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March 25, 1981

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

Summary

Indications of a slowing of economic growth emerged in February. Industrial production and housing starts declined, and employment and income gains moderated; however, retail sales continued to expand. Favorable developments in food prices have been offset to a large extent by a surge in energy prices, and, on balance, inflation appears to have continued at about last year's average rate.

Industrial production, which had been growing at progressively slower rates in recent months, declined 1/2 percent in February. While auto assemblies were up, truck production declined and output of construction supplies dropped sharply; production cutbacks also were widespread among other industries. A rise in the output of energy materials reflected the stockpiling of coal in anticipation of a strike at the end of March.

Following four months of declining home sales and extremely high mortgage-interest rates, housing starts fell sharply in February for both single and multifamily units. Total starts dropped by 400,000 (annual rate) to a 1.2 million unit pace in February--a level slightly lower than that of a year earlier. Permits also declined further.

In line with slowing activity, manufacturing employment was little changed in February, and construction jobs declined. Work schedules were curtailed sharply in these sectors, although the reductions may have been exaggerated by adverse weather during the survey week. Hiring in private service-producing industries, however, continued to trend upward. The

overall unemployment rate--at 7.3 percent--remained essentially unchanged from the levels experienced since last May.

The rise in consumer spending in the first two months of 1981 exceeded the gains in household income. Excluding autos and nonconsumption items, nominal retail purchases grew 2.1 percent in January and 1.1 percent in February. The rate of domestic auto sales, which had averaged about 6-3/4 million units since the model year began, rose to 9 million units (annual rate) from late February to mid-March when widespread rebates were being offered. Meanwhile, foreign car sales were at a near-record pace in February, bringing total sales to the highest level in a year. The surge in domestic car sales along with recent low production rates have trimmed dealer inventories, and auto makers increased assemblies further in March, by about 10 percent.

Business investment in real terms increased during the fourth quarter and appeared to strengthen further at the beginning of the year. Construction rose substantially in December and January, but shipments of equipment, after rising sharply in January, lost ground in the next month. On balance, commitments data such as contracts and orders suggest little change in the level of real outlays over coming months; although the Commerce Department survey, taken in January and February, implies a small increase in real outlays over the course of 1981.

In January, the total book value of business inventories rose sharply at about a \$53 billion annual rate. This increase, however, was accompanied by brisk advances in shipments and sales, so that the overall inventory/sales ratios remained quite low. Moreover, the inventory buildup was concentrated in materials and work-in-process at factories

suggesting that the buildup may represent manufacturers' anticipations of further increases in production and shipments. In the trade sector, January increases in book values of inventories were quite small, continuing the pattern of little accumulation of the fourth quarter.

Inflation remained rapid in early 1981 and underlying labor cost pressures showed no clear sign of moderation. An easing of upward pressures on food and home prices was offset by the impact of oil decontrol. The moderation in food prices in recent months appears to be temporary; it has been concentrated in meat products--items for which fundamental supply developments appear to be unfavorable. The jump in energy prices in January and February reflected the direct effects of oil decontrol as well as the OPEC increases of late last year. Fuel supplies remain ample, and surveys suggest that retail energy price rises moderated substantially in early March.

Outlook

Despite the recent indications of slowing in the growth of activity, the average level of real GNP in the first quarter apparently was substantially above that of the fourth quarter. Real GNP is estimated to have risen about 5-3/4 percent (annual rate) in the first quarter, and nominal GNP probably advanced at a rate of about 15-1/2 percent. Real final sales are estimated to have advanced at a rate of almost 4 percent, and the inventory liquidation of late 1980 appears to be coming to a close. The GNP fixed-weighted price index is estimated to have risen at a 10-1/2 percent annual rate, higher than in the preceding quarter, but lower than shown in the last Greenbook.

For the second quarter the staff projects a leveling out of real GNP, characterized by a weakening in all major sectors of final demand. Recent declines in housing starts and high mortgage-interest rates suggest further reductions in construction activity. Consumer spending growth is unlikely to be sustained at the first quarter pace as income growth is expected to slow and the saving rate is already at an unusually low level. Moreover, auto sales are projected to decline in the second quarter, following elimination of large price concessions; as in the past, these rebates apparently have caused some buying to be shifted forward. Given the sluggish behavior of orders and contracts during recent quarters, we are projecting that real business fixed investment will resume a moderate decline.

The staff's economic and financial projections continue to assume that in 1981 M-1B will grow 4-3/4 percent, the midpoint of the FOMC range, abstracting from the impact of the introduction of nationwide NOW accounts; during 1982, growth of 4-1/4 percent is assumed. To hold monetary expansion to these rates, while inflation is enlarging transactions needs, is expected to require a substantial rise in short-term interest rates in the months ahead--and very high rates on average throughout the projection period. This suggests considerable financial stress for many intermediaries and businesses.

For fiscal policy, the staff continues to assume a 10 percent cut in personal income tax rates and in withholding schedules beginning mid-year 1981, representing about \$30 billion at an annual rate starting at that time. In contrast to the administration's proposal, no further personal tax rate reductions are assumed for 1982. Business tax

reductions also are assumed, in the form of accelerated depreciation schedules (a modified 10-5-3) retroactive to the first of this year; this results in tax relief of about \$6 billion for businesses in 1981. For fiscal year 1982, the staff has assumed nondefense budget reduction of almost \$30 billion, or roughly 2/3 of the cuts requested by the administration. However, these reductions partially are offset by increased defense expenditures, projected to be \$6 billion above the Carter budget and \$4 billion higher than the previous Greenbook projection for FY 1982. Based on the staff's economic projections, other expenditures--particularly interest payments and unemployment insurance--are estimated to be higher than in the March Budget Revisions by the administration. The net result is an estimated unified budget deficit of \$63 billion in FY 1981 and \$77 billion in FY 1982, as compared with the administration's projected deficits of \$55 and \$45 billion, respectively.

Following the expected lull in the second quarter of 1981, economic activity is projected by the staff to advance only very slightly--around 1/2 percent at an annual rate--over the subsequent six quarters. The weakness primarily reflects the relatively restrictive growth assumed for the monetary aggregates that will likely carry interest rates back to near-record levels later this year. Total government purchases are expected to increase at a modest rate with declines in state and local outlays about offsetting the rise in defense deliveries. Consumption, although boosted somewhat by the projected mid-year tax cut, is estimated to expand very slowly--by about 1 percent or less--as the saving rate increases toward more normal levels, and the growth

of income is held down by sluggish activity in the private investment and government sectors.

Total employment is projected to edge up only fractionally over the next two years, and even with a slowly rising labor force, the unemployment rate is projected to drift up to 8 percent by late 1981 and to almost 8-3/4 percent by the end of 1982.

Wage and price pressures are expected to ease only modestly during 1981, but more substantial progress is projected during 1982, when the inflation rate is expected to edge below 8 percent. Energy prices are assumed to move more in line with the general rate of inflation in coming quarters. Food prices are projected to pick up again following their recent moderation.

Detailed data for this projection are shown in the following tables.

STAFF GNP PROJECTIONS

Percent changes, annual rate										
				Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
Nominal GNP		Real GNP		Total		Excluding food and energy				
1/28/81	3/25/81	1/28/81	3/25/81	1/28/81	3/25/81	1/28/81	3/25/81	1/28/81	3/25/81	
Annual changes:										
1979	<u>1/</u> 12.0	12.0	3.2	3.2	9.6	9.6	8.1	8.1	5.8	5.8
1980	<u>I/</u> 8.9	8.8	-.1	-.2	9.7	9.6	8.1	8.0	7.1	7.1
1981	<u>I/</u> 10.7	11.5	.6	1.9	10.1	9.6	8.6	8.4	8.1	7.6
1982	<u>—</u> 8.7	8.8	.4	.5	8.3	8.4	7.7	7.7	8.9	8.4
Quarterly changes:										
1980-Q1	<u>1/</u> 12.6	12.6	3.1	3.1	10.2	10.2	7.7	7.7	6.2	6.2
1980-Q2	<u>I/</u> -1.1	-1.1	-9.9	-9.9	9.5	9.5	9.3	9.3	7.3	7.3
1980-Q3	<u>I/</u> 11.8	11.8	2.4	2.4	9.8	9.8	9.3	9.3	7.5	7.5
1980-Q4	<u>I/</u> 16.7	14.9	5.0	3.8	9.6	8.9	8.5	7.6	7.5	7.5
1981-Q1	13.2	15.5	1.3	5.8	12.9	10.5	8.3	8.3	7.5	7.4
1981-Q2	6.3	9.0	-2.2	.0	9.9	9.6	8.1	8.6	8.0	7.5
1981-Q3	9.3	9.5	.6	.8	8.9	9.3	8.0	8.1	8.3	7.7
1981-Q4	9.9	9.6	.7	.5	8.0	8.9	7.8	7.9	8.5	7.9
1982-Q1	8.8	8.4	.7	.3	8.1	8.3	7.7	7.7	8.7	8.1
1982-Q2	7.9	8.0	.3	.3	7.9	7.9	7.4	7.4	8.8	8.3
1982-Q3	8.1	8.2	.6	.6	7.8	7.8	7.3	7.3	8.9	8.5
1982-Q4	9.2	9.7	1.0	1.2	7.5	7.5	7.1	7.1	9.0	8.6
Two-quarter changes:										
1980-Q2	<u>1/</u> 5.6	5.6	-3.6	-3.6	9.8	9.8	8.5	8.5	1.4	1.4
1980-Q4	<u>I/</u> 14.3	13.4	3.7	3.1	9.7	9.4	8.9	8.5	.2	.2
1981-Q2	<u>—</u> 9.7	12.2	-.5	2.9	11.4	10.0	8.2	8.6	.5	.2
1981-Q4	9.6	9.5	.6	.6	8.5	9.1	7.9	8.0	.5	.4
1982-Q2	8.3	8.2	.5	.3	8.0	8.1	7.5	7.5	.3	.4
1982-Q4	8.6	9.0	.8	.9	7.7	7.7	7.2	7.2	.2	.7
Four-quarter changes:										
1979-Q4	<u>1/</u> 9.9	9.9	1.7	1.7	9.4	9.4	7.2	7.2	.1	.1
1980-Q4	<u>I/</u> 9.8	9.4	.0	-.3	9.8	9.6	8.7	8.5	1.6	1.6
1981-Q4	<u>—</u> 9.6	10.9	.1	1.8	10.0	9.6	8.0	8.3	1.0	.4
1982-Q4	8.5	8.6	.7	.6	7.8	7.9	7.4	7.3	.5	.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.)

	1979				1980			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2340.6	2374.6	2444.1	2496.3	2571.7	2564.8	2637.3	2730.6
Final purchases	2316.2	2341.5	2430.8	2497.1	2569.1	2557.4	2653.4	2748.0
Private	1858.0	1876.4	1955.4	2000.7	2052.3	2027.4	2119.9	2189.4
Excluding net exports	1838.1	1868.2	1937.5	1993.1	2044.1	2010.3	2075.4	2166.1
Personal consumption expenditures	1454.1	1478.0	1529.1	1582.3	1631.0	1626.8	1682.2	1751.0
Goods	784.3	793.8	824.8	855.3	882.0	858.4	883.0	926.8
Services	669.9	684.2	704.3	727.0	749.0	768.4	799.2	824.2
Gross private domestic investment	408.3	423.2	421.7	410.0	415.6	390.9	377.1	397.7
Residential construction	116.7	117.2	119.8	120.6	115.2	93.6	99.2	113.0
Business fixed investment	267.3	272.9	288.5	290.2	297.8	289.8	294.0	302.1
Change in business inventories	24.3	33.1	13.3	-.8	2.5	7.4	-16.0	-17.4
Nonfarm	20.8	29.2	7.8	-4.4	1.5	6.1	-12.3	-14.0
Net exports of goods and services ^{1/}	19.9	8.2	17.9	7.6	8.2	17.1	44.5	23.3
Exports	259.1	266.8	293.1	306.3	337.3	333.3	342.4	346.1
Imports	239.2	258.6	275.2	298.7	329.1	316.2	297.9	322.7
Gov't. purchases of goods and services	458.2	465.1	475.4	496.4	516.8	530.0	533.5	558.6
Federal ^{2/}	164.8	163.6	165.1	178.1	190.0	198.7	194.9	212.0
State and local	293.4	301.6	310.4	318.3	326.8	331.3	338.6	346.6
Gross national product in constant (1972) dollar	1479.9	1473.4	1488.2	1490.6	1501.9	1463.3	1471.9	1485.6
Personal income	1864.6	1906.3	1972.3	2032.0	2088.2	2114.5	2182.1	2256.2
Wage and salary disbursements	1194.8	1218.6	1248.6	1282.2	1314.7	1320.4	1341.8	1397.8
Disposable personal income	1580.2	1612.8	1663.8	1710.1	1765.1	1784.1	1840.6	1897.0
Saving rate (percent)	5.3	5.6	5.4	4.7	4.9	6.2	6.1	5.1
Corporate profits with I.V.A. and C.C. Adj	201.9	196.6	199.5	189.4	200.2	169.3	177.9	183.0
Corporate profits before tax	253.1	250.9	262.0	255.4	277.1	217.9	237.6	249.2
Federal government surplus or deficit (-) (N.I.A. basis)	-11.5	-8.1	-15.2	-24.5	-36.3	-66.5	-74.2	-68.0
High employment surplus or deficit (-)	-4.6	5.1	-2.3	-7.1	-17.1	-21.5	-21.2	-13.5
State and local government surplus or deficit (-) (N.I.A. basis)	29.5	21.9	26.5	28.9	26.6	23.9	28.6	37.1
Excluding social insurance funds	7.1	-1.7	2.1	4.0	1.3	-1.7	.9	8.1
Civilian labor force (millions)	102.3	102.4	103.2	103.7	104.2	104.7	105.0	105.2
Unemployment rate (percent)	5.8	5.7	5.8	5.9	6.2	7.3	7.5	7.5
Nonfarm payroll employment (millions)	89.1	89.7	90.2	90.6	91.1	90.5	90.1	90.9
Manufacturing	21.1	21.1	21.1	21.0	21.0	20.3	19.9	20.3
Industrial production (1967=100)	152.7	152.3	152.6	152.5	152.5	144.6	142.1	149.1
Capacity utilization: all mfg. (percent)	86.9	85.9	85.3	84.4	83.4	77.9	75.7	79.2
Materials (percent)	88.4	87.5	87.2	86.3	85.5	78.7	74.9	80.0
Housing starts, private (million units, A.R.)	1.64	1.84	1.79	1.59	1.23	1.06	1.39	1.54
New autos sales, (millions, A.R.)	11.56	10.65	10.79	9.80	10.65	7.68	8.80	9.04
Domestic models	9.30	8.16	8.63	7.43	7.87	5.53	6.51	6.57
Foreign models	2.25	2.49	2.16	2.37	2.77	2.14	2.29	2.47

^{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.

March 25, 1981

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

	1979				1980			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	3.9	-1.7	4.1	.6	3.1	-9.9	2.4	3.8
Final purchases	2.5	-2.5	7.2	2.9	3.1	-10.4	4.1	4.4
Private	3.0	-3.0	8.7	2.2	2.2	-13.3	6.5	4.9
Excluding net exports	1.1	-1.6	5.5	1.9	-.4	-14.4	4.6	8.5
Personal consumption expenditures	.9	-1.2	4.7	3.6	.8	-9.8	5.1	7.0
Goods	-2.7	-4.6	6.0	4.2	-.3	-17.7	4.0	10.2
Services	5.5	3.0	3.1	2.8	2.1	.0	6.4	3.7
Gross private domestic investment	10.6	1.7	-9.9	-17.8	-5.6	-28.9	-10.0	11.1
Residential structures	-6.5	-10.8	-3.6	-3.1	-24.2	-60.2	16.0	64.2
Business fixed investment	5.2	-.4	13.4	-5.4	2.2	-19.9	-1.5	4.0
Gov't. purchases of goods and services	.7	-.5	1.2	6.1	6.9	2.5	-5.0	2.2
Federal	8.0	-7.9	-3.6	13.1	18.9	11.9	-13.1	2.0
State and local	-3.3	4.0	3.9	2.4	.6	-2.8	.3	2.3
Disposable personal income	3.1	.5	3.5	.8	1.3	-4.9	4.1	2.9
<u>Current dollars</u>								
Gross national product	12.7	5.9	12.2	8.8	12.6	-1.1	11.8	14.9
Final purchases	11.5	4.4	16.1	11.4	12.0	-1.8	15.9	15.0
Private	12.8	4.0	17.9	9.6	10.7	-4.8	19.5	13.8
Excluding net exports	10.8	6.7	15.7	12.0	10.6	-6.5	13.6	18.7
Personal consumption expenditures	11.0	6.7	14.6	14.7	12.9	-1.0	14.3	17.4
Goods	8.5	4.9	16.6	15.6	13.1	-10.3	12.0	21.4
Services	14.2	8.8	12.2	13.5	12.7	10.8	17.0	13.1
Gross private domestic investment	17.0	15.4	-1.5	-10.6	5.6	-21.8	-13.3	23.7
Residential structures	1.8	1.8	9.1	2.8	-16.7	-56.4	25.7	68.5
Business fixed investment	13.9	8.6	25.0	2.3	11.0	-10.4	6.0	11.5
Gov't. purchases of goods and services	6.3	6.2	9.2	18.8	17.5	10.6	2.6	20.2
Federal	10.7	-2.9	3.7	35.4	29.5	19.8	-7.5	40.2
State and local	3.9	11.6	12.2	10.6	11.2	5.6	9.1	9.7
Disposable personal income	13.5	8.5	13.3	11.6	13.5	4.4	13.3	12.8
Personal income	12.8	9.3	14.6	12.7	11.5	5.1	13.4	14.3
Wage and salary disbursements	13.5	8.2	10.2	11.2	10.5	1.8	6.6	17.8
Corporate profits with IVA & C.C. Adj.	-1.6	-10.1	6.0	-18.8	24.8	-48.9	21.9	12.0
Corporate profits before tax	8.3	-3.4	18.9	-9.7	38.6	-61.8	41.4	21.0
Nonfarm payroll employment	4.3	2.4	2.3	1.7	2.5	-2.7	-1.6	3.6
Manufacturing	4.6	.6	-.6	-1.7	-.8	-11.7	-7.2	6.4
Nonfarm business sector								
Output per hour	-.9	-1.9	-1.4	-.3	.0	-3.0	3.8	-1.9
Compensation per hour	10.9	10.0	8.1	9.6	9.9	11.2	9.3	9.6
Unit labor costs	11.9	12.1	9.7	9.9	9.9	14.6	5.3	11.8
GNP implicit deflator ^{1/}	8.4	7.8	7.8	8.1	9.3	9.8	9.2	10.7
Gross domestic business product								
fixed-weighted price index ^{2/}	9.5	9.2	9.5	9.3	10.2	9.5	9.8	8.9
Excluding food and energy	7.5	7.2	6.8	7.4	7.7	9.3	9.3	8.5
Consumer price index (all urban)	10.2	12.5	14.0	14.3	16.5	13.1	7.7	12.9
Industrial production	5.4	-1.0	.8	-.3	.0	-19.2	-6.7	21.2

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

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

March 25, 1981

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

	1981				1982			
	Q1	Q2	Q3	Q4	Projected Q1	Q2	Q3	Q4
Gross national product	2830.8	2892.3	2958.6	3026.9	3088.3	3148.6	3211.4	3286.5
Final purchases	2830.5	2885.3	2952.6	3022.9	3084.8	3144.6	3206.9	3282.0
Private	2259.4	2305.2	2358.1	2411.2	2461.6	2509.5	2560.3	2615.5
Excluding net exports	2235.7	2278.8	2331.9	2381.7	2429.5	2476.9	2527.8	2580.3
Personal consumption expenditures	1810.4	1856.9	1906.5	1950.9	1992.6	2032.2	2073.2	2114.5
Goods	964.0	986.4	1012.0	1034.4	1054.1	1072.7	1091.7	1110.5
Services	846.4	870.5	894.5	916.5	938.5	959.5	981.5	1004.0
Gross private domestic investment	425.6	428.9	431.4	434.8	440.4	448.7	459.1	470.3
Residential construction	114.0	107.0	107.0	108.5	110.0	112.0	115.5	120.0
Business fixed investment	311.3	314.9	318.4	322.3	326.9	332.7	339.1	345.8
Change in business inventories	.3	7.0	6.0	4.0	3.5	4.0	4.5	4.5
Nonfarm	.2	7.0	6.0	4.0	3.5	4.0	4.5	4.5
Net exports of goods and services ^{1/}	23.7	26.4	26.2	29.5	32.1	32.6	32.5	35.2
Exports	370.0	380.4	389.2	400.4	410.1	417.6	425.2	434.4
Imports	346.2	354.0	363.0	370.9	378.0	385.1	392.6	399.3
Gov't. purchases of goods and services	571.1	580.1	594.5	611.7	623.2	635.1	646.6	666.5
Federal ^{2/}	217.6	220.0	228.0	238.8	244.6	250.6	256.4	270.6
State and local	353.5	360.1	366.5	372.9	378.6	384.5	390.2	395.9
Gross national product in constant (1972) dollars	1506.8	1506.9	1509.8	1511.6	1512.7	1513.9	1516.2	1520.8
Personal income	2318.0	2376.2	2446.1	2499.8	2551.2	2606.1	2669.2	2724.8
Wage and salary disbursements	1440.6	1467.4	1497.9	1527.4	1554.9	1582.3	1606.7	1639.9
Disposable personal income	1944.6	1989.8	2072.7	2113.8	2156.5	2199.3	2251.3	2293.9
Saving rate (percent)	4.3	4.1	5.5	5.1	5.0	5.0	5.4	5.3
Corporate profits with I.V.A. and C.C. Adj.	184.3	182.2	185.8	187.5	181.9	178.9	186.0	197.6
Corporate profits before tax	251.0	242.5	245.5	246.7	240.6	237.8	244.7	256.3
Federal government surplus or deficit (-) (N.I.A. basis)	-34.6	-37.5	-83.1	-81.4	-77.3	-77.9	-91.4	-96.0
High employment surplus or deficit (-) ^{3/}	17.1	22.3	-19.4	-11.5	-1.0	4.6	-2.2	-3
State and local government surplus or deficit (-) (N.I.A. basis)	34.6	33.9	36.4	34.7	33.7	33.2	33.2	34.0
Excluding social insurance funds	5.0	3.7	5.6	3.3	1.5	.3	-.5	-.5
Civilian labor force (millions)	105.7	106.0	106.3	106.5	106.8	107.1	107.4	107.6
Unemployment rate (percent)	7.4	7.5	7.7	7.9	8.1	8.3	8.5	8.6
Nonfarm payroll employment (millions)	91.6	91.6	91.7	91.6	91.6	91.7	91.7	91.7
Manufacturing	20.4	20.3	20.3	20.2	20.2	20.1	20.1	20.2
Industrial production (1967=100)	151.0	151.0	151.5	151.8	152.0	152.2	152.5	153.1
Capacity utilization: all mfg. (percent)	79.6	79.0	78.7	78.3	77.9	77.4	77.0	76.8
Materials (percent)	81.2	80.6	80.1	79.7	79.2	78.7	78.2	77.9
Housing starts, private (million units, A.R.)	1.35	1.25	1.25	1.25	1.30	1.30	1.35	1.35
New autos sales, (millions, A.R.)	10.10	8.90	8.80	8.70	8.75	8.80	8.70	8.65
Domestic models	7.40	6.40	6.40	6.30	6.40	6.50	6.40	6.35
Foreign models	2.70	2.50	2.40	2.40	2.35	2.30	2.30	2.30

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

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

^{3/} Estimates in table are evaluated at a 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$37.2 billion in 1980-Q4 and a deficit of \$37.1 billion in 1981-Q4, and a deficit of \$27.4 billion in 1982-Q4.

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

	1981				1982			
	Q1	Q2	Q3	Projected Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	5.8	.0	.8	.5	.3	.3	.6	1.2
Final purchases	3.8	-.8	.9	.7	.4	.3	.5	1.2
Private	4.1	-.7	.9	.7	.2	.2	.6	1.3
Excluding net exports	3.9	-1.1	.6	.3	.3	.3	.8	1.2
Personal consumption expenditures	4.1	.8	1.5	.7	.5	.3	.5	.8
Goods	8.0	.2	.3	-.2	-.1	.2	.4	.8
Services	1.6	1.8	2.0	1.5	1.2	.8	1.1	1.8
Gross private domestic investment	19.3	-3.3	-4.3	-3.7	-1.5	.8	2.4	2.8
Residential structures	-4.4	-28.5	-7.6	-2.3	-2.4	-.7	4.5	7.7
Business fixed investment	6.0	-2.7	-2.1	-1.7	-.7	.6	1.2	1.5
Gov't. purchases of goods and services	2.5	-1.6	.7	1.1	.9	.4	.3	1.2
Federal	7.2	-3.3	2.9	4.3	4.8	3.3	3.2	5.7
State and local	-.3	-.5	-.6	-.8	-1.4	-1.3	-1.5	-1.6
Disposable personal income	.5	-.1	7.5	-.6	.1	.3	1.9	.4
<u>Current dollars</u>								
Gross national product	15.5	9.0	9.5	9.6	8.4	8.0	8.2	9.7
Final purchases	12.6	8.0	9.7	9.9	8.4	8.0	8.2	9.7
Private	13.4	8.4	9.5	9.3	8.6	8.0	8.4	8.9
Excluding net exports	13.5	7.9	9.7	8.8	8.3	8.0	8.5	8.6
Personal consumption expenditures	14.3	10.7	11.1	9.6	8.8	8.2	8.3	8.2
Goods	17.0	9.6	10.8	9.2	7.8	7.2	7.3	7.1
Services	11.2	11.9	11.5	10.2	10.0	9.3	9.5	9.5
Gross private domestic investment	31.2	3.1	2.4	3.2	5.3	7.8	9.6	10.1
Residential structures	3.7	-22.4	.0	5.7	5.6	7.5	13.1	16.5
Business fixed investment	12.7	4.7	4.5	5.0	5.8	7.3	7.9	8.1
Gov't. purchases of goods and services	9.3	6.5	10.3	12.1	7.7	7.9	7.4	12.9
Federal	11.0	4.5	15.4	20.3	10.1	10.2	9.6	24.1
State and local	8.2	7.7	7.3	7.2	6.3	6.4	6.1	6.0
Disposable personal income	10.4	9.6	17.7	8.2	8.3	8.2	9.8	7.8
Personal income	11.4	10.4	12.3	9.1	8.5	8.9	10.0	8.6
Wage and salary disbursements	12.8	7.7	8.6	8.1	7.4	7.2	6.3	8.5
Corporate profits with IVA & C.C. Adj.	2.9	-3.9	8.1	3.0	-11.4	-6.4	16.8	27.4
Corporate profits before tax	3.0	-12.9	4.9	2.1	-9.5	-4.7	12.1	20.4
Nonfarm payroll employment	2.8	.3	.1	.0	.0	.0	.0	.4
Manufacturing	2.4	-1.3	-.8	-.8	-.8	-.8	-.4	.8
Nonfarm business sector								
Output per hour	3.3	-.4	.7	.3	.3	.5	.4	.9
Compensation per hour	12.1	9.1	8.8	8.4	9.2	7.9	7.7	7.7
Unit labor costs	8.5	9.5	8.0	8.1	8.9	7.4	7.3	6.7
GNP implicit deflator ^{1/}	9.1	8.9	8.7	9.0	8.0	7.7	7.6	8.3
Gross domestic business product								
fixed-weighted price index ^{2/}	10.5	9.6	9.3	8.9	8.3	7.9	7.8	7.5
Excluding food and energy	8.3	8.6	8.1	7.9	7.7	7.4	7.3	7.1
Consumer price index (all urban)	11.5	11.6	11.9	10.5	8.6	8.0	7.8	7.5
Industrial production	5.2	.0	1.3	.8	.5	.5	.8	1.6

^{1/} Excluding Federal pay increases, the rates of change are: 1981-Q1, 9.1 percent; 1981-Q4, 8.3 percent; 1982-Q1, 8.0 percent; 1982-Q4, 7.4 percent.

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

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

	1975	1976	1977	1978	1979	1980	Projected	
							1981	1982
Gross national product	1549.2	1718.0	1918.0	2156.1	2413.9	2626.1	2927.2	3183.7
Final purchases	1556.1	1706.2	1897.0	2133.9	2396.4	2632.0	2922.8	3179.6
Private	1216.2	1344.1	1502.5	1701.3	1922.6	2097.3	2333.5	2536.7
Excluding net exports	1189.4	1330.4	1506.7	1701.9	1909.2	2074.0	2307.0	2503.6
Personal consumption expenditures	976.4	1084.3	1205.5	1348.7	1510.9	1672.8	1881.2	2053.1
Goods	539.5	598.5	657.8	729.1	814.5	887.6	999.2	1082.2
Services	437.0	485.7	547.7	619.6	696.3	785.2	882.0	970.9
Gross private domestic investment	206.1	257.9	322.3	375.3	415.8	395.3	430.2	454.6
Residential construction	55.3	72.0	95.8	111.3	118.6	105.3	109.1	114.4
Business fixed investment	157.7	174.1	205.5	242.0	279.7	296.0	316.7	336.1
Change in business inventories	-6.9	11.8	21.0	22.2	17.5	-5.9	4.3	4.1
Nonfarm	-10.5	13.9	20.2	21.8	13.4	-4.7	4.3	4.1
Net exports of goods and services ^{1/}	26.8	13.7	-4.2	-.6	13.4	23.3	26.5	33.1
Exports	154.9	170.9	183.3	219.8	281.3	339.8	385.0	421.8
Imports	128.1	157.1	187.5	220.4	267.9	316.5	358.5	388.7
Gov't. purchases of goods and services	339.9	362.1	394.5	432.6	473.8	534.7	589.3	642.8
Federal ^{2/}	122.7	129.2	143.9	153.4	167.9	198.9	226.1	255.5
State and local	217.2	232.9	250.6	279.2	305.9	335.8	363.2	387.3
Gross national product in constant (1972) dollars	1233.9	1300.4	1371.7	1436.9	1483.0	1480.7	1508.8	1515.9
Personal income	1265.0	1391.2	1538.0	1721.8	1943.8	2160.2	2409.9	2637.8
Wage and salary disbursements	806.4	889.9	983.8	1105.2	1236.1	1343.7	1483.2	1595.9
Disposable personal income	1096.1	1194.4	1311.5	1462.9	1641.7	1821.7	2030.1	2225.2
Saving rate (percent)	8.6	6.9	5.6	5.2	5.2	5.6	4.8	5.2
Corporate profits with I.V.A. and C.C. Adj.	110.5	138.1	164.7	185.5	196.8	182.6	185.1	186.1
Corporate profits before tax	132.1	166.3	192.6	223.3	255.4	245.5	246.6	244.8
Federal government surplus or deficit (N.I.A. basis)	-69.3	-53.1	-46.4	-29.2	-14.8	-61.2	-59.2	-85.7
High employment surplus or deficit (-)	-29.2	-20.1	-23.0	-15.7	-2.2	-18.3	2.1	.3
State and local government surplus or deficit (-) (N.I.A. basis)	5.5	16.6	28.1	29.0	26.7	29.1	34.9	33.5
Excluding social insurance funds	-7.6	.9	10.1	9.0	2.9	2.1	4.4	.2
Civilian labor force (millions)	92.6	94.8	97.4	100.4	102.9	104.7	106.1	107.2
Unemployment rate (percent)	8.5	7.7	7.0	6.0	5.8	7.1	7.6	8.4
Nonfarm payroll employment (millions)	77.0	79.4	82.5	86.7	89.9	90.7	91.6	91.7
Manufacturing	18.3	19.0	19.7	20.5	21.1	20.4	20.3	20.1
Industrial production (1967=100)	117.8	130.5	138.1	146.1	152.5	147.1	151.3	152.4
Capacity utilization: all manufacturing (percent)	72.9	79.5	81.9	84.4	85.6	79.1	78.9	77.3
Materials (percent)	73.4	81.1	82.7	85.6	87.4	79.8	80.4	78.5
Housing starts, private (million units, A.R.)	1.16	1.54	1.99	2.02	1.75	1.29	1.27	1.32
New auto sales, (millions, A.R.)	8.66	10.12	11.13	11.28	10.70	9.04	9.12	8.72
Domestic models	7.08	8.63	9.07	9.29	8.38	6.62	6.62	6.41
Foreign models	1.58	1.50	2.06	1.99	2.32	2.42	2.50	2.31

^{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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AND RELATED ITEMS

	1975	1976	1977	1978	1979	1980	Projected	
							1981	1982
<u>Constant (1972) dollars</u>								
Gross national product	-1.1	5.4	5.5	4.8	3.2	-.2	1.9	.5
Final purchases	.3	4.2	5.2	4.7	3.5	.7	1.5	.5
Private	-.1	5.3	6.0	15.4	4.0	.2	1.8	.5
Excluding net exports	-.6	6.2	6.5	5.2	2.9	-1.0	2.0	.4
Personal consumption expenditures	2.2	5.6	4.9	4.7	2.9	.5	2.7	.7
Goods	1.3	6.7	5.2	4.2	1.9	-1.4	-2.1	.1
Services	3.3	4.3	4.5	5.4	4.1	2.6	2.5	1.3
Gross private domestic investment	-20.8	19.2	15.7	7.6	1.3	-12.5	1.4	-1.2
Residential structures	-12.5	21.3	18.5	2.9	-5.2	-18.6	-3.4	-3.3
Business fixed investment	-12.1	5.3	11.9	9.1	6.5	-3.0	-.3	-.6
Gov't. purchases of goods and services	2.1	.0	2.1	2.0	1.5	2.9	.4	.6
Federal	.8	-.7	4.1	-.9	1.9	6.3	1.0	3.5
State and local	2.9	.5	.9	3.7	1.2	1.0	.0	-1.2
Disposable personal income	2.0	3.6	3.6	4.4	3.1	.7	1.7	1.1
<u>Current dollars</u>								
Gross national product	8.0	10.9	11.6	12.4	12.0	8.8	11.5	8.8
Final purchases	9.6	9.6	11.2	12.5	12.3	9.8	11.1	8.8
Private	9.0	10.5	11.8	13.2	13.0	9.1	11.3	8.7
Excluding net exports	7.9	11.8	13.3	12.9	12.2	8.6	11.2	8.5
Personal consumption expenditures	9.9	11.1	11.2	11.9	12.0	10.7	12.5	9.1
Goods	9.0	10.9	9.9	10.8	11.7	9.0	12.6	8.3
Services	11.1	11.2	12.7	13.1	12.4	12.8	12.3	10.1
Gross private domestic investment	-9.9	25.1	25.0	16.5	10.8	-4.9	8.8	5.7
Residential structures	-4.7	30.2	33.1	16.1	6.6	-11.3	3.7	4.8
Business fixed investment	.8	10.3	18.1	17.7	15.6	5.8	7.0	6.1
Gov't. purchases of goods and services	11.8	6.5	8.9	9.7	9.5	12.9	10.2	9.1
Federal	10.6	5.3	11.4	6.6	9.5	18.5	13.7	13.0
State and local	12.5	7.3	7.6	11.4	9.6	9.8	8.2	6.6
Disposable personal income	9.8	9.0	9.8	11.5	12.2	11.0	11.4	9.6
Personal income	8.2	10.0	10.6	12.0	12.9	11.1	11.6	9.5
Wage and salary disbursements	5.3	10.4	10.6	12.3	11.8	8.7	10.4	7.6
Corporate profits with IVA & C.C. Adj.	16.5	25.0	19.3	12.6	6.1	-7.2	1.4	.5
Corporate profits before tax	-3.3	25.9	15.8	15.9	14.4	-3.9	.5	-.7
Nonfarm payroll employment	-1.7	3.2	3.9	5.1	3.7	.9	1.0	.1
Manufacturing	-8.8	3.7	3.6	4.2	2.8	-3.4	-.4	-.7
Nonfarm business sector								
Output per hour	2.1	3.2	2.0	-.2	-.8	-.6	.7	.4
Compensation per hour	9.6	8.1	7.6	8.5	9.6	9.7	10.0	8.5
Unit labor costs	7.4	4.7	5.5	8.7	10.4	10.4	9.2	8.1
GNP implicit deflator	9.6	5.2	5.8	7.3	8.5	9.0	9.4	8.3
Gross domestic business product								
fixed-weighted price index ^{1/}	9.0	5.4	6.3	7.8	9.6	9.6	9.6	8.4
Excluding food and energy	9.5	5.8	6.3	7.2	8.1	8.0	8.4	7.7
Consumer price index (all urban)	9.1	5.8	6.5	7.7	11.3	13.5	11.2	9.2
Industrial production	-8.9	10.8	5.8	5.8	4.4	-3.5	2.9	.7

^{1/} Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

March 25, 1981

	Fiscal Year 1980*	FY 1981 e/		FY 1982 e/		CY 1980*	CY1981e/ F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data						1982		
								1980		1981		1982		I	II	III
Unified budget receipts	520.0	600.3	596.3	650.3	650.6	533.0	613.6	135.2	127.0	135.0	181.8	152.5	144.3	147.0	194.1	165.2
Unified budget outlays	579.6	655.2	659.3	695.3	727.1	601.1	690.8	150.5	160.6	166.6	163.1	169.0	192.2	166.4	182.5	186.1
Surplus(+)/deficit(-), unified budget	-59.6	-54.9	-63.0	-45.0	-76.5	-68.1	-77.2	-15.4	-33.6	-31.6	18.7	-16.5	-47.9	-19.4	11.6	-20.9
Surplus(+)/deficit(-), off-budget agencies 2/	-14.2	-23.6	-22.1	-16.7	-17.5	-15.3	-21.2	-4.9	-2.2	-5.2	-7.7	-7.0	-1.3	-4.7	-5.4	-6.2
Combined deficit to be financed	-73.8	-78.5	-85.1	-61.7	-94.0	-83.4	-98.4	-20.3	-35.8	-36.8	11.0	-23.5	-49.2	-24.1	6.2	-27.1
Means of financing combined deficits:																
Net borrowing from public	70.5	71.0	75.6	60.0	91.7	79.3	87.5	27.1	27.7	35.5	-3.6	16.0	39.7	24.6	-0.2	27.6
Decrease in cash operating balance	3.2	6.0	6.0	0.0	0.0	3.6	0.3	-6.9	8.7	-2.3	-5.4	5.0	3.0	4.0	-4.0	-3.0
Other 3/	0.1	1.5	3.5	1.7	2.3	0.5	10.6	0.1	-0.6	3.6	-2.0	2.5	6.5	-4.5	-2.0	2.5
Cash operating balance, end of period	21.0	15.0	15.0	15.0	15.0	12.3	12.0	21.0	12.3	14.6	20.0	15.0	12.0	8.0	12.0	15.0
Memo: Sponsored agency borrowing 4/	21.4	18.2	21.5	24.9	20.1	24.3	17.9	2.2	9.1	2.5	4.7	5.3	5.4	5.0	5.0	5.0
NIA Budget								<u>Seasonally adjusted annual rates</u>								
Receipts	527.3	609.0	611.5	664.4	655.4	540.8	627.3	540.8	573.1	620.5	632.6	619.8	636.3	649.8	661.1	674.4
Expenditures	578.2	663.1	667.3	707.1	737.4	602.0	686.5	615.0	641.1	655.1	670.1	702.9	717.7	727.1	739.8	765.8
Purchases (total)	190.2	216.6	219.4	244.7	247.6	198.9	226.1	194.9	212.0	217.6	220.0	228.0	238.8	244.6	250.6	256.4
Defense	126.1	148.2	149.0	172.9	173.5	131.7	155.2	131.4	141.6	145.7	151.3	157.4	166.2	171.0	176.0	180.8
Nondefense	64.1	68.4	70.4	71.8	74.1	67.2	70.9	63.5	70.4	71.9	68.7	70.6	72.6	73.6	74.6	75.6
All other expenditures	388.0	446.5	447.9	462.4	489.8	403.1	460.4	420.3	429.1	437.5	450.1	474.9	478.9	482.5	488.4	509.4
Surplus(+)/deficit(-)	-58.9	-54.1	-55.8	-42.7	-82.0	-61.2	-59.2	-74.2	-68.0	-34.6	-37.5	-83.1	-81.4	-77.3	-78.0	-91.5
High employment (H.E.) surplus(+)/deficit(-) evaluated at H.E. unemployment rate of:																
5.1 percent	-16.7	n.a.	1.6	n.a.	-2.5	-18.3	2.1	-21.2	-13.5	17.1	22.3	-19.4	-11.5	-1.0	4.6	-2.2
6.1 percent	-38.9	n.a.	-23.1	n.a.	-28.5	-41.1	-23.1	-44.4	-37.2	-7.5	-3.3	-44.5	-37.1	-26.9	-21.5	-28.6

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

1. Fiscal Year 1982 Budget Revisions, March 1982. In its report on the Second Concurrent Resolution, the Congress recommended receipts of \$605.0 billion and outlays of \$632.4 billion.
2. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, and Rural Telephone Bank.
3. Checks issued less checks paid, accrued items and other transactions.
4. FRB staff estimates include Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives marketable debt on an offerings basis. Administration estimates are from The Budget of the United States Government, Fiscal Year 1982, January 1981.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Short-term interest rates have declined substantially since the last FOMC meeting, as weakness through February in the narrow monetary aggregates led to a moderated demand for reserves. Although there has been some firming most recently as the money stock this month has strengthened, short-term rates of interest have declined on balance by 2 to 4 percentage points over the intermeeting period. In the long-term sector, bond yields are little changed. Home mortgage rates rose during February but during March primary rates on fixed-rate loans have leveled off and rates in the secondary market on balance have edged down.

Available data suggest that borrowing by nonfinancial businesses has diminished in the first quarter of 1981 from the pace of the previous quarter. Businesses stepped up their issuance of publicly-offered bonds and stocks--to about the average \$5.2 billion monthly rate of 1980 as a whole--but this was more than offset by a slowing in their shorter-term borrowing. The composition of short-term borrowing also changed, as the failure of the prime rate to fall as rapidly as open market rates was reflected in a marked shift from bank loans to commercial paper issuance. Indeed, borrowing from domestic offices of large banks contracted from the end of January through mid-March, despite a pickup in below-prime lending. To some extent, borrowing from domestic offices of large U.S. banks was depressed by a sizable expansion in lending at their foreign branches to U.S. residents at rates related to the Eurodollar rate.

In the household sector, borrowing appears to have weakened in the current quarter. Home mortgage developments are difficult to interpret in light of reports of greater reliance on "creative" methods of finance encouraged by near-record mortgage rates. Traditional lenders have become more reluctant to make long-term, fixed-rate loans. At S&Ls, total loan commitments outstanding edged down further in February and mortgage holdings expanded at the slowest pace since July 1980. At commercial banks, lending secured by all types of real estate rebounded in February to about the fourth quarter pace, although this expansion may have largely reflected lending for nonresidential and construction purposes.

A moderate increase in consumer installment credit outstanding was registered at nonbank lenders in January, while consumer loans at all commercial banks contracted in that month and declined further at large banks in February and early March. Commercial banks report an increasing reluctance to make consumer loans, and consumer loan rates at banks have moved higher. In the automotive area, finance company subsidiaries of the major auto makers have absorbed the slack, at interest rates that have remained essentially stable since late last year.

The government sector has placed heavy demands on credit markets in the first three months of the year. The Treasury issued \$37 billion in marketable debt during the first quarter. Despite a sharp decline in the issuance of mortgage revenue bonds, borrowing by state and local governments was maintained at a pace only moderately below that of the strong fourth quarter.

The narrow monetary aggregates continue to be considerably affected by flows into NOW accounts. Following a \$16-1/4 billion increase in January, other checkable deposits rose \$8 billion in February and an estimated \$5-1/4 billion in March. After adjustments for the effects of shifting into such accounts, M-1B is estimated to be rising at about an 11 percent annual pace in March, following essentially no change on average over the first two months of the year. Despite the March rebound, the narrow aggregates--which were about unchanged on a quarterly average basis--fell considerably short of levels predicted on the basis of historical relationships among money, GNP and interest rates.

M-2 growth strengthened as the quarter progressed, attaining a 19 percent rate of expansion in March. Inflows to MMMFs surged as the average rate paid by MMMFs remained high relative to that on MMCs. Much of the expansion in MMMFs appears to have been at the expense of deposit flows at commercial banks and thrifts, although a significant portion of the inflows likely came from the open market as institution-only funds expanded and noncompetitive bill tenders shrank. M-3, which grew slightly faster than M-2 during the first quarter, was augmented during January and February by issuance of large time deposits. In March, though, large time deposits have been declining at commercial banks, as loans and investments at large banks have been contracting, and at S&Ls, in part because concerns about earnings pressures have adversely affected market receptiveness.

Outlook. Although the staff is projecting sluggishness in real GNP, inflation is expected to remain rapid, and transactions demands for money are likely to strengthen--absent a continuation of the

extraordinary behavior of M-1 velocity that characterized the first quarter. Consequently, short-term rates of interest are likely to be under substantial upward pressure in the months ahead.

External financing by businesses in coming months is expected to continue at about the first quarter pace. The maturity composition of business borrowing is expected to be roughly unchanged, as issuance of bonds is likely to remain sizable while short-term borrowing is likely to remain weak. In the short-term area, borrowing from domestic banking offices may strengthen and borrowing from foreign branches and the commercial paper market may slow in conjunction with establishment of a more normal relationship between the prime rate and open market rates.

The Treasury is not expected to tap credit markets in coming months, since a seasonal increase in receipts will outpace expenditures. Indeed, the Treasury is expected to pay down about \$4 billion in debt and may make sizable additions to its cash balance in the second quarter. State and local government credit demands, by contrast, are anticipated to continue strong.

Borrowing by the household sector likely will slow somewhat from that of the first quarter, largely reflecting reduced mortgage formation accompanying a drop in construction activity and turnover of existing homes. Consumer credit flows are expected to be maintained at nearly their first quarter pace.

INTERNATIONAL DEVELOPMENTS

Summary. The weighted average value of the dollar has fluctuated over a wide range during the past eight weeks, rising about 2-3/4 percent over the period. The strength of the dollar was most pronounced against the pound sterling, recording somewhat lesser appreciations against the yen, the Swiss franc and the French franc. The German mark's steady decline against the dollar over the past few months ceased in mid-February following a sharp rise in German interest rates, and the mark has depreciated less than one percent over the eight-week period as a whole.

The appreciation in the average value of the dollar since the last Greenbook occurred despite a significant narrowing of interest-rate differentials. Since the end of January foreign short-term interest rates have risen nearly 100 basis points on average while the rate on U.S. 3-month CD's have declined about 350 basis points. Sharp increases in interest rates in Germany, Switzerland and, towards the end of the reporting period, Italy were partly offset by smaller declines in rates in the United Kingdom, Japan, and Canada. The replacement of the regular Lombard facility in Germany on February 19 by a special and more restrictive overnight Lombard window led to a sharp runup of German interbank rates. Increases in discount rates by the Swiss, Belgian and Italian monetary authorities during February and March resulted in higher market interest rates in those countries. In contrast, in the past two weeks the Bank of England lowered its Minimum Lending Rate two percentage points and the Bank of Japan reduced its discount rate one percentage point.

. The weakness of the lira in recent months reflected market concern about Italy's large current-account deficit and continuing high inflation rates. On March 22, the lira was formally devalued by 6 percent against the other EMS countries. This adjustment in central rates was accompanied by a tightening of monetary policy, and the Italian government is considering the adoption of fiscal austerity measures in order to correct the internal and external imbalances plaguing the economy.

U.S. intervention over the past eight weeks amounted to net purchases of \$1.2 billion equivalent, nearly all in German marks. The pace of U.S. intervention activity has declined sharply in the past month, and in recent weeks the Desk has been virtually out of the market.

There are no signs yet of a recovery in economic activity in Western European countries, and the recent tightening of monetary conditions in a number of these countries reduces the chances for a strong rebound in the near term. In Japan, where real growth has slowed but remains positive, some easing of policy is likely to contribute to renewed strength. Real activity in Canada has been surprisingly strong. Inflation has continued to abate in the United Kingdom and Japan, while Germany and Italy have shown an acceleration of inflation.

The U.S. trade deficit in January increased to a \$35 billion annual rate, about \$10 billion above the average monthly rate of the final quarter of 1980. The value of petroleum and nonpetroleum imports increased 12 and 7 percent, respectively, over the monthly average rate of the fourth quarter of 1980, reflecting largely the strength of U.S. economic activity in recent months as well as the rise in prices of petroleum imports. The value of non-agricultural exports recorded only a small gain over the levels of previous months.

In international capital transactions, a net inflow through banks of close to \$6 billion in January reversed a net outflow of a similar magnitude recorded in December 1980. A large part of this shift is attributable to year-end balance-sheet adjustments. In addition, during January and February U.S. non-bank residents obtained about \$2.5 billion of credit from offshore banks, and in February the Ford Motor Company borrowed more than \$1.2 billion from banks in West Germany and the United Kingdom through its subsidiaries in these countries.

OPEC reserve holdings decreased in January \$0.2 billion, reflecting the unfreezing of Iranian assets; other OPEC countries increased their holdings about \$1.4 billion. In February, OPEC holdings at the FRBNY rose \$2.6 billion

Claims on foreigners held by the domestic offices and foreign branches of U.S.-chartered banks increased somewhat less in the second half of 1980 than in the corresponding period a year earlier, following a sharp pickup in such foreign lending in the first half of the year. This moderate slowing of U.S. bank lending to foreigners was almost entirely concentrated in claims on industrial countries. Lending to the non-OPEC developing countries continued to increase.

Outlook. The staff now projects that the U.S. current account will be in virtual balance in the next two years, following near balance in the past two years. The staff's present projection is a considerable downward revision from the sizable surpluses that were projected in the January Greenbook. Three factors have led to the changed outlook: the anticipated effects on U.S. imports resulting from the higher level of real U.S. GNP now being projected for 1981 and 1982, the anticipated effects on U.S. imports and exports from the considerably stronger exchange value of the dollar recorded in the first quarter of 1981, which is expected to prevail during the projection period, and expectations of somewhat lower direct investment income receipts in the next two years, primarily reduced earnings of oil companies.

The staff expects no significant change from recent levels of the weighted average exchange value of the dollar over the projection

period. While the altered outlook suggests that the current account no longer will be a particular source of strength for the dollar in exchange markets, maintenance of relatively high dollar interest rates should lend support to the dollar.

	1980 ANN.	1981 ANN.	1982 ANN.	1981 Q I	1981 Q II	1981 Q III	1981 Q IV	1982 Q I	1982 Q II	1982 Q III	1982 Q IV
1. GNP NET EXPORTS											
CURRENT \$, NET	23.3	26.5	33.1	23.7	26.4	26.2	29.5	32.1	32.6	32.5	35.2
EXPORTS OF G&S	339.8	385.0	421.8	370.0	380.4	389.2	400.4	410.1	417.6	425.2	434.4
IMPORTS OF G&S	316.5	358.5	388.7	346.2	354.0	363.0	370.9	378.0	385.1	392.6	399.3
CONSTANT 72 \$, NET	52.0	51.0	52.4	49.4	50.5	51.5	52.8	52.7	52.5	52.1	52.5
EXPORTS OF G&S	161.1	167.5	171.0	164.4	166.4	168.5	170.6	171.1	171.0	170.8	171.0
IMPORTS OF G&S	109.1	116.4	118.5	115.0	115.9	117.0	117.8	118.4	118.5	118.7	118.5
TERMS OF TRADE (1972=100) 1/	72.7	74.6	75.2	74.7	74.9	74.4	74.6	75.1	75.2	75.3	75.4
2. U.S. MERCHANDISE TRADE BALANCE 2/											
EXPORTS (EXCL. MILITARY)	221.8	242.5	258.5	236.6	241.4	244.1	248.0	252.5	256.2	260.0	265.4
AGRICULTURAL	42.0	47.5	51.7	48.0	47.4	46.8	47.7	49.6	50.9	52.4	54.0
NONAGRICULTURAL	179.8	195.1	206.8	188.6	194.0	197.3	200.3	202.9	205.3	207.6	211.4
IMPORTS	249.1	273.1	290.0	266.6	270.6	276.1	279.0	282.8	287.4	292.7	297.0
PETROLEUM AND PRODUCTS	78.9	90.2	92.1	88.1	90.7	91.4	90.7	91.4	92.4	92.5	92.2
NONPETROLEUM	170.2	182.8	197.9	178.5	179.9	184.7	188.3	191.4	195.0	200.2	204.8
3. U.S. CURRENT ACCOUNT BALANCE											
OF WHICH: NET INVESTMENT INCOME	0.1	-2.3	-1.1	-2.8	-1.1	-3.1	-2.1	-1.1	-1.1	-2.0	-0.2
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	1.8	0.2	1.9	0	0.6	1.0	2.0	2.1	2.2	2.5	2.5
CONSUMER PRICES, 4/ % CHANGE, ANNUAL RATES	11.4	8.8	7.5	10.1	9.0	7.6	7.2	7.7	7.6	7.1	7.0

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

2/ INTERNATIONAL ACCOUNTS BASIS.

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

4/ WHOLESALE PRICES FOR JAPAN.

P/ PROJECTED.