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May 13, 1981

## **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee

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

## DOMESTIC NONFINANCIAL DEVELOPMENTS

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### Summary

Incoming economic data have continued to suggest little growth on balance over the past few months. Industrial production rose somewhat further in April, but payroll employment declined. Total retail sales in April fell one percent because of the slump in auto sales following the end of temporary price concessions. Meanwhile cost pressures remained intense, but the rise in some price measures has been damped by developments in energy and food, and the weakness in the housing market.

Industrial production is tentatively estimated to have risen about 1/2 percent in April; the coal strike had the effect of reducing the level of the index by 0.3 percent. Autos led the gain in production as assemblies were increased by 5 percent to an annual rate of 6.8 million units in April; however, this rate was considerably higher than the pace of sales. Other production increases were concentrated among hard goods industries.

Total payroll employment dropped about 45,000 in April on a strike-adjusted basis, as job declines in construction and retail trade were only partly offset by increases in services and manufacturing. The rise of 55,000 in factory employment occurred mainly at industries related to capital goods and transportation equipment. The manufacturing workweek also edged up over the month. The overall unemployment rate remained at 7.3 percent as the household survey showed substantial increases in both employment and the labor force.

Retail sales exclusive of automobiles and building supplies advanced 1.0 percent in April, following an upward revised 0.9 percent rise in

March. Sales of apparel as well as furniture and appliances strengthened in April, following weakness in previous months. But domestic car sales, at a 5.8 million unit annual rate in April, were off 1-1/2 million units from the first-quarter average as the end of price concessions--as well as actual price increases--depressed new car demand. Sales of imported cars also fell to an annual rate of 2.3 million units in April, 0.4 million units below the first quarter average.

Business fixed investment outlays rose briskly in the first quarter. Some additional near term gains in shipments are indicated by the strength of orders for nondefense capital goods during recent months. Nonresidential construction contracts fell, however, during the first quarter. Moreover, for 1981 as a whole recent private surveys of capital spending plans suggest that businesses plan only small increases in real spending from 1980 levels.

Business on the whole has continued to maintain a cautious inventory posture. In constant dollars the overall ratio of inventory to sales appears not to have changed significantly for a number of months. In March manufacturers' inventories increased at an annual rate of \$25 billion in book value terms, considerably less than in the two previous months. At wholesalers, book-value inventories actually declined in March, in large part due to a reduction in holdings by merchants of raw farm products. Data for retail trade stocks were not available in time for this report.

Activity in the housing sector remained weak in March as mortgage interest rates climbed further. Housing starts continued at a 1-1/4 million unit annual rate, down from the 1-1/2 million rate that prevailed

around the turn of the year. In March sales of new houses were nearly 6 percent below the fourth quarter pace and sales of existing homes were down 16 percent. The reduction in housing demand has been accompanied by a smaller rate of increase in most measures of home prices, and an actual decline in the CPI component for house prices.

In recent months, most aggregate measures of prices have shown some moderation. To a considerable extent, this reflected the end of the surge of energy price increases following decontrol of domestic oil as well as an improvement in agricultural supplies, possibly a temporary improvement. Underlying wage and price pressures remain intense.

Outlook. The staff projects a rise of 1 percent in real GNP in the second quarter, in contrast to the 6.5 percent (annual rate) increase in the first quarter of 1981. Recent favorable developments, particularly in energy markets, have lowered the staff's projection of inflation in the current quarter; the GNP fixed-weighted price index is expected to decelerate from 10-1/4 percent in the first quarter to 9-1/4 percent in the second.

Personal consumption expenditures in this quarter are expected to weaken in response to reduced auto sales and the slowing in income gains. Housing starts are expected to remain at low levels throughout the current quarter and outlays for residential construction are likely to drop considerably, reflecting earlier declines in new housing starts. Real business fixed investment is projected to continue advancing, although not at the rapid pace of the first quarter.

The financial assumptions underlying the staff's economic projections continue to show M-1B growing 4-3/4 percent in 1981 and 4-1/4

percent in 1982 (after adjusting for the introduction of ATS and nationwide NOW accounts). Our projection does not envision any sustained easing of short-term interest rates from current levels over the remainder of 1981 or in 1982. These rates could well cause considerable strain in many sectors in the economy, but we are not assuming major economic dislocations or financial disruptions.

In regard to fiscal policy, the staff has delayed by one quarter to October 1st the start of the assumed 10 percent reductions in personal income tax rates and in withholding schedules. In other respects our fiscal assumptions remain largely unchanged. Mainly because of the timing shift in the tax cut the estimate of the unified budget deficit for fiscal year 1981 was reduced from \$63 billion to \$56 billion. In fiscal year 1982, the deficit is estimated at \$77 billion, about the same as previously.

Economic activity, on balance, is expected to grow very little over the remainder of the forecast period given the restrictive financial environment. The sluggish growth in real activity is anticipated to limit employment increases and to gradually boost the jobless rate to about 8 percent by the end of 1982.

The recent moderation in price increases for energy is assumed to continue for some time. Food prices are still projected to rise rapidly in the second half of this year, although by less than had been anticipated earlier. The higher value of the dollar in foreign exchange markets also is expected to help ease the upward pressures on prices. The staff's projection of the GBP fixed-weighted price index has been lowered by about 1/2 percentage point to a 9-1/4 percent increase over the four quarters of 1981. Labor cost pressures, however, are likely to remain

intense in the near term, resulting in a further squeeze on profit margins. By 1982, the continued slack in both labor and product markets is anticipated to become an important damping factor in wage- and price-setting. In addition, import competition should also be a restraining influence on prices, and energy price increases are expected to remain relatively moderate. As a result, GBP prices are projected to decelerate to a 7-3/4 percent rate over the four quarters of next year.

## 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				
3/25/81	5/13/81	3/25/81	5/13/81	3/25/81	5/13/81	3/25/81	5/13/81	3/25/81	5/13/81	
Annual changes:										
1979 1/	12.0	12.0	3.2	3.2	9.6	9.7	8.1	8.4	5.8	5.8
1980 1/	8.8	8.8	-.2	-.2	9.6	9.8	8.0	8.7	7.1	7.1
1981 1/	11.5	11.2	1.9	2.3	9.6	9.5	8.4	8.4	7.6	7.4
1982	8.8	8.6	.5	.8	8.4	8.2	7.7	7.7	8.4	7.9
Quarterly changes:										
1980-Q1 1/	12.6	12.6	3.1	3.1	10.2	10.1	7.7	7.4	6.2	6.2
1980-Q2 1/	-1.1	-1.1	-9.9	-9.9	9.5	9.8	9.3	9.5	7.3	7.3
1980-Q3 1/	11.8	11.8	2.4	2.4	9.8	9.6	9.3	9.3	7.5	7.5
1980-Q4 1/	14.9	14.9	3.8	3.8	8.9	9.3	7.6	8.2	7.5	7.5
1981-Q1 1/	15.5	14.9	5.8	6.5	10.5	10.2	8.3	7.5	7.4	7.4
1981-Q2 1/	9.0	9.2	.0	1.0	9.6	9.3	8.6	9.2	7.5	7.3
1981-Q3 1/	9.5	8.4	.8	.3	9.3	8.9	8.1	8.3	7.7	7.4
1981-Q4 1/	9.6	10.0	.5	1.5	8.9	8.6	7.9	7.7	7.9	7.5
1982-Q1	8.4	7.8	.3	.2	8.3	8.1	7.7	7.6	8.1	7.7
1982-Q2	8.0	7.7	.3	.4	7.9	7.8	7.4	7.2	8.3	7.9
1982-Q3	8.2	8.7	.6	1.5	7.8	7.6	7.3	7.1	8.5	8.0
1982-Q4	9.7	9.4	1.2	1.5	7.5	7.3	7.1	7.0	8.6	8.1
Two-quarter changes: <sup>2/</sup>										
1980-Q2 1/	5.6	5.6	-3.6	-3.6	9.8	9.9	8.5	8.4	1.4	1.4
1980-Q4 1/	13.4	13.3	3.1	3.1	9.4	9.5	8.5	8.8	.2	.2
1981-Q2 1/	12.2	12.0	2.9	3.7	10.0	9.6	8.6	8.4	.0	-.2
1981-Q4 1/	9.5	9.2	.6	.9	9.1	8.7	8.0	8.0	.4	.2
1982-Q2	8.2	7.7	.3	.3	8.1	7.9	7.5	7.4	.4	.4
1982-Q4	9.0	9.0	.9	1.5	7.7	7.5	7.2	7.0	.7	.2
Four-quarter changes: <sup>3/</sup>										
1979-Q4 1/	9.9	9.9	1.7	1.7	9.4	10.3	7.2	8.2	.1	.1
1980-Q4 1/	9.4	9.4	-.3	-.3	9.6	9.7	8.5	8.6	1.6	1.6
1981-Q4 1/	10.9	10.6	1.8	2.3	9.6	9.2	8.3	8.2	.4	.0
1982-Q4	8.6	8.4	.6	.9	7.9	7.7	7.3	7.2	.8	.6

1/ Actual.

2/ Percent change from two quarters earlier.

3/ Percent change from four quarters earlier.



May 13, 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.)

	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 <sup>1/</sup>	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 <sup>2/</sup>	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	183.3
Corporate profits before tax	253.1	250.9	262.0	255.4	277.1	217.9	237.6	249.5
Federal government surplus or deficit (-) (N.I.A. basis)	-11.5	-8.1	-15.2	-24.5	-36.3	-66.5	-74.2	-67.9
High employment surplus or deficit (-)	-4.6	5.1	-2.3	-7.1	-17.1	-21.5	-21.2	-13.4
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

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

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

May 13, 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	12.7
Corporate profits before tax	8.3	-3.4	18.9	-9.7	38.6	-61.8	41.4	21.6
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	-.4
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	10.1
GNP implicit deflator <sup>1/</sup>	8.4	7.8	7.8	8.1	9.3	9.8	9.2	10.7
Gross domestic business product								
fixed-weighted price index <sup>2/</sup>	9.7	9.7	9.5	10.0	10.1	9.8	9.6	9.3
Excluding food and energy	7.5	7.2	6.9	11.1	7.4	9.5	9.3	8.2
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

<sup>1/</sup> 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.

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

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

	1981				1982			
	Q1	Q2	Q3	Q4	Projected Q1	Q2	Q3	Q4
Gross national product	2826.8	2889.6	2948.7	3019.5	3076.7	3134.3	3200.3	3272.8
Final purchases	2834.7	2875.7	2937.7	3013.5	3073.2	3130.3	3195.8	3268.3
Private	2260.6	2296.0	2346.2	2403.2	2449.9	2495.9	2550.4	2604.4
Excluding net exports	2236.3	2277.3	2328.6	2388.2	2436.3	2484.4	2539.8	2590.7
Personal consumption expenditures	1805.4	1848.7	1895.9	1950.1	1992.6	2033.0	2078.1	2117.4
Goods	962.5	979.8	1004.0	1034.2	1053.7	1072.1	1093.2	1112.5
Services	842.8	868.9	891.9	915.9	938.9	960.9	984.9	1004.9
Gross private domestic investment	423.1	442.5	443.7	444.1	447.2	455.4	466.2	477.8
Residential construction	116.3	106.8	104.8	105.8	107.3	109.8	114.3	119.8
Business fixed investment	314.7	321.8	327.9	332.3	336.4	341.6	347.4	353.5
Change in business inventories	-7.9	13.9	11.0	6.0	3.5	4.0	4.5	4.5
Nonfarm	-5.9	13.9	11.0	6.0	3.5	4.0	4.5	4.5
Net exports of goods and services <u>1/</u>	24.3	18.7	17.6	15.0	13.6	11.5	10.6	13.7
Exports	371.5	376.6	381.7	388.4	393.9	400.1	407.9	416.8
Imports	347.2	357.9	364.1	373.4	380.3	388.6	397.3	403.1
Gov't. purchases of goods and services	574.1	579.7	591.5	610.3	623.3	634.4	645.4	663.9
Federal <u>2/</u>	219.6	218.8	224.5	236.9	244.0	249.3	254.5	267.2
State and local	354.5	360.9	367.0	373.4	379.3	385.1	390.9	396.7
Gross national product in constant (1972) dollars	1509.2	1513.1	1514.0	1519.8	1520.6	1522.0	1527.7	1533.4
Personal income	2317.7	2374.1	2444.8	2503.9	2553.2	2602.6	2665.0	2717.7
Wage and salary disbursements	1442.3	1470.6	1501.6	1535.5	1563.3	1589.5	1615.9	1649.5
Disposable personal income	1945.5	1989.5	2046.3	2120.2	2162.3	2200.8	2252.6	2293.3
Saving rate (percent)	4.7	4.5	4.8	5.5	5.3	5.1	5.2	5.2
Corporate profits with I.V.A. and C.C. Adj.	188.1	186.3	181.4	186.4	180.7	181.5	192.1	203.4
Corporate profits before tax	243.4	239.1	238.7	243.2	237.0	238.0	248.4	259.7
Federal government surplus or deficit (-) (N.I.A. basis)	-50.6	-40.8	-51.9	-83.8	-87.6	-86.1	-96.8	-97.4
High employment surplus or deficit (-) <u>3/</u>	-1.2	11.8	7.4	-19.9	-16.5	-8.0	-12.6	-7.2
State and local government surplus or deficit (-) (N.I.A. basis)	35.4	34.3	34.6	35.1	33.6	33.4	33.9	34.3
Excluding social insurance funds	5.2	3.5	3.2	3.1	.8	-.1	-.4	-.8
Civilian labor force (millions)	105.8	106.8	107.0	107.3	107.5	107.8	108.1	108.3
Unemployment rate (percent)	7.4	7.3	7.4	7.5	7.7	7.9	8.0	8.1
Nonfarm payroll employment (millions)	91.6	91.6	91.8	91.9	92.0	92.0	92.0	92.1
Manufacturing	20.4	20.5	20.6	20.6	20.5	20.5	20.6	20.6
Industrial production (1967=100)	151.5	152.5	153.0	153.5	154.0	154.5	155.7	156.7
Capacity utilization: all mfg. (percent)	79.7	79.9	79.7	79.3	78.9	78.7	78.7	78.6
Materials (percent)	81.5	81.0	80.5	80.0	79.5	79.3	79.2	79.2
Housing starts, private (million units, A.R.)	1.39	1.20	1.15	1.15	1.20	1.25	1.30	1.35
New autos sales, (millions, A.R.)	9.96	8.60	8.50	9.10	8.50	8.80	8.70	8.65
Domestic models	7.31	6.10	6.30	6.60	6.40	6.50	6.40	6.35
Foreign models	2.66	2.50	2.20	2.50	2.10	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 \$37.8 billion in 1980-Q4 and a deficit of \$46.9 billion in 1981-Q4, and a deficit of \$36.3 billion in 1982-Q4.

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

	1981				1982			
	Q1	Q2	Q3	Q4	Projected Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	6.5	1.0	.3	1.5	.2	.4	1.5	1.5
Final purchases	6.1	-2.3	.6	2.2	.5	.3	1.5	1.5
Private	6.5	-2.0	.9	2.3	.2	.4	1.7	1.7
Excluding net exports	5.6	-1.0	1.4	2.9	.6	.7	1.7	1.3
Personal consumption expenditures	4.7	.6	2.2	3.9	1.1	.8	1.7	1.0
Goods	9.0	-1.9	2.5	4.5	-.1	.2	1.1	.6
Services	.1	3.5	1.9	3.4	2.4	1.6	2.3	1.5
Gross private domestic investment	12.9	17.4	-4.8	-6.1	-3.9	.6	2.5	2.8
Residential structures	1.0	-34.2	-14.2	-3.8	-2.2	1.3	8.5	11.5
Business fixed investment	12.3	2.0	1.3	-1.0	-1.4	-.2	.4	.6
Gov't. purchases of goods and services	4.4	-3.3	-.3	2.0	1.8	.1	.5	.7
Federal	12.5	-7.2	1.6	6.9	6.9	2.4	3.7	4.1
State and local	-.1	-.9	-1.4	-.9	-1.2	-1.4	-1.4	-1.5
Disposable personal income	2.5	.0	3.4	7.0	.4	-.2	2.2	.7
<u>Current dollars</u>								
Gross national product	14.9	9.2	8.4	10.0	7.8	7.7	8.7	9.4
Final purchases	13.2	5.9	8.9	10.7	8.2	7.6	8.6	9.4
Private	13.7	6.4	9.0	10.1	8.0	7.7	9.0	8.7
Excluding net exports	13.6	7.5	9.3	10.6	8.3	8.1	9.2	8.3
Personal consumption expenditures	13.0	10.0	10.6	11.9	9.0	8.4	9.2	7.8
Goods	16.3	7.4	10.3	12.6	7.8	7.2	8.1	7.3
Services	9.3	13.0	11.0	11.2	10.4	9.7	10.4	8.4
Gross private domestic investment	28.0	19.7	1.1	.4	2.8	7.5	9.8	10.3
Residential structures	12.3	-28.9	-7.3	3.9	5.8	9.7	17.4	20.7
Business fixed investment	17.7	9.4	7.8	5.5	5.0	6.3	7.0	7.2
Gov't. purchases of goods and services	11.6	4.0	8.4	13.3	8.8	7.3	7.1	12.0
Federal	15.1	-1.4	10.8	24.0	12.5	9.0	8.6	21.5
State and local	9.5	7.4	6.9	7.2	6.5	6.3	6.2	6.1
Disposable personal income	10.6	9.4	11.9	15.3	8.2	7.3	9.7	7.4
Personal income	11.4	10.1	12.4	10.0	8.1	8.0	9.9	8.1
Wage and salary disbursements	13.4	8.1	8.7	9.3	7.4	6.9	6.8	8.6
Corporate profits with IVA & C.C. Adj.	10.9	-3.8	-10.1	11.5	-11.7	1.8	25.5	25.7
Corporate profits before tax	-9.3	-6.9	-.6	7.7	-9.9	1.7	18.7	19.5
Nonfarm payroll employment	3.0	.0	.8	.5	.3	.1	.2	.3
Manufacturing	2.5	2.7	1.0	-.2	-.4	.0	.6	1.6
Nonfarm business sector								
Output per hour	3.6	.8	-.6	.5	-.4	.0	1.1	.8
Compensation per hour	11.3	9.4	9.2	8.5	9.2	7.9	7.7	7.7
Unit labor costs	7.5	8.5	9.9	8.0	9.6	7.9	6.6	6.8
GNP implicit deflator 1/ Gross domestic business product fixed-weighted price index 2/ Excluding food and energy	7.8	8.1	8.2	8.3	7.6	7.3	7.1	7.8
Consumer price index (all urban)	10.2	9.3	8.9	8.6	8.1	7.8	7.6	7.3
Consumer price index (all urban)	7.5	9.3	8.3	7.8	7.5	7.3	7.2	7.0
Consumer price index (all urban)	10.8	9.3	11.3	10.5	8.8	7.9	7.4	7.0
Industrial production	6.6	2.7	1.3	1.3	1.3	1.3	3.1	2.6

1/ Excluding Federal pay increases, the rates of change are: 1981-Q1, 7.8 percent; 1981-Q4, 7.5 percent; 1982-Q1, 7.5 percent; 1982-Q4, 6.9 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	2921.2	3171.0
Final purchases	1556.1	1706.2	1897.0	2133.9	2396.4	2632.0	2915.4	3166.9
Private	1216.2	1344.1	1502.5	1701.3	1922.6	2097.3	2326.5	2525.1
Excluding net exports	1189.4	1330.4	1506.7	1701.9	1909.2	2074.0	2307.6	2512.8
Personal consumption expenditures	976.4	1084.3	1205.5	1348.7	1510.9	1672.8	1875.0	2055.3
Goods	539.5	598.5	657.8	729.1	814.5	887.6	995.1	1082.9
Services	437.0	485.7	547.7	619.6	696.3	785.2	879.9	972.4
Gross private domestic investment	206.1	257.9	322.3	375.3	415.8	395.3	438.3	461.7
Residential construction	55.3	72.0	95.8	111.3	118.6	105.3	108.4	112.8
Business fixed investment	157.7	174.1	205.5	242.0	279.7	296.0	324.2	344.7
Change in business inventories	-6.9	11.8	21.0	22.2	17.5	-5.9	5.8	4.1
Nonfarm	-10.5	13.9	20.2	21.8	13.4	-4.7	6.3	4.1
Net exports of goods and services <sup>1/</sup>	26.8	13.7	-4.2	-.6	13.4	23.3	18.9	12.4
Exports	154.9	170.9	183.3	219.8	281.3	339.8	379.5	404.7
Imports	128.1	157.1	187.5	220.4	267.9	316.5	360.6	392.3
Gov't. purchases of goods and services	339.9	362.1	394.5	432.6	473.8	534.7	588.9	641.7
Federal <sup>2/</sup>	122.7	129.2	143.9	153.4	167.9	198.9	224.9	253.7
State and local	217.2	232.9	250.6	279.2	305.9	335.8	363.9	388.0
Gross national product in constant (1972) dollars	1233.9	1300.4	1371.7	1436.9	1483.0	1480.7	1514.0	1525.9
Personal income	1265.0	1391.2	1538.0	1721.8	1943.8	2160.2	2410.1	2634.6
Wage and salary disbursements	806.4	889.9	983.8	1105.2	1236.1	1343.7	1487.5	1604.5
Disposable personal income	1096.1	1194.4	1311.5	1462.9	1641.7	1821.7	2025.4	2227.3
Saving rate (percent)	8.6	6.9	5.6	5.2	5.2	5.6	4.9	5.2
Corporate profits with I.V.A. and C.C. Adj.	110.5	138.1	164.7	185.5	196.8	182.7	185.6	189.4
Corporate profits before tax	132.1	166.3	192.6	223.3	255.4	245.5	241.1	245.8
Federal government surplus or deficit (N.I.A. basis)	-69.3	-53.1	-46.4	-29.2	-14.8	-61.2	-56.8	-92.0
High employment surplus or deficit (-)	-29.2	-20.1	-23.0	-15.7	-2.2	-18.3	-.5	-11.1
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	33.8
Excluding social insurance funds	-7.6	.9	10.1	9.0	2.9	2.1	3.8	-.1
Civilian labor force (millions)	92.6	94.8	97.4	100.4	102.9	104.7	106.7	107.9
Unemployment rate (percent)	8.5	7.7	7.0	6.0	5.8	7.1	7.4	7.9
Nonfarm payroll employment (millions)	77.0	79.4	82.5	86.7	89.9	90.7	91.7	92.0
Manufacturing	18.3	19.0	19.7	20.5	21.1	20.4	20.5	20.6
Industrial production (1967=100)	117.8	130.5	138.1	146.1	152.5	147.1	152.6	155.2
Capacity utilization: all manufacturing (percent)	72.9	79.5	81.9	84.4	85.6	79.1	79.6	78.7
Materials (percent)	73.4	81.1	82.7	85.6	87.4	79.8	80.8	79.3
Housing starts, private (million units, A.R.)	1.16	1.54	1.99	2.02	1.75	1.29	1.22	1.27
New auto sales, (millions, A.R.)	8.66	10.12	11.13	11.28	10.70	9.04	9.04	8.66
Domestic models	7.08	8.63	9.07	9.29	8.38	6.62	6.58	6.41
Foreign models	1.58	1.50	2.06	1.99	2.32	2.42	2.46	2.25

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

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

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CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT  
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	2.2	.8
Final purchases	.3	4.2	5.2	4.7	3.5	.7	1.9	.8
Private	-.1	5.3	6.0	15.4	4.0	.2	2.2	.8
Excluding net exports	-.6	6.2	6.5	5.2	2.9	-1.0	2.7	1.2
Personal consumption expenditures	2.2	5.6	4.9	4.7	2.9	.5	3.1	1.7
Goods	1.3	6.7	5.2	4.2	1.9	-1.4	3.5	1.2
Services	3.3	4.3	4.5	5.4	4.1	2.6	2.5	2.4
Gross private domestic investment	-20.8	19.2	15.7	7.6	1.3	-12.5	3.5	-1.2
Residential structures	-12.5	21.3	18.5	2.9	-5.2	-18.6	-4.6	-3.9
Business fixed investment	-12.1	5.3	11.9	9.1	6.5	-3.0	2.5	-.2
Gov't. purchases of goods and services	2.1	.0	2.1	2.0	1.5	2.9	.4	.7
Federal	.8	-.7	4.1	-.9	1.9	6.3	1.5	3.9
State and local	2.9	.5	.9	3.7	1.2	1.0	-.2	-1.2
Disposable personal income	2.0	3.6	3.6	4.4	3.1	.7	2.2	2.1
<u>Current dollars</u>								
Gross national product	8.0	10.9	11.6	12.4	12.0	8.8	11.2	8.6
Final purchases	9.6	9.6	11.2	12.5	12.3	9.8	10.8	8.6
Private	9.0	10.5	11.8	13.2	13.0	9.1	10.9	8.5
Excluding net exports	7.9	11.8	13.3	12.9	12.2	8.6	11.3	8.9
Personal consumption expenditures	9.9	11.1	11.2	11.9	12.0	10.7	12.1	9.6
Goods	9.0	10.9	9.9	10.8	11.7	9.0	12.1	8.8
Services	11.1	11.2	12.7	13.1	12.4	12.8	12.1	10.5
Gross private domestic investment	-9.9	25.1	25.0	16.5	10.8	-4.9	10.9	5.3
Residential structures	-4.7	30.2	33.1	16.1	6.6	-11.3	2.9	4.0
Business fixed investment	.8	10.3	18.1	17.7	15.6	5.8	9.5	6.3
Gov't. purchases of goods and services	11.8	6.5	8.9	9.7	9.5	12.9	10.1	9.0
Federal	10.6	5.3	11.4	6.6	9.5	18.5	13.1	12.8
State and local	12.5	7.3	7.6	11.4	9.6	9.8	8.4	6.6
Disposable personal income	9.8	9.0	9.8	11.5	12.2	11.0	11.2	10.0
Personal income	8.2	10.0	10.6	12.0	12.9	11.1	11.6	9.3
Wage and salary disbursements	5.3	10.4	10.6	12.3	11.8	8.7	10.7	7.9
Corporate profits with IVA & C.C. Adj.	16.5	25.0	19.3	12.6	6.1	-7.2	1.6	2.0
Corporate profits before tax	-3.3	25.9	15.8	15.9	14.4	-3.9	-1.8	1.9
Nonfarm payroll employment	-1.7	3.2	3.9	5.1	3.7	.9	1.2	.3
Manufacturing	-8.8	3.7	3.6	4.2	2.8	-3.4	.7	.3
Nonfarm business sector								
Output per hour	2.1	3.2	2.0	-.2	-.8	-.4	1.2	.2
Compensation per hour	9.6	8.1	7.6	8.5	9.6	9.8	9.9	8.5
Unit labor costs	7.4	4.7	5.5	8.7	10.4	10.3	8.6	8.4
GNP implicit deflator	9.6	5.2	5.8	7.3	8.5	9.0	8.8	7.7
Gross domestic business product								
fixed-weighted price index <sup>1/</sup>	9.2	5.5	6.3	7.8	9.7	9.8	9.5	8.2
Excluding food and energy	9.2	6.0	6.5	7.5	8.4	8.7	8.4	7.6
Consumer price index (all urban)	9.1	5.8	6.5	7.7	11.3	13.5	10.6	8.9
Industrial production	-8.9	10.8	5.8	5.8	4.4	-3.5	3.8	1.7

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

FEDERAL SECTOR ACCOUNTS  
(billions of dollars)

May 13, 1981

	Fiscal Year 1980*	FY1981e/ Admin. F.R. 1/ Board		FY1982e/ Admin. F.R. 1/ Board		CY 1980*	CY1981e/ F.R. Board		FRB Staff Estimates Calendar quarters; unadjusted data								
		1980			1981			1982									
		IV*	I*	II	III		IV	I	II	III							
Unified budget receipts	520.0	600.3	605.3	650.3	651.1	533.0	622.5	127.0	135.2	184.5	158.6	144.2	146.1	195.1	165.7		
Unified budget outlays	579.6	655.2	661.4	695.3	728.3	601.1	693.3	160.6	167.3	165.3	168.2	192.5	166.7	182.8	186.4		
Surplus(+)/deficit(-), unified budget	-59.6	-54.9	-56.1	-45.0	-77.2	-68.1	-70.8	-33.6	-32.1	19.2	-9.6	-48.3	-20.6	12.3	-20.7		
Surplus(+)/deficit(-), off-budget agencies 2/	-14.2	-23.6	-24.0	-16.7	-17.5	-15.3	-23.2	-2.2	-6.4	-7.8	-7.6	-1.3	-4.7	-5.4	-6.2		
Combined deficit to be financed	-73.8	-78.5	-80.1	-61.7	-94.7	-83.4	-94.0	-35.8	-38.5	11.4	-17.2	-49.6	-25.3	6.9	-26.9		
Means of financing combined deficits:																	
Net borrowing from public	70.5	71.0	72.7	60.0	92.4	79.3	85.1	27.7	35.8	-5.5	14.7	40.1	25.8	-0.9	27.4		
Decrease in cash operating balance	3.2	6.0	6.0	0.0	0.0	3.6	0.3	8.7	1.6	-4.3	0.0	3.0	4.0	-4.0	-3.0		
Other 3/	0.1	1.5	1.4	1.7	2.3	0.5	8.6	-0.6	1.1	-1.6	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	12.3	10.7	15.0	15.0	12.0	8.0	12.0	15.0		
Memo: Sponsored agency borrowing 4/	21.4	18.2	24.7	24.9	19.9	24.3	20.6	9.0	3.6	6.9	5.2	4.9	5.0	5.0	5.0		
<b>NIA Budget</b>								<b>Seasonally adjusted annual rates</b>									
Receipts	527.3	609.5	614.3	665.0	650.1	540.8	629.5	573.2	609.7	627.5	647.0	633.8	642.0	654.5	670.1		
Expenditures	578.2	663.1	667.1	707.1	738.7	602.0	686.3	641.1	660.3	668.3	698.9	717.6	729.6	740.6	766.9		
Purchases (total)	190.2	216.6	218.8	244.7	246.2	198.9	225.0	212.0	219.6	218.8	224.5	236.9	244.0	249.3	254.5		
Defense	126.1	148.2	148.5	172.9	171.9	131.7	154.3	141.6	144.9	151.0	156.6	164.8	169.3	174.5	179.1		
Nondefense	64.1	68.4	70.2	71.8	74.3	67.2	70.7	70.4	74.8	67.8	67.9	72.1	74.7	74.8	75.4		
All other expenditures	388.0	446.5	448.3	462.4	492.5	403.1	461.3	429.1	440.7	449.5	474.4	480.7	485.6	491.3	512.4		
Surplus(+)/deficit(-)	-50.9	-53.6	-52.8	-42.1	-88.6	-61.2	-56.8	-67.9	-50.6	-40.8	-51.9	-83.8	-87.6	-86.1	-96.8		
High employment (H.E.) surplus(+)/deficit(-) evaluated at H.E. unemployment rate of:																	
5.1 percent	-16.7	n.a.	-1.2	n.a.	-14.3	-18.3	-0.5	-13.4	-1.2	11.8	7.4	-19.9	-16.5	-8.0	-12.6		
6.1 percent	-39.5	n.a.	-24.4	n.a.	-41.9	-41.7	-26.6	-37.8	-26.1	-14.0	-19.5	-46.9	-43.8	-35.8	-41.0		
	*--actual			e--estimated				n.a.--not available									

1. Fiscal Year 1982 Budget Revisions, March 1982. In its report on the Second Concurrent Resolution for fiscal year 1981, 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.

Summary. Market interest rates have moved up substantially since the March 31 FOMC meeting. Short-term rates now stand 3 to 5 percentage points higher, reflecting primarily the tightening of reserve positions that accompanied the surge in the narrow money stock during April. In long-term markets most yields have established new all-time highs, rising about 1 percentage point over the intermeeting period; in the primary mortgage market, rate increases have been somewhat smaller.

The total of funds raised by nonfinancial firms in domestic markets during April appears to have fallen slightly below the first-quarter pace. The pattern of financing continued to shift towards longer-term sources of funds, as public offerings of stocks and bonds increased further from an already sizable first-quarter figure. The large volume of corporate bond sales was especially remarkable in view of the high and rising level of long-term interest rates. Even so, quite a few offerings were postponed, and a number of those that were brought to market were convertible debentures, issues with shorter maturities, or obligations with below-market coupons sold at deep discount.

At the short end of the maturity spectrum, business credit demands slackened further, especially in the commercial paper market, where rates rose more than 4 percentage points and were quite volatile from day to day. In recent weeks, banks have adjusted their prime lending rates several times as market rates of interest have continued to rise; however, earlier in April the prime held steady at a level that was quite high relative to other costs of borrowing. As this gap narrowed in late April and early May, business loans at large U.S. banks resumed their expansion following



two months of decline, and loans to U.S. residents at the foreign branches of these banks slowed. Also, business loans at U.S. agencies and branches contracted in April for the first time since mid-1980.

In March net borrowing by the household sector continued to display trends that had characterized earlier months of the quarter, with net mortgage formation slackening and consumer credit picking up. Net acquisitions of mortgages by savings and loan associations during that month fell to their lowest level since last June, and information from field reports indicates that the weakness in mortgage lending extended into April. The volume of consumer installment credit outstanding, on the other hand, rose at a 12 percent clip in March--its strongest growth since September 1979. The pick-up in consumer credit was driven by auto loans, which in turn reflected a rebate-induced fillip in sales.

Demands on credit markets by the federal government have eased off this quarter, reflecting the usual seasonal excess of receipts over expenditures. In April the Treasury ran off \$9-1/2 billion in bills, while raising \$6 billion in coupon issues. Early in May the Treasury raised \$2.1 billion in cash in a typical 3-part mid-quarter refunding operation. In the state and local sector, the volume of long-term debt offered in April swelled to \$4.7 billion despite a number of postponements that were due primarily to unsettled market conditions.

After adjustment for shifts into NOW accounts, M-1B expanded at a 14-1/4 percent annual rate in April--about double the March pace. Some of the surge in transaction balances may signal a cessation of the unexplained weakness in money growth relative to GNP that emerged in the first quarter.

Changes in the processing and payment of federal taxes appear on balance to have had little effect on M-1B in April.

Despite the more rapid growth in M-1B, expansion of M-2 moderated to a 12 percent rate in April after having accelerated throughout the first quarter. Most of the deceleration in M-2 was attributable to a fall-off in growth of money market mutual funds as the yield advantage between these instruments and other money market assets evaporated over the month. Also, savings and small time deposits at banks and thrift institutions were flat during April. In contrast to M-2, growth in M-3 edged up to 10 percent in April, reflecting sharply reduced runoffs of large time deposits.

Outlook. The recent surge in monetary growth has followed an extraordinary increase in velocity during the first quarter. Over the next few months, the staff anticipates that demands for transaction balances will continue to be substantial and that short-term rates of interest will remain near their current levels. Rates on long-term bonds also are expected to remain high, as a heavy forward calendar of offerings in all sectors limits the scope for significant declines.

With corporate profits showing little improvement and planned expenditures for plant and equipment rising in nominal terms, the external financing requirements of nonfinancial business firms are projected to increase over this quarter and the next. With long-term rates at historically high levels, most of these needs are likely to be met through short-term financings in the months ahead, but the volume of bond offerings is also expected to remain substantial.

The Treasury's overall demand on credit markets will remain seasonally light through midyear. Nevertheless, as is typical during such periods, the Treasury is expected to restructure its debt towards longer-term offerings. In the state and local government sector, credit demands probably will continue at about the strong pace of recent months; however, widening yield spreads between lower- and higher-rated issues suggest that investors have developed some concerns about the credit quality of tax-exempt issues.

Mortgage borrowing by households probably will remain slack in coming months, as the high cost of borrowing deters both construction activity and purchases of new and existing homes. Expansion in consumer installment credit appears likely to back off from the March pace to a rate of growth more like the first-quarter average, reflecting sluggish auto sales and some weakness in spending on other consumer durables as well.

## INTERNATIONAL DEVELOPMENTS

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Summary. The U.S. dollar has appreciated by more than 8 percent on a weighted average basis since the last Greenbook, of which 1-1/2 percent took place on the two days following Mitterand's victory in the French presidential election. It has risen most against the continental European currencies and only slightly against the Canadian dollar. For the first time since late 1977, the dollar is back above its level of March 1973, when the period of generalized floating exchange rates began.

The rise in the dollar since late March has been associated primarily with a change in interest differentials. Interest rates on 3-month dollar-denominated assets have risen about 500 basis points, while foreign interest rates on average have risen only slightly. Recent data showing relatively favorable U.S. trade and inflation performance also have tended to strengthen the dollar.

Foreign interest rate movements since the last Greenbook have differed widely across countries. Interest rates have declined by about 35 basis points in Japan and the United Kingdom and have been roughly unchanged in Germany. In contrast, interest rates have risen by 300 basis points in Canada, and by 200 to 300 basis points in France, Switzerland, and Belgium. Official discount rates were raised in Switzerland and Belgium.

. There was no official

U.S. intervention during the period, except on the day of the attempted assassination of President Reagan.

Within the EMS pressures on the Belgian franc intensified at the end of March.

. After a new government under former Finance Minister Eyskens was formed in early April, exchange market pressure subsided.

. The French franc slipped to nearly 1 percent below the DM in the EMS just prior to the second round of the election on May 10 and fell to the floor following Mitterand's victory.

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The U.S. merchandise trade deficit for the first quarter fell to \$15 billion (s.a.a.r.; international accounts basis), from \$24 billion in the fourth quarter, as the deficit dropped sharply in March. In the first quarter, the volume of both agricultural and nonagricultural exports increased sharply; nonagricultural exports to Canada and, to a lesser extent, Latin America were particularly strong. Import volume rose only slightly despite the strong growth of U.S. GNP. The increase in the volume of non-petroleum imports was concentrated in industrial supplies. The volume of oil imports was essentially unchanged, while oil import prices rose 7 percent from the fourth quarter to the first.

Outflows of funds through U.S. banking offices were reported in March and April, and at the end of April U.S. banks had a net creditor position of about \$1-1/2 billion with their foreign offices. Eurodollar investments of money market mutual funds fell slightly in April after having risen \$4-1/2 billion in the first quarter. In April, these holdings accounted for about 10 percent of total assets of money market mutual funds -- a proportion that has shown little change over the past year.

Official reserve holdings in the United States rose \$5-1/2 billion in the first quarter, accounted for entirely by OPEC countries. Private foreign purchases of U.S. corporate stocks totalled \$1.7 billion in the first quarter, about the same as the unusually high rate of the fourth quarter.

The OPEC surplus fell moderately from \$55 billion in the first half of 1980 to an estimated \$48 billion in the second half. Oil revenues were little changed, as a 9 percent increase in price was more than offset by a 10 percent decline in volume. An unusually small (7 percent) increase in commodity imports by OPEC kept the surplus from declining more rapidly.

For 1980 as a whole, recorded OPEC investments in the United States rose to 14 percent of the OPEC surplus, up from 11 percent in 1979. Investments in the United Kingdom in 1980 (excluding Eurocurrency deposits) remained at about 3 percent of the OPEC surplus, while investments in other industrial countries rose from 13 to 16 percent of the surplus. Flows of OPEC funds into Eurocurrency deposits -- at \$41 billion, still the most important OPEC investment outlet -- diminished as a share of the

total surplus from about 50 percent in 1979 to about 40 percent in 1980. Direct and indirect loans to developing countries decreased sharply from \$9.6 billion (15 percent of the surplus in 1979) to \$6.5 billion (6 percent) last year.

Incoming data continue to show sluggish economic activity on average in foreign industrial countries, although it is widely anticipated that a slow and gradual recovery will begin after mid-year. Inflation rates in most countries increased in the first quarter.

Outlook. The U.S. current account is now forecast to show a small surplus this year but to swing to a deficit of roughly \$10 billion in 1982. Previously the staff expected the current account to be in essentially a balanced position in both years.

There are two major elements underlying the revised outlook. First and more important is the sharp rise in the value of the dollar since the last Greenbook. The staff believes that the market may have overreacted to incoming data on trade and prices here and abroad and to the rise in U.S. interest rates. Therefore, we expect the dollar to fall back from current levels over the forecast period. However, since the inflation outlook for the United States has improved, the dollar may be somewhat higher at the end of the period than we thought previously.

The recent and expected strength of the dollar is not likely to have a large effect on the current account balance in 1981, but is forecast to increase import volumes and decrease export volumes significantly next year.

The other element in the revised outlook is the increasing evidence that global oil consumption is declining, in response to earlier oil price rises, more than had been estimated earlier. Consequently, the outlook for oil prices now is a bit weaker. The staff is now assuming that, except for an increase by Saudi Arabia to the level of other exporters, nominal oil prices will not rise during the second half of this year and that real oil prices will rise only about 2 percent during the course of 1982. Such a real price increase would be in line with some of the long-term pricing strategies being considered by OPEC. Given this assumption, the staff forecast shows a lower value of oil imports in both 1981 and 1982 than had previously been forecast.

These two elements -- a stronger dollar and a weaker oil market -- tend to have partially offsetting effects on the U.S. current account, but they both tend to reduce the deficits of other industrial countries. As a consequence of this and of forecast slow growth abroad, the current-account deficits of most major foreign countries are likely to show substantial improvement in 1981-82.



	1980 ANN.	1981 ANN. <sup>P</sup>	1982 ANN. <sup>P</sup>	1981 Q I	1981 Q II <sup>P</sup>	1981 Q III <sup>P</sup>	1981 Q IV <sup>P</sup>	1982 Q I <sup>P</sup>	1982 Q II <sup>P</sup>	1982 Q III <sup>P</sup>	1982 Q IV <sup>P</sup>
<b>1. GNP NET EXPORTS</b>											
CURRENT \$, NET	23.3	18.9	12.4	24.3	18.7	17.6	15.0	13.6	11.5	10.6	13.7
EXPORTS OF G&S	339.8	379.6	404.7	371.5	376.6	381.7	388.4	393.9	400.1	407.9	416.8
IMPORTS OF G&S	316.5	360.6	392.3	347.2	357.9	364.1	373.4	380.3	388.6	397.3	403.1
CONSTANT 72 \$, NET	52.0	48.1	43.8	51.8	48.4	46.9	45.3	44.1	43.2	43.2	44.5
EXPORTS OF G&S	161.1	165.2	164.9	164.9	165.1	165.3	165.5	164.8	164.6	164.8	165.3
IMPORTS OF G&S	109.1	117.1	121.1	113.1	116.7	118.4	120.2	120.6	121.4	121.6	120.8
TERMS OF TRADE (1972=100) 1/	72.7	74.6	75.8	73.4	74.4	75.1	75.5	75.8	75.9	75.7	75.6
<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>											
	-27.4	-23.8	-39.2	-14.8	-22.3	-26.5	-31.6	-34.1	-37.5	-42.0	-43.1
EXPORTS (EXCL. MILITARY)	221.8	246.5	250.5	247.7	246.4	245.6	246.2	247.4	248.6	251.3	254.8
AGRICULTURAL	42.0	48.8	53.2	50.5	47.7	47.7	49.2	51.1	52.4	53.9	55.5
NONAGRICULTURAL	179.8	197.7	197.3	197.2	198.6	198.0	197.0	196.2	196.2	197.4	199.3
IMPORTS	249.1	270.3	289.7	262.5	268.6	272.2	277.8	281.4	286.1	293.3	297.9
PETROLEUM AND PRODUCTS	78.9	86.5	88.1	83.0	88.0	87.8	87.3	86.8	87.8	88.9	88.7
NONPETROLEUM	170.2	183.8	201.6	179.5	180.6	184.4	190.5	194.6	198.3	204.4	209.2
<b>3. U.S. CURRENT ACCOUNT BALANCE</b>											
	0.1	3.0	-9.7	12.4	3.8	0.5	-4.5	-7.5	-10.0	-11.8	-9.5
OF WHICH: NET INVESTMENT INCOME	32.5	30.7	33.5	31.4	30.0	30.7	30.9	30.5	31.4	34.2	37.9
<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/</b>											
REAL GNP, % CHANGE, ANNUAL RATES	1.7	0.3	2.0	0.3	0.4	0.8	2.0	2.2	2.4	2.6	2.8
CONSUMER PRICES, % CHANGE, ANNUAL RATES	10.5	9.1	7.3	10.8	9.0	7.3	7.0	7.6	7.5	6.8	6.8

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%).

P/ PROJECTED.