

Although the U.S. trade deficit rose a bit in September, the third-quarter rate was down to about \$11 billion (international accounts basis) from \$30 billion in the second quarter. Most of the change resulted from a 20 percent drop in the volume of oil imports as U.S. consumption continued to decline; oil stocks changed little. Other imports did not change much in value or volume. On the export side, agricultural exports were up in both volume and price, while the value

of other exports rose slightly, but on somewhat reduced volume. However, the volume of exports of machinery and aircraft continued to rise.

The net outflow of funds from U.S. banking offices continued through September, although the pace of outflows, as reported for balance-of-payments purposes, was less than in the second quarter. Data collected on a daily average basis indicate that there may have been a shift to net banking inflows in October. Trading in securities (other than Treasury obligations) with foreigners resulted in small net outflows in both the second and third quarters. Foreign interest in U.S. corporate stocks and bonds dropped sharply after the first quarter and there were net sales in September.

Foreign official assets in the United States rose \$7.3 billion in the third quarter, about the same amount as in the second quarter. Increases by G-10 countries were small, and there were reductions after July as several of these countries sold dollars to support their currencies. The largest increases were for OPEC members, who raised their reserve assets in the United States by \$11-1/2 billion in the January-September period and a further amount in October.

Outlook. The U.S. current account is now projected to be in surplus by \$6 billion this year and \$18 billion in 1981, somewhat higher than in the preceding projection. The estimate for the trade deficit in 1981 has been reduced slightly to about \$15 billion (\$25 billion in 1980). Petroleum prices over the period ahead have been projected to rise somewhat more steeply, but with consumption trending down since 1979 the expected quantity of imports has been scaled down. Agricultural exports have been raised somewhat.

Over the year ahead, the staff expects the weighted average foreign exchange value of the dollar to rise slightly above its current level. The main factors underlying this view are the continuation of the relatively strong U.S. trade and current account positions and maintenance of relatively tight U.S. monetary conditions.

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

	1979 ANN.	1980 ANN.	1981 ANN.	1980 Q I	1980 Q II	1980 Q III	1980 Q IV	1981 Q I	1981 Q II	1981 Q III	1981 Q IV
1. GNP NET EXPORTS											
CURRENT \$, NET	-4.6	3.2	13.0	-13.6	-2.2	18.6	10.2	10.4	12.2	13.9	15.7
EXPORTS OF G&S	257.5	311.8	351.9	308.1	307.0	312.1	320.1	339.1	349.1	356.1	363.2
IMPORTS OF G&S	262.1	308.6	338.8	321.7	309.2	293.5	309.9	328.7	337.0	342.2	347.5
CONSTANT 72 \$, NET	17.6	28.0	28.2	25.0	28.4	31.6	26.8	25.9	27.4	29.1	30.4
EXPORTS OF G&S	119.9	128.0	128.7	131.7	128.3	126.9	124.9	127.0	127.5	129.1	131.2
IMPORTS OF G&S	102.3	100.0	100.5	106.7	99.9	95.3	98.1	101.1	100.0	100.0	100.8
TERMS OF TRADE (1972=100) 1/	83.8	79.0	81.1	77.6	77.4	79.8	81.1	82.2	81.3	80.6	80.3
2. U.S. MERCHANDISE TRADE BALANCE 2/											
EXPORTS (EXCL. MILITARY)	182.1	223.7	252.3	218.8	218.8	225.7	231.6	243.0	251.3	256.0	259.1
AGRICULTURAL	35.4	42.0	50.4	41.5	38.9	43.6	44.0	49.7	51.8	50.9	49.2
NONAGRICULTURAL	146.6	181.7	202.0	177.3	179.9	182.1	187.5	193.4	199.5	205.1	209.9
IMPORTS	211.5	248.6	267.9	262.2	249.1	236.6	246.5	258.8	267.2	271.5	273.9
PETROLEUM AND PRODUCTS	60.0	79.7	93.0	86.4	84.0	69.0	79.5	88.3	94.3	95.1	94.2
NONPETROLEUM	151.5	168.9	174.9	175.8	165.1	167.6	167.1	170.6	172.9	176.4	179.7
3. U.S. CURRENT ACCOUNT BALANCE											
OF WHICH: NET INVESTMENT INCOME	-0.8	5.6	18.0	-10.4	-9.7	25.3	17.3	16.4	17.8	18.7	19.1
	32.5	35.8	38.5	40.4	25.4	40.1	37.3	37.6	38.2	38.8	39.3
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	3.6	1.8	1.0	3.5	-2.7	-0.7	1.0	1.4	1.8	2.1	2.5
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	7.8	11.5	8.6	14.5	12.6	8.0	8.9	8.8	8.2	7.6	7.4

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.