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September 30, 1981

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Available information suggests that overall economic activity declined somewhat further during the third quarter. Although price rebates and other purchase incentives provided a temporary boost to auto sales, consumer spending for other items remained weak in August, housing starts dropped below a 1 million unit annual rate and indicators of current real business spending have been flat. Most broad measures of inflation show that the rate of aggregate price increase for the third quarter remained close to the second-quarter rate.

Output adjustments in the motor vehicle industry were a significant factor in the decline in the index of industrial production in August; production of household appliances also weakened significantly. In contrast, output of defense and business equipment rose further. The spillover effects of the continued low level of auto and truck assemblies and of the further contraction in homebuilding appear to have had a depressing effect on industrial output again in September: weekly data show declines in steel, electricity, and coal production. Employment changed very little in August, but September data on new claims for unemployment insurance suggest that demand for labor has weakened over the past month.

Sales of domestic autos rose strongly in August and early September in response to manufacturers' rebate and credit incentive programs. But even before the termination of these programs, sales in mid-September dropped sharply. While reporting for that 10-day period may not have been reliable, sales throughout the latest rebate period fell short of

those at the time of price concessions earlier in the year and could point to a further scaling back of already low production plans for later this year.

Consumers in recent months have continued to limit their nonauto purchases, particularly of discretionary items that typically are influenced by credit conditions. The small upturn in nonauto retail sales in nominal terms in August only partially offset the decline in July. In real terms, total consumer spending has been relatively flat since the winter. Moreover, consumer surveys continue to report very unfavorable evaluations of current conditions for buying houses, autos, and other major durable goods.

The backup of stocks held by auto dealers accounted for a significant portion of the increase in retail inventories in July, but these stocks were pared by the August surge in sales. While overall inventory-sales ratios in July were little changed from the preceding three months, there were some signs of unintended accumulation at general merchandisers and at steel manufacturers.

The slump in the housing market became more severe in August, as new home starts dropped to a 940,000 unit annual rate and total sales of new and existing units approached the low level reached in early 1980. The extremely high mortgage interest rates appear to have damped the rate of increase in house prices. The average sales price of a house is now reported to be 5 to 9 percent above the level of a year ago, but recent prices also include special arrangements such as "buy-downs." There are numerous qualitative reports of declines in actual house prices.

Recent data indicate continued weakness in business fixed investment. Shipments of nondefense capital goods in real terms are estimated to have increased only a little in August after falling 3-1/2 percent in July. In addition, the July-August averages for truck sales as well as for oil and gas well drilling are below second quarter levels. New orders for nondefense capital goods increased in August, owing principally to an exceptionally large rise for office and store machinery. In real terms, however, the level of nondefense orders in August was little different than at the beginning of the year.

The consumer price index rose more rapidly in July and August than during the preceding four months; the steep climb in mortgage interest costs was a significant factor, particularly in July. In addition, food prices have moved up much more rapidly than during the first half of the year, largely reflecting the long-expected turnaround in meat prices. Gasoline prices, however, continued to decline, although less rapidly than during the spring. Prices of items other than food, energy, and home-ownership increased at an 8-3/4 percent annual rate in August, about the same as earlier this year and appreciably below the 10 percent rate during 1980.

Outlook. It now appears that real GNP declined about 1/2 percent at an annual rate in the third quarter. Moreover, the recent auto purchase incentives likely have shifted some consumer spending forward from the fourth to the third quarter, and the near-term outlook for homebuilding is now weaker. Therefore, the staff now estimates that real GNP will also decline in the fourth quarter. Inflation, as measured by the gross domestic business product fixed-weighted price index, is

estimated to be rising at an 8-1/2 percent annual rate in the third quarter--up about 1/2 percentage point from the August Greenbook-- and at about an 8 percent rate in the fourth quarter.

With the end of major price and financing concessions, sales of domestic autos are expected to drop sharply from the third-quarter rate of about 7 million units per year to a 5-3/4 million unit rate in 1981-Q4. At the same time, however, overall consumer spending is expected to receive some stimulus from the \$15 billion (annual rate) tax cut that begins in October. A level of housing starts slightly lower than in August is expected to prevail over the remainder of the year, and orders data and other indicators suggest that business outlays will decline further. Production adjustments are assumed to follow closely the weakening in final demands, thereby avoiding serious imbalances in inventories.

The financial assumptions underlying the staff's economic projections now show M1-B falling somewhat short of the lower end of the Committee's range for 1981 while the broader money aggregates exceed the targets. During 1982 M1-B is assumed to be around the middle of the FOMC's tentative growth range; this is expected to be consistent with the broader aggregates lying near the upper end of the targets. Short-term interest rates fluctuate around current levels over the projection horizon, while long-term rates ease from their present record levels in response to improvements in longer range inflation expectations.

With respect to fiscal policy, the staff assumes that Congress will enact about two-thirds of the \$13 billion additional FY1982 spending cuts proposed by the Administration on September 24 but not the additional

revenue measures. It now appears that the FY1981 deficit will be \$59 billion. After taking into account the new spending cuts and other offsetting changes, the staff's estimate of the FY1982 deficit is \$87-1/2 billion, about unchanged from the last Greenbook.

The restrictive financial environment will remain the principal constraint on economic activity during the next year. Investment outlays by both consumers and business firms are expected to be significantly curtailed. The continued high cost of mortgage funds is expected to limit recovery of new housing starts to an annual rate of only 1-1/4 million units by late 1982. Growth in consumer outlays for autos and other durable goods also is expected to remain weak through mid-1982, and then to recover in response to the second round of the tax cut. Business firms are projected to face a lengthy period of slack capacity, and the potential inducement for higher fixed capital spending provided by the new business tax relief is expected to be diminished by the high real cost of capital. Consequently, real outlays for business fixed investment are projected to continue to contract until late in 1982.

Real GNP is projected to grow little during the first half of 1982, and then, with the second stage of the tax cut, to rise close to a 3 percent annual rate over the balance of the year. The unemployment rate is projected to rise to 8-1/4 percent by the second half of next year.

The near-term outlook for inflation shows little improvement from recent rates of price increase. In coming months, the staff expects increases in meat prices to persist at relatively rapid rates before the

benefits of abundant feed supplies begin to stimulate meat production in 1982. In addition, some firming of energy prices also is expected to begin in 1981-Q4. But growing economic slack during the projection is expected to influence labor and product markets, resulting in a gradual slowing in the rates of wage and price increases. As a result, the gross domestic business product fixed-weighted price index is projected to rise about 7 percent over the four quarters of 1982, down from an 8-1/4 percent rate in 1981-H2.

STAFF GNP PROJECTIONS

| Percent changes, annual rate | | | | | | | | | | |
|--|---------|----------|---------|--|---------|---------------------------|---------|-----------------------------|---------|-----|
| Nominal GNP | | Real GNP | | Gross domestic business product fixed-weighted price index | | | | Unemployment rate (percent) | | |
| | | | | Total | | Excluding food and energy | | | | |
| 8/12/81 | 9/30/81 | 8/12/81 | 9/30/81 | 8/12/81 | 9/30/81 | 8/12/81 | 9/30/81 | 8/12/81 | 9/30/81 | |
| Annual changes: | | | | | | | | | | |
| 1979 ^{1/} | 12.0 | 12.0 | 3.2 | 3.2 | 9.7 | 9.7 | 8.4 | 8.4 | 5.8 | 5.8 |
| 1980 ^{1/} | 8.8 | 8.8 | -.2 | -.2 | 9.8 | 9.8 | 8.7 | 8.2 | 7.1 | 7.1 |
| 1981 ^{1/} | 11.1 | 11.1 | 2.1 | 1.9 | 9.1 | 9.2 | 8.8 | 9.0 | 7.3 | 7.4 |
| 1982 | 7.9 | 7.5 | .6 | .1 | 7.6 | 7.6 | 7.4 | 7.6 | 8.0 | 8.1 |
| Quarterly changes: | | | | | | | | | | |
| 1980-Q1 ^{1/} | 12.6 | 12.6 | 3.1 | 3.1 | 10.1 | 10.1 | 7.4 | 7.4 | 6.2 | 6.2 |
| 1980-Q2 ^{1/} | -1.1 | -1.1 | -9.9 | -9.9 | 9.8 | 9.8 | 9.5 | 9.5 | 7.3 | 7.3 |
| 1980-Q3 ^{1/} | 11.8 | 11.8 | 2.4 | 2.4 | 9.6 | 9.6 | 9.3 | 9.3 | 7.5 | 7.5 |
| 1980-Q4 ^{1/} | 14.9 | 14.9 | 3.8 | 3.8 | 9.3 | 9.3 | 8.2 | 8.2 | 7.5 | 7.5 |
| 1981-Q1 ^{1/} | 19.2 | 19.2 | 8.6 | 8.6 | 10.5 | 10.5 | 8.1 | 8.1 | 7.4 | 7.4 |
| 1981-Q2 ^{1/} | 4.0 | 4.7 | -1.9 | -1.6 | 7.8 | 8.2 | 9.8 | 9.7 | 7.4 | 7.4 |
| 1981-Q3 | 7.1 | 7.7 | -.2 | -.6 | 8.0 | 8.5 | 9.0 | 10.0 | 7.1 | 7.2 |
| 1981-Q4 | 10.3 | 6.9 | 1.0 | -1.8 | 8.2 | 8.1 | 7.5 | 8.2 | 7.5 | 7.7 |
| 1982-Q1 | 6.9 | 6.9 | .3 | .2 | 7.5 | 7.4 | 6.8 | 6.8 | 7.7 | 7.9 |
| 1982-Q2 | 7.1 | 7.2 | .3 | .3 | 7.4 | 7.2 | 6.8 | 6.7 | 7.9 | 8.1 |
| 1982-Q3 | 8.8 | 9.5 | 2.2 | 2.9 | 7.4 | 7.2 | 6.8 | 6.7 | 8.1 | 8.2 |
| 1982-Q4 | 10.2 | 10.4 | 2.8 | 3.2 | 7.0 | 6.8 | 6.6 | 6.5 | 8.2 | 8.2 |
| Two-quarter changes: ^{2/} | | | | | | | | | | |
| 1980-Q2 ^{1/} | 5.6 | 5.6 | -3.6 | -3.6 | 9.9 | 9.9 | 8.4 | 8.4 | 1.4 | 1.4 |
| 1980-Q4 ^{1/} | 13.3 | 13.3 | 3.1 | 3.1 | 9.5 | 9.5 | 8.8 | 8.8 | .2 | .2 |
| 1981-Q2 ^{1/} | 11.3 | 11.7 | 3.2 | 3.4 | 9.1 | 9.2 | 9.0 | 9.0 | -.1 | -.1 |
| 1981-Q4 | 8.7 | 7.3 | .4 | -1.2 | 8.1 | 8.3 | 8.2 | 9.2 | .1 | .3 |
| 1982-Q2 | 7.0 | 7.1 | .3 | .2 | 7.4 | 7.3 | 6.9 | 6.7 | .4 | .4 |
| 1982-Q4 | 9.5 | 10.0 | 2.5 | 3.0 | 7.2 | 7.0 | 6.6 | 6.6 | .3 | .1 |
| Four-quarter changes: ^{3/} | | | | | | | | | | |
| 1979-Q4 ^{1/} | 9.9 | 9.9 | 1.7 | 1.7 | 9.7 | 9.7 | 8.2 | 8.2 | .1 | .1 |
| 1980-Q4 ^{1/} | 9.4 | 9.4 | -.3 | -.3 | 9.7 | 9.7 | 8.6 | 8.6 | 1.6 | 1.6 |
| 1981-Q4 | 10.0 | 9.5 | -1.8 | 1.1 | 8.6 | 8.8 | 8.6 | 9.1 | .0 | .2 |
| 1982-Q4 | 8.2 | 8.5 | 1.4 | 1.6 | 7.3 | 7.1 | 6.7 | 6.7 | .7 | .5 |

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

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

| | 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 | 183.3 |
| 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 (-) | -4.7 | 5.1 | -2.3 | -7.1 | -17.1 | -21.5 | -21.1 | -13.3 |
| 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) | 89.0 | 89.7 | 90.2 | 90.5 | 90.8 | 90.5 | 90.2 | 90.8 |
| Manufacturing | 21.0 | 21.1 | 21.1 | 20.9 | 20.8 | 20.3 | 20.0 | 20.2 |
| Industrial production (1967=100) | 152.7 | 152.3 | 152.6 | 152.5 | 152.6 | 144.5 | 142.3 | 148.7 |
| Capacity utilization: all mfg. (percent) | 86.9 | 85.9 | 85.3 | 84.4 | 83.4 | 77.9 | 75.9 | 79.1 |
| Materials (percent) | 88.4 | 87.5 | 87.2 | 86.3 | 85.8 | 78.8 | 75.2 | 80.1 |
| 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.

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PERCENT 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 | 3.7 | 3.1 | 2.4 | 1.2 | 1.5 | -1.6 | -1.0 | 2.7 |
| Manufacturing | 3.5 | 2.1 | -.1 | -3.6 | -2.4 | -9.7 | -5.9 | 3.7 |
| Nonfarm business sector | | | | | | | | |
| Output per hour | -.9 | -1.6 | -1.1 | -.2 | .3 | -2.9 | 3.6 | -.2 |
| Compensation per hour | 10.9 | 10.4 | 8.6 | 9.7 | 10.2 | 11.3 | 9.0 | 9.8 |
| Unit labor costs | 11.9 | 12.1 | 9.7 | 9.9 | 9.9 | 14.6 | 5.3 | 10.1 |
| 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/} | | | | | | | | |
| Excluding food and energy | 9.7 | 9.7 | 9.5 | 10.0 | 10.1 | 9.8 | 9.6 | 9.3 |
| Consumer price index (all urban) | 7.5 | 7.2 | 6.9 | 11.1 | 7.4 | 9.5 | 9.3 | 8.2 |
| Industrial production | 10.2 | 12.5 | 14.0 | 14.3 | 16.5 | 13.1 | 7.7 | 12.9 |
| Industrial production | 5.4 | -1.0 | .8 | -.3 | .3 | -19.6 | -6.2 | 19.2 |

^{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.

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

| | 1981 | | | | 1982 | | | |
|---|--------|--------|--------|--------|-----------------|--------|--------|--------|
| | Q1 | Q2 | Q3 | Q4 | Projected Q1 | Q2 | Q3 | Q4 |
| Gross national product | 2853.0 | 2885.8 | 2939.9 | 2989.2 | 3039.5 | 3092.8 | 3164.1 | 3243.4 |
| Final purchases | 2848.5 | 2862.5 | 2919.6 | 2975.7 | 3028.5 | 3084.3 | 3160.6 | 3237.9 |
| Private | 2272.0 | 2285.1 | 2330.4 | 2370.3 | 2412.4 | 2454.2 | 2517.8 | 2576.2 |
| Excluding net exports | 2242.8 | 2264.3 | 2310.7 | 2350.8 | 2401.2 | 2451.8 | 2518.4 | 2579.4 |
| Personal consumption expenditures | 1810.1 | 1829.1 | 1880.5 | 1922.2 | 1967.7 | 2009.9 | 2066.7 | 2115.4 |
| Goods | 964.3 | 962.6 | 986.4 | 1001.7 | 1024.2 | 1045.4 | 1079.2 | 1108.5 |
| Services | 845.8 | 866.5 | 894.1 | 920.5 | 943.5 | 964.5 | 987.5 | 1006.9 |
| Gross private domestic investment | 437.1 | 458.6 | 450.5 | 442.1 | 444.5 | 450.4 | 455.2 | 469.5 |
| Residential construction | 116.7 | 110.7 | 101.2 | 94.7 | 95.7 | 99.7 | 104.7 | 110.7 |
| Business fixed investment | 315.9 | 324.6 | 329.0 | 333.9 | 337.8 | 342.2 | 347.0 | 353.3 |
| Change in business inventories | 4.5 | 23.3 | 20.3 | 13.5 | 11.0 | 8.5 | 3.5 | 5.5 |
| Nonfarm | 6.8 | 21.5 | 16.5 | 13.5 | 11.0 | 8.5 | 3.5 | 5.5 |
| Net exports of goods and services ^{1/} | 29.2 | 20.8 | 19.7 | 19.5 | 11.2 | 2.4 | -6 | -3.2 |
| Exports | 367.4 | 368.2 | 368.5 | 370.2 | 366.4 | 367.6 | 375.2 | 382.1 |
| Imports | 338.2 | 347.5 | 348.8 | 350.7 | 355.2 | 365.2 | 375.8 | 385.3 |
| Gov't. purchases of goods and services | 576.5 | 577.4 | 589.2 | 605.4 | 616.1 | 630.1 | 642.8 | 661.7 |
| Federal ^{2/} | 221.6 | 219.5 | 226.6 | 236.5 | 241.1 | 249.0 | 255.4 | 268.0 |
| State and local | 354.9 | 357.9 | 362.6 | 368.9 | 375.0 | 381.1 | 387.4 | 393.7 |
| Gross national product in constant (1972) dollars | 1516.4 | 1510.4 | 1508.1 | 1501.2 | 1501.9 | 1503.1 | 1513.8 | 1525.8 |
| Personal income | 2319.8 | 2368.5 | 2442.6 | 2491.3 | 2535.8 | 2578.8 | 2643.8 | 2699.9 |
| Wage and salary disbursements | 1442.9 | 1467.0 | 1497.9 | 1522.0 | 1545.9 | 1570.5 | 1599.9 | 1638.3 |
| Disposable personal income | 1947.8 | 1985.6 | 2044.8 | 2097.3 | 2136.2 | 2170.6 | 2258.8 | 2303.7 |
| Saving rate (percent) | 4.6 | 5.4 | 5.5 | 5.8 | 5.4 | 4.9 | 6.0 | 5.7 |
| Corporate profits with I.V.A. and C.C. Adj. | 203.0 | 190.3 | 177.7 | 178.3 | 175.0 | 176.6 | 186.0 | 194.5 |
| Corporate profits before tax | 257.0 | 229.0 | 216.6 | 217.9 | 211.2 | 207.0 | 214.0 | 217.9 |
| Federal government surplus or deficit (-) (N.I.A. basis) | -46.6 | -47.2 | -65.7 | -90.2 | -97.6 | -102.3 | -147.4 | -148.4 |
| High employment surplus or deficit (-) ^{3/} | .5 | 6.8 | -4.0 | -17.0 | -14.3 | -10.6 | -56.5 | -55.0 |
| State and local government surplus or deficit (-) (N.I.A. basis) | 36.9 | 36.1 | 36.5 | 33.3 | 33.0 | 32.1 | 33.5 | 35.5 |
| Excluding social insurance funds | 6.6 | 4.3 | 4.2 | .4 | -.7 | -2.3 | -1.7 | -.5 |
| Civilian labor force (millions) | 105.8 | 106.8 | 106.6 | 106.9 | 107.3 | 107.6 | 107.9 | 108.2 |
| Unemployment rate (percent) | 7.4 | 7.4 | 7.2 | 7.7 | 7.9 | 8.1 | 8.2 | 8.2 |
| Nonfarm payroll employment (millions) | 91.2 | 91.5 | 92.0 | 91.8 | 91.7 | 91.7 | 91.9 | 92.2 |
| Manufacturing | 20.2 | 20.4 | 20.5 | 20.3 | 20.2 | 20.2 | 20.3 | 20.5 |
| Industrial production (1967=100) | 151.8 | 152.5 | 152.5 | 150.5 | 150.6 | 150.7 | 152.5 | 154.6 |
| Capacity utilization: all mfg. (percent) | 79.9 | 79.8 | 79.4 | 78.1 | 77.8 | 77.7 | 77.7 | 78.2 |
| Materials (percent) | 82.2 | 81.2 | 81.1 | 79.4 | 79.1 | 79.0 | 79.0 | 79.7 |
| Housing starts, private (million units, A.R.) | 1.39 | 1.18 | .96 | .87 | .95 | 1.00 | 1.10 | 1.15 |
| New autos sales, (millions, A.R.) | 9.96 | 7.89 | 9.20 | 8.10 | 8.40 | 8.80 | 9.10 | 8.95 |
| Domestic models | 7.31 | 5.63 | 7.00 | 5.80 | 6.30 | 6.50 | 6.70 | 6.55 |
| Foreign models | 2.66 | 2.25 | 2.20 | 2.30 | 2.10 | 2.30 | 2.40 | 2.40 |

^{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 \$37.6 billion in 1980-Q4 and a deficit of \$43.9 billion in 1981-Q4, and a deficit of \$83.4 billion in 1982-Q4.

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

| | 1981 | | | | 1982 | | | |
|--|------|-------|-------|-------|-----------|------|------|------|
| | Q1 | Q2 | Q3 | Q4 | Projected | | | |
| <u>Constant (1972) dollars</u> | | | | | | | | |
| Gross national product | 8.6 | -1.6 | -.6 | -1.8 | .2 | .3 | 2.9 | 3.2 |
| Final purchases | 6.9 | -4.7 | -.5 | -.9 | .5 | .7 | 3.6 | 2.9 |
| Private | 7.3 | -4.5 | -.5 | -1.2 | .6 | .4 | 4.1 | 3.1 |
| Excluding net exports | 6.7 | -3.2 | .8 | -.4 | 1.7 | 1.6 | 4.4 | 3.5 |
| Personal consumption expenditures | 5.8 | -2.1 | 3.2 | 1.1 | 2.4 | 1.8 | 4.9 | 3.4 |
| Goods | 9.8 | -5.3 | 3.5 | -.9 | 2.3 | 2.2 | 7.7 | 5.2 |
| Services | 1.4 | 1.6 | 2.8 | 3.4 | 2.5 | 1.3 | 1.9 | 1.4 |
| Gross private domestic investment | 24.2 | 16.1 | -10.3 | -12.8 | -4.0 | -1.5 | -3.0 | 6.0 |
| Residential structures | 3.6 | -23.4 | -34.3 | -28.3 | -2.5 | 10.1 | 13.7 | 16.8 |
| Business fixed investment | 13.3 | -2.1 | -1.1 | -.9 | -1.5 | -1.2 | -.9 | .8 |
| Gov't. purchases of goods and services | 5.4 | -5.6 | -.4 | .2 | .2 | 1.7 | 1.6 | 2.1 |
| Federal | 14.8 | -8.4 | 3.6 | 1.9 | 1.8 | 5.9 | 5.0 | 6.5 |
| State and local | .2 | -3.8 | -2.8 | -.8 | -.8 | -.9 | -.6 | -.7 |
| Disposable personal income | 3.0 | 1.4 | 3.9 | 2.5 | .4 | -.4 | 10.1 | 1.9 |
| <u>Current dollars</u> | | | | | | | | |
| Gross national product | 19.2 | 4.7 | 7.7 | 6.9 | 6.9 | 7.2 | 9.5 | 10.4 |
| Final purchases | 15.5 | 2.0 | 8.2 | 7.9 | 7.3 | 7.6 | 10.3 | 10.1 |
| Private | 16.0 | 2.3 | 8.2 | 7.0 | 7.3 | 7.1 | 10.8 | 9.6 |
| Excluding net exports | 14.9 | 3.9 | 8.4 | 7.1 | 8.9 | 8.7 | 11.3 | 10.0 |
| Personal consumption expenditures | 14.2 | 4.3 | 11.7 | 9.2 | 9.8 | 8.9 | 11.8 | 9.8 |
| Goods | 17.2 | -.7 | 10.3 | 6.3 | 9.3 | 8.5 | 13.6 | 11.3 |
| Services | 10.9 | 10.1 | 13.4 | 12.3 | 10.4 | 9.2 | 9.9 | 8.1 |
| Gross private domestic investment | 45.9 | 21.1 | -6.9 | -7.3 | 2.2 | 5.4 | 4.3 | 13.2 |
| Residential structures | 14.0 | -19.2 | -30.2 | -23.3 | 4.3 | 17.8 | 21.6 | 25.0 |
| Business fixed investment | 19.6 | 11.4 | 5.5 | 6.1 | 4.8 | 5.3 | 5.7 | 7.5 |
| Gov't. purchases of goods and services | 13.5 | .6 | 8.4 | 11.5 | 7.3 | 9.4 | 8.3 | 12.3 |
| Federal | 19.3 | -3.7 | 13.6 | 18.7 | 8.0 | 13.8 | 10.7 | 21.2 |
| State and local | 10.0 | 3.3 | 5.4 | 7.1 | 6.8 | 6.7 | 6.8 | 6.7 |
| Disposable personal income | 11.2 | 8.0 | 12.5 | 10.7 | 7.6 | 6.6 | 17.3 | 8.2 |
| Personal income | 11.8 | 8.7 | 13.1 | 8.2 | 7.3 | 7.0 | 10.5 | 8.8 |
| Wage and salary disbursements | 13.5 | 6.9 | 8.7 | 6.6 | 6.4 | 6.5 | 7.7 | 10.0 |
| Corporate profits with IVA & C.C. Adj. | 50.4 | -22.8 | -24.0 | 1.4 | -7.2 | 3.7 | 23.1 | 19.6 |
| Corporate profits before tax | 12.6 | -37.0 | -20.0 | 2.6 | -11.8 | -7.8 | 14.2 | 7.5 |
| Nonfarm payroll employment | 1.8 | 1.4 | 2.1 | -1.1 | -.2 | .0 | .7 | 1.3 |
| Manufacturing | .5 | 4.2 | 2.6 | -5.1 | -1.5 | .0 | 2.3 | 3.5 |
| Nonfarm business sector | | | | | | | | |
| Output per hour | 4.3 | .7 | -2.4 | .1 | 1.2 | 1.0 | 2.1 | 2.0 |
| Compensation per hour | 11.6 | 9.6 | | | | | | |
| Unit labor costs hour | 7.0 | 8.8 | 11.8 | 8.5 | 7.6 | 7.0 | 5.7 | 5.8 |
| GNP implicit deflator ^{1/} | 9.8 | 6.4 | 8.4 | 8.8 | 6.7 | 6.9 | 6.5 | 7.0 |
| Gross domestic business product | | | | | | | | |
| fixed-weighted price index ^{2/} | 10.5 | 8.2 | 8.5 | 8.1 | 7.4 | 7.2 | 7.2 | 6.8 |
| Excluding food and energy | 8.1 | 9.7 | 10.0 | 8.2 | 6.8 | 6.7 | 6.7 | 6.5 |
| Consumer price index (all urban) | 10.8 | 7.5 | 12.0 | 10.6 | 10.5 | 8.1 | 6.4 | 6.5 |
| Industrial production | 8.3 | 1.9 | .0 | -5.1 | .3 | .3 | 4.9 | 5.6 |

^{1/} Excluding Federal pay increases, the rates of change are: 1981-Q1, 9.7 percent; 1981-Q4, 7.8 percent; 1982-Q1, 6.7 percent; 1982-Q4, 6.1 percent.

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

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

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 | Projected | |
|---|--------|--------|--------|--------|--------|--------|-----------|--------|
| | | | | | | | 1981 | 1982 |
| Gross national product | 1549.2 | 1718.0 | 1918.0 | 2156.1 | 2413.9 | 2626.1 | 2917.0 | 3134.9 |
| Final purchases | 1556.1 | 1706.2 | 1897.0 | 2133.9 | 2396.4 | 2632.0 | 2901.6 | 3127.8 |
| Private | 1216.2 | 1344.1 | 1502.5 | 1701.3 | 1922.6 | 2097.3 | 2314.5 | 2490.1 |
| Excluding net exports | 1189.4 | 1330.4 | 1506.7 | 1701.9 | 1909.2 | 2074.0 | 2292.2 | 2487.7 |
| Personal consumption expenditures | 976.4 | 1084.3 | 1205.5 | 1348.7 | 1510.9 | 1672.8 | 1860.5 | 2039.9 |
| Goods | 539.5 | 598.5 | 657.8 | 729.1 | 814.5 | 887.6 | 978.8 | 1064.3 |
| Services | 437.0 | 485.7 | 547.7 | 619.6 | 696.3 | 785.2 | 881.7 | 975.6 |
| Gross private domestic investment | 206.1 | 257.9 | 322.3 | 375.3 | 415.8 | 395.3 | 447.1 | 454.9 |
| Residential construction | 55.3 | 72.0 | 95.8 | 111.3 | 118.6 | 105.3 | 105.8 | 102.7 |
| Business fixed investment | 157.7 | 174.1 | 205.5 | 242.0 | 279.7 | 296.0 | 325.9 | 345.1 |
| Change in business inventories | -6.9 | 11.8 | 21.0 | 22.2 | 17.5 | -5.9 | 15.4 | 7.1 |
| Nonfarm | -10.5 | 13.9 | 20.2 | 21.8 | 13.4 | -4.7 | 14.6 | 7.1 |
| Net exports of goods and services ^{1/} | 26.8 | 13.7 | -4.2 | -6 | 13.4 | 23.3 | 22.3 | 2.5 |
| Exports | 154.9 | 170.9 | 183.3 | 219.8 | 281.3 | 339.8 | 368.6 | 372.8 |
| Imports | 128.1 | 157.1 | 187.5 | 220.4 | 267.9 | 316.5 | 346.3 | 370.4 |
| Gov't. purchases of goods and services | 339.9 | 362.1 | 394.5 | 432.6 | 473.8 | 534.7 | 587.1 | 637.7 |
| Federal ^{2/} | 122.7 | 129.2 | 143.9 | 153.4 | 167.9 | 198.9 | 226.0 | 253.4 |
| State and local | 217.2 | 232.9 | 250.6 | 279.2 | 305.9 | 335.8 | 361.1 | 384.3 |
| Gross national product in constant (1972) dollars | 1233.9 | 1300.4 | 1371.7 | 1436.9 | 1483.0 | 1480.7 | 1509.0 | 1511.1 |
| Personal income | 1265.0 | 1391.2 | 1538.0 | 1721.8 | 1943.8 | 2160.2 | 2405.6 | 2614.6 |
| Wage and salary disbursements | 806.4 | 889.9 | 983.8 | 1105.2 | 1236.1 | 1343.7 | 1482.4 | 1588.6 |
| Disposable personal income | 1096.1 | 1194.4 | 1311.5 | 1462.9 | 1641.7 | 1821.7 | 2018.9 | 2217.3 |
| Saving rate (percent) | 8.6 | 6.9 | 5.6 | 5.2 | 5.2 | 5.6 | 5.3 | 5.5 |
| Corporate profits with I.V.A. and C.C. Adj. | 110.5 | 138.1 | 164.7 | 185.5 | 196.8 | 182.7 | 187.3 | 183.0 |
| Corporate profits before tax | 132.1 | 166.3 | 192.6 | 223.3 | 255.4 | 245.5 | 230.1 | 212.5 |
| Federal government surplus or deficit (N.I.A. basis) | -69.3 | -53.1 | -46.4 | -29.2 | -14.8 | -61.2 | -62.4 | -123.9 |
| High employment surplus or deficit (-) | -29.2 | -20.1 | -23.0 | -15.7 | -2.2 | -18.2 | -3.4 | -34.2 |
| State and local government surplus or deficit (-) (N.I.A. basis) | 5.5 | 16.6 | 28.1 | 29.0 | 26.7 | 29.1 | 35.7 | 33.5 |
| Excluding social insurance funds | -7.6 | .9 | 10.1 | 9.0 | 2.9 | 2.1 | 3.9 | -1.3 |
| Civilian labor force (millions) | 92.6 | 94.8 | 97.4 | 100.4 | 102.9 | 104.7 | 106.5 | 107.7 |
| Unemployment rate (percent) | 8.5 | 7.7 | 7.0 | 6.0 | 5.8 | 7.1 | 7.4 | 8.1 |
| Nonfarm payroll employment (millions) | 76.9 | 79.4 | 82.5 | 86.7 | 89.8 | 90.6 | 91.6 | 91.9 |
| Manufacturing | 18.3 | 19.0 | 19.7 | 20.5 | 21.0 | 20.3 | 20.3 | 20.3 |
| Industrial production (1967=100) | 117.8 | 130.5 | 138.1 | 146.1 | 152.5 | 147.0 | 151.8 | 152.1 |
| Capacity utilization: all manufacturing (percent) | 72.9 | 79.5 | 81.9 | 84.4 | 85.6 | 79.1 | 79.3 | 77.9 |
| Materials (percent) | 73.4 | 81.1 | 82.7 | 85.6 | 87.4 | 80.0 | 80.9 | 79.2 |
| Housing starts, private (million units, A.R.) | 1.16 | 1.54 | 1.99 | 2.02 | 1.75 | 1.29 | 1.10 | 1.05 |
| New auto sales, (millions, A.R.) | 8.66 | 10.12 | 11.13 | 11.28 | 10.70 | 9.04 | 8.79 | 8.81 |
| Domestic models | 7.08 | 8.63 | 9.07 | 9.29 | 8.38 | 6.62 | 6.44 | 6.51 |
| Foreign models | 1.58 | 1.50 | 2.06 | 1.99 | 2.32 | 2.42 | 2.35 | 2.30 |

^{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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PERCENT 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 | 1.9 | .1 |
| Final purchases | .3 | 4.2 | 5.2 | 4.7 | 3.5 | .7 | 1.3 | .3 |
| Private | -1.1 | 5.3 | 6.0 | 15.4 | 4.0 | .2 | 1.5 | .3 |
| Excluding net exports | -6 | 6.2 | 6.5 | 5.2 | 2.9 | -1.0 | 2.2 | 1.3 |
| Personal consumption expenditures | 2.2 | 5.6 | 4.9 | 4.7 | 2.9 | .5 | 2.8 | 2.2 |
| Goods | 1.3 | 6.7 | 5.2 | 4.2 | 1.9 | -1.4 | 2.8 | 2.2 |
| Services | 3.3 | 4.3 | 4.5 | 5.4 | 4.1 | 2.6 | 2.7 | 2.3 |
| Gross private domestic investment | -20.8 | 19.2 | 15.7 | 7.6 | 1.3 | -12.5 | 4.6 | -4.2 |
| Residential structures | -12.5 | 21.3 | 18.5 | 2.9 | -5.2 | -18.6 | -5.8 | -9.3 |
| Business fixed investment | -12.1 | 5.3 | 11.9 | 9.1 | 6.5 | -3.0 | 1.6 | -1.1 |
| Gov't. purchases of goods and services | 2.1 | .0 | 2.1 | 2.0 | 1.5 | 2.9 | .1 | .3 |
| Federal | .8 | -.7 | 4.1 | -.9 | 1.9 | 6.3 | 1.7 | 2.8 |
| State and local | 2.9 | .5 | .9 | 3.7 | 1.2 | 1.0 | -.8 | -1.2 |
| Disposable personal income | 2.0 | 3.6 | 3.6 | 4.4 | 3.1 | .7 | 2.4 | 2.4 |
| <u>Current dollars</u> | | | | | | | | |
| Gross national product | 8.0 | 10.9 | 11.6 | 12.4 | 12.0 | 8.8 | 11.1 | 7.5 |
| Final purchases | 9.6 | 9.6 | 11.2 | 12.5 | 12.3 | 9.8 | 10.2 | 7.8 |
| Private | 9.0 | 10.5 | 11.8 | 13.2 | 13.0 | 9.1 | 10.4 | 7.6 |
| Excluding net exports | 7.9 | 11.8 | 13.3 | 12.9 | 12.2 | 8.6 | 10.5 | 8.5 |
| Personal consumption expenditures | 9.9 | 11.1 | 11.2 | 11.9 | 12.0 | 10.7 | 11.2 | 9.6 |
| Goods | 9.0 | 10.9 | 9.9 | 10.8 | 11.7 | 9.0 | 10.3 | 8.7 |
| Services | 11.1 | 11.2 | 12.7 | 13.1 | 12.4 | 12.8 | 12.3 | 10.6 |
| Gross private domestic investment | -9.9 | 25.1 | 25.0 | 16.5 | 10.8 | -4.9 | 13.1 | 1.7 |
| Residential structures | -4.7 | 30.2 | 33.1 | 16.1 | 6.6 | -11.3 | .6 | -3.0 |
| Business fixed investment | .8 | 10.3 | 18.1 | 17.7 | 15.6 | 5.8 | 10.1 | 5.9 |
| Gov't. purchases of goods and services | 11.8 | 6.5 | 8.9 | 9.7 | 9.5 | 12.9 | 9.8 | 8.6 |
| Federal | 10.6 | 5.3 | 11.4 | 6.6 | 9.5 | 18.5 | 13.6 | 12.1 |
| State and local | 12.5 | 7.3 | 7.6 | 11.4 | 9.6 | 9.8 | 7.5 | 6.4 |
| Disposable personal income | 9.8 | 9.0 | 9.8 | 11.5 | 12.2 | 11.0 | 10.8 | 9.8 |
| Personal income | 8.2 | 10.0 | 10.6 | 12.0 | 12.9 | 11.1 | 11.4 | 8.7 |
| Wage and salary disbursements | 5.3 | 10.4 | 10.6 | 12.3 | 11.8 | 8.7 | 10.3 | 7.2 |
| Corporate profits with IVA & C.C. Adj. | 16.5 | 25.0 | 19.3 | 12.6 | 6.1 | -7.2 | 2.5 | -2.3 |
| Corporate profits before tax | -3.3 | 25.9 | 15.8 | 15.9 | 14.4 | -3.9 | -6.3 | -7.6 |
| Nonfarm payroll employment | -1.7 | 3.2 | 3.9 | 5.1 | 3.6 | .8 | 1.2 | .3 |
| Manufacturing | -8.8 | 3.7 | 3.6 | 4.2 | 2.6 | -3.5 | .2 | -.3 |
| Nonfarm business sector | | | | | | | | |
| Output per hour | 2.1 | 3.2 | 2.0 | -.2 | -.7 | -.3 | 1.1 | .6 |
| Compensation per hour | 9.4 | 9.6 | 8.1 | 7.6 | 9.7 | 10.0 | 10.0 | 8.6 |
| Unit labor costs | 7.4 | 4.7 | 5.5 | 8.7 | 10.4 | 10.3 | 8.8 | 7.9 |
| GNP implicit deflator | 9.6 | 5.2 | 5.8 | 7.3 | 8.5 | 9.0 | 9.0 | 7.3 |
| Gross domestic business product | | | | | | | | |
| fixed-weighted price index <u>1/</u> | 9.2 | 5.5 | 6.3 | 7.8 | 9.7 | 9.8 | 9.2 | 7.6 |
| Excluding food and energy | 9.2 | 6.0 | 6.5 | 7.5 | 8.4 | 8.2 | 9.0 | 7.6 |
| Consumer price index (all urban) | 9.1 | 5.8 | 6.5 | 7.7 | 11.3 | 13.5 | 10.4 | 9.2 |
| Industrial production | -8.9 | 10.8 | 5.8 | 5.8 | 4.4 | -3.5 | 3.2 | .2 |

1/ Uses expenditures in 1972 weights.

September 30, 1981

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

| | Fiscal Year 1980* | FY 1981 e/ | | FY 1982 e/ | | CY 1980 * | CY 1981 e/ | | FRB Staff Estimates | | | | | | | |
|--|-------------------------|--------------|---------------|--------------|---------------|--------------|---------------|---------------|------------------------------------|-------|-------|-------|-------|--------|--------|--|
| | | Admin. 1/ | F.R. Board | Admin. 1/ | F.R. Board | | F.R. Board | F.R. Board | Calendar quarters; unadjusted data | | | | | | | |
| | | | | | | | | | 1980 IV* | 1981 | | | | 1982 | | |
| | | | | | | | | | I* | II* | III | IV | I | II | III | |
| Unified budget receipts | 520.0 | 605.6 | 603.6 | 662.4 | 634.3 | 533.0 | 616.9 | 127.0 | 135.2 | 183.7 | 157.7 | 140.2 | 148.0 | 194.5 | 156.5 | |
| Unified budget outlays | 579.6 | 661.2 | 662.8 | 704.8 | 726.9 | 600.9 | 690.6 | 160.6 | 167.3 | 167.4 | 167.6 | 188.3 | 164.3 | 185.5 | 188.7 | |
| Surplus(+)/deficit(-), unified budget | -59.6 | -55.6 | -59.2 | -42.5 | -87.6 | -67.9 | -73.7 | -33.6 | -32.1 | 16.3 | -9.9 | -48.1 | -16.3 | 9.0 | -32.2 | |
| Surplus(+)/deficit(-), off-budget agencies ² | -14.2 | -24.0 | -20.8 | -18.2 | -18.2 | -15.3 | -21.1 | -2.2 | -6.4 | -5.5 | -6.7 | -2.4 | -4.8 | -5.7 | -5.2 | |
| Combined deficit to be financed | -73.8 | -79.6 | -80.0 | -60.7 | -103.8 | -83.2 | -94.8 | -35.8 | -38.5 | 10.8 | -16.6 | -50.5 | -21.1 | 3.3 | -37.4 | |
| Means of financing combined deficits: | | | | | | | | | | | | | | | | |
| Net borrowing from public | 70.5 | 71.0 | 77.6 | 59.0 | 93.0 | 79.3 | 84.0 | 27.7 | 35.8 | -2.6 | 16.7 | 34.1 | 28.6 | 0.0 | 34.3 | |
| Decrease in cash operating balance | 3.2 | 6.0 | 3.2 | 0.0 | 3.8 | 3.6 | 3.5 | 8.7 | 1.6 | -5.7 | -1.4 | 9.0 | -3.0 | -3.3 | 3.1 | |
| Other ³ | 0.1 | 2.6 | -0.7 | 1.7 | 3.9 | 0.3 | 7.3 | -0.6 | 1.1 | -2.5 | 1.3 | 7.4 | -4.5 | 0.0 | 0.0 | |
| Cash operating balance, end of period | 21.0 | 15.0 | 17.8 | 15.0 | 13.0 | 12.3 | 8.8 | 12.3 | 10.7 | 16.4 | 17.8 | 8.8 | 11.8 | 15.1 | 12.0 | |
| Memo: Sponsored agency borrowing ⁴ | 21.4 | n.a. | 37.6 | n.a. | 33.0 | 24.3 | 39.6 | 9.0 | 3.6 | 9.7 | 15.3 | 11.0 | 8.6 | 9.4 | 8.0 | |
| NIA Budget | | | | | | | | | | | | | | | | |
| | | | | | | | | | Seasonally adjusted annual rates | | | | | | | |
| Receipts | 527.3 | 620.8 | 610.4 | 678.3 | 633.4 | 540.8 | 623.9 | 573.2 | 617.4 | 621.0 | 630.1 | 627.3 | 634.5 | 643.2 | 624.4 | |
| Expenditures | 578.2 | 667.3 | 667.3 | 719.3 | 741.7 | 602.0 | 686.4 | 641.1 | 664.0 | 668.2 | 695.8 | 717.5 | 732.1 | 745.5 | 771.8 | |
| Purchases | 190.2 | 219.3 | 219.9 | 247.4 | 248.5 | 198.9 | 226.1 | 212.0 | 221.6 | 219.5 | 226.6 | 236.5 | 241.1 | 249.0 | 255.4 | |
| Defense | 126.1 | 147.0 | 147.4 | 171.7 | 170.3 | 131.7 | 152.9 | 141.6 | 145.2 | 148.2 | 154.6 | 163.4 | 167.8 | 172.8 | 177.2 | |
| Nondefense | 64.1 | 72.3 | 72.5 | 75.7 | 78.2 | 67.2 | 73.2 | 70.4 | 76.4 | 71.3 | 72.0 | 73.1 | 73.3 | 76.2 | 78.2 | |
| All other expenditures | 388.0 | 448.0 | 447.4 | 471.9 | 498.2 | 403.1 | 460.3 | 429.1 | 442.4 | 448.7 | 469.2 | 481.0 | 491.0 | 496.5 | 516.4 | |
| Surplus(+)/deficit(-) | -50.9 | -46.5 | -56.9 | -41.0 | -108.4 | -61.2 | -62.5 | -67.9 | -46.6 | -47.2 | -69.7 | -90.2 | -97.6 | -102.3 | -147.4 | |
| High Employment (H.E) surplus(+)/deficit(-) evaluated at H.E. unemployment rate of: | | | | | | | | | | | | | | | | |
| 5.1 percent | -16.7 | n.a. | -2.5 | n.a. | -24.6 | -18.2 | -3.4 | -13.3 | 0.5 | 6.8 | -4.0 | -17.0 | -14.3 | -10.6 | -56.5 | |
| 6.1 percent | -39.5 | n.a. | -28.1 | n.a. | -52.1 | -41.6 | -29.7 | -37.6 | -24.9 | -19.2 | -30.8 | -43.9 | -41.9 | -38.7 | -83.8 | |

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

1. OMB Mid-Session Review of the 1982 Budget, July 1981. On September 24, 1981, the Administration presented revised estimates of unified budget receipts and outlays for FY1982. The Fall Budget Program Fact Sheet estimates receipts of \$666.2 billion and outlays of \$709.3 billion for a deficit of \$43.1 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 offering basis.

NOTE: Quarterly totals may not add to yearly totals due to rounding.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Growth in M1-B was sluggish on balance over August and September. Adjustment borrowing at the discount window has dropped off and the federal funds rate has declined about 3-1/2 percentage points since the August FOMC meeting. Most three-month rates have fallen about 1-1/2 to 2 percentage points. Long-term rates, by contrast, have risen dramatically, evidently owing to concerns about the consequences of prospective federal budget deficits. Primary conventional mortgage rates advanced throughout the intermeeting period to new records.

Growth in M2 accelerated in August and remained strong in September, even though a surge in retail RPs over this period likely diverted funds from M2 balances. Inflows to MMMFs continued to dominate the growth of the nontransaction component of this aggregate, although small time deposits strengthened in response to the removal of the cap on small saver certificates at the beginning of August.

The expansion in M2 over the first three quarters of this year--at a 9 percent annual rate or 9-3/4 percent including retail RPs--was a bit slower than the growth of nominal GNP but broadly in line with historical experience. In contrast, M1-B, after allowance for shifts to NOW accounts, grew at only a 1-1/2 percent rate over this period, resulting in a sharp increase in its velocity; such behavior suggests an extraordinary effort by the public to economize on checking account balances.

The government sector placed sizable demands on credit markets in August and September. Despite a small surplus in September, the Treasury tapped financial markets to offset a continued runoff of nonmarketable debt and to build up its cash balance in preparation for the large deficit in

the fourth quarter. State and local governments also borrowed large amounts, mainly in the form of revenue bonds.

Business credit demands in August and September--reflecting in part weak earnings and merger-related retirement of equity--were directed to short-term markets as the bond market remained uninviting. Issuance of non-financial commercial paper was close to a record pace in August and through mid-September while business loans at banks in August rose at the fastest clip in nine months before showing signs of moderating in September. Share prices plummeted over the intermeeting period and gross stock offerings in August and September were off markedly from the pace of the second quarter. Signs of strain in the business sector have persisted in recent months; failure rates have remained near the very high pace of last spring, and a survey of commercial bankers taken in mid-August indicated a deterioration in the financial condition of existing loan customers and new applicants.

The escalation of mortgage rates has continued to affect activity in the mortgage market profoundly. At S&Ls, the increase in mortgage holdings in August was the smallest since the credit restraint period of 1980 and both new and outstanding commitments contracted. In addition, recent surveys indicate that more than half of existing-home sales now involve assumptions of first mortgages or owner takebacks of second mortgages and that less than half of recent mortgage loans at S&Ls carried fixed rates. Consumer borrowing in recent months has been moderate. Evidence regarding financial strains in the household sector is mixed. Delinquencies on consumer installment loans continued to show signs of improvement through the second quarter while mortgage delinquencies at S&Ls edged higher through August.

Outlook. Barring a resurgence in the public's demand for narrow money relative to income in coming months, the prospective balance of supply and demand forces in the credit markets suggests that short-term rates may hold near current levels through year-end. In these circumstances, long-term rates might also be expected to remain near current high levels, although the bond market could rally if there were a relaxation of fears about excessive fiscal stimulus or if pronounced indications of recession were to emerge.

Credit demands are expected to remain sizable in coming months. The Treasury will be a heavy borrower in the fourth quarter, when it is expected to run a combined deficit of just under \$50 billion--not quite half of the projected deficit for the entire fiscal year--and to issue about \$37 billion of marketable debt, roughly evenly split between bills and coupons. Offerings of state and local government securities also are likely to be substantial, especially in view of continued heavy utility financing requirements and federal cutbacks.

Business borrowing demands are likely to remain near current levels. The bulk of business borrowing is expected to remain in the short-term area. If, however, there were a rally in bond markets, a substantial volume of bond offerings could develop as firms seek to fund short-term debt. In coming months, businesses are likely to continue experiencing financial strains.

Household borrowing demands are expected to be weak over the next several months. With projected softness in consumer durables, consumer credit growth is expected to be sluggish while conditions in the mortgage market are likely to remain depressed. Households likely will augment

overall credit supplies over this period as the savings rate is projected to rise. In the mortgage market, supply conditions are expected to benefit little from the introduction of the all savers certificate, as the bulk of inflows to these certificates is likely to come from other accounts at depository institutions and as institutions are expected to direct a large portion of remaining inflows to qualifying investments other than new mortgages. Moreover, supplies in the mortgage market will be restrained by the continued bleak outlook for earnings of thrift institutions.

INTERNATIONAL DEVELOPMENTS

Summary. The weighted average exchange value of the dollar dropped by about 10 percent from its peak at around the time of the August Greenbook to a low in mid-September, then rebounded sharply to reduce its net decline to about 6-1/2 percent. Net declines were greatest against Continental currencies, least against the pound sterling and the yen. The drop in U.S. short-term interest rates early in the period contributed to the dollar's decline, but the lowering of the Federal Reserve discount rate surcharge by only one percent and Desk actions to drain reserves were interpreted by the market as a signal that U.S. rates would not drop precipitously, as in 1980, and the dollar recovered. Also contributing to the dollar's decline was a tightening of monetary policy in Switzerland and an upward revision of market expectations about Germany's current-account balance.

Gold moved from \$400 to \$450 before dropping back to about \$430, the movements in large part reflecting changing interest rate expectations. Stock markets in major foreign countries, as in the United States, weakened in recent weeks. Stock indices in major European countries and Japan have recorded declines averaging 10 percent over the past seven weeks, while Canadian stocks have dropped by twice that.

Economic activity in major European countries remains generally weak. Real GNP declined in the second quarter in Germany, Italy, and the United Kingdom, and unemployment rates in these three countries are currently at their highest levels since World War II. Industrial production in France declined in the second quarter to its lowest level since 1977. Canada and Japan both experienced moderate GNP growth in the second quarter. By the end of that quarter, however, activity in Canada had slowed substantially, and in Japan all the stimulus seems to be coming from the external sector, with domestic demand fairly flat.

Inflation continues to be quite moderate in Japan; despite a 2 percent rise in the September CPI, consumer prices on average for the third quarter were unchanged from the second-quarter average. On the other hand, however, in Germany and Canada little progress was evident in reducing inflation from unsatisfactorily high levels, and in France and Switzerland inflation accelerated markedly over the summer. Monetary authorities in Switzerland and the United Kingdom have moved to raise domestic interest rates in recent weeks, while French authorities have attempted to further segment French financial

markets to produce lower interest rates for domestic investment and higher money market rates to defend the franc in the exchange markets. Canadian and German officials indicated that interest rates in those countries would be slow to follow U.S. rates if the latter were to fall rapidly.

The past appreciation of the dollar and/or relatively weak economic activity abroad appears to be producing adjustment of external accounts in Japan and in most European countries. German officials recently announced a sharply lower forecast for Germany's current account deficit in 1982. In contrast, Canada's current-account deficit widened sharply in the second quarter, reflecting still-strong growth in domestic demand in that quarter.

In August the U.S. merchandise trade deficit widened sharply from the low July rate. For July-August combined the deficit was only moderately larger than the average for the second quarter. Exports in the two-month period declined by 5 percent from the second quarter, as decreases in agricultural commodities, civilian aircraft, and metals outweighed the strong rebound in coal and increases in automotive products to Canada and construction machinery.

Imports in July-August declined by one percent from the second quarter as a sharp decline in oil imports more than offset a 5 percent rise in non-oil imports. The volume of oil imports in July-August was off by 10 percent from the second quarter, while the oil price declined by \$2.40 per barrel from June to August, to a level of \$33.00. (More complete information on the August trade figures will be in the Greenbook supplement.)

Average net liability positions of U.S. banking offices vis-a-vis their own foreign branches increased by \$4 billion in August, but declined by a similar amount in the first half of September. This pattern of bank Eurodollar borrowing perhaps reflected a slowdown in early September in the growth of demand for bank credit at U.S. offices. Credit extended to U.S. nonbank residents by foreign branches of U.S. banks increased by \$1-1/2 billion in August and slightly further in September, despite the August repayment by Mobil of its borrowings in connection with the Conoco takeover attempt.

Foreign official reserve assets in the United States rose slightly in July. A decline in official holdings of Treasury securities of \$1.7 billion was exceeded by increased holdings of other assets. In August, holdings at the FRBNY by the G-10 countries fell by \$3 billion, while OPEC holdings there rose by an additional \$0.8 billion.

Claims on foreigners by domestic and foreign offices of U.S.-chartered banks rose by \$30 billion in the first half of 1981, compared with increases of \$25 and \$22 billion in the first and second halves, respectively, of 1980. Net new lending to non-OPEC developing countries rose sharply to \$7.6 billion in the first half of 1981 from \$4.5 billion in the year-earlier period.

Outlook. The weakness evident in economic activity in other major industrial countries is projected to shift to a slow recovery late this year and into 1982. Part of the recovery is likely to be related to an exchange rate-induced switching of expenditure from U.S. goods to domestically-produced goods, but consumer demand in those countries is also expected to recover slowly.

Incoming data have led to a slight reduction in the staff's forecast of the U.S. current account surplus for 1981, to a level of \$3 billion. Exports are now thought to have peaked in the second quarter rather than in the third quarter as previously projected. Oil imports (both value and volume) are projected at lower rates than previously forecast, but projections of non-oil imports are higher.

For 1982, the forecast deficit has been lowered somewhat, to \$21 billion, primarily reflecting the effects of the dollar's recent decline. This decline resulted in a lower projected value for the dollar on average over the forecast period, particularly in the last few months of this year.

Although there may be some further near-term continuation of the dollar's rebound from its August to mid-September decline, the staff still believes that as the prospective large U.S. trade and current account deficits in 1982 actually unfold, the dollar will weaken somewhat in the exchange markets.

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

SEPTEMBER 30, 1981

| | 1980 ANN. | 1981 ANN. ^c | 1982 ANN. ^c | 1981 Q I | 1981 Q II | 1981 Q III ^f | 1981 Q IV | 1982 Q I ^e | 1982 Q II ^e | 1982 Q III ^e | 1982 Q IV ^e |
|---|--------------|---------------------------|---------------------------|-------------|--------------|----------------------------|--------------|--------------------------|---------------------------|----------------------------|---------------------------|
| 1. GNP NET EXPORTS | | | | | | | | | | | |
| CURRENT \$, NET | 23.3 | 22.3 | 2.5 | 29.2 | 20.7 | 19.7 | 19.5 | 11.2 | 2.4 | -.7 | -3.1 |
| EXPORTS OF G&S | 339.8 | 368.6 | 372.8 | 367.4 | 368.2 | 368.5 | 370.2 | 366.4 | 367.6 | 375.2 | 382.1 |
| IMPORTS OF G&S | 316.5 | 346.3 | 370.4 | 338.2 | 347.5 | 348.8 | 350.7 | 355.2 | 365.2 | 375.8 | 385.3 |
| CONSTANT 72 \$, NET | 52.0 | 44.9 | 33.7 | 50.9 | 46.1 | 42.4 | 40.0 | 36.9 | 33.3 | 32.7 | 31.9 |
| EXPORTS OF G&S | 161.1 | 160.9 | 152.9 | 162.5 | 161.5 | 160.7 | 158.9 | 154.5 | 152.2 | 152.4 | 152.6 |
| IMPORTS OF G&S | 109.1 | 116.1 | 119.2 | 111.6 | 115.4 | 118.3 | 118.9 | 117.6 | 118.8 | 119.7 | 120.7 |
| TERMS OF TRADE (1972=100) 1/ | 72.7 | 76.7 | 78.5 | 74.6 | 75.7 | 77.8 | 79.0 | 78.5 | 78.6 | 78.4 | 78.4 |
| 2. U.S. MERCHANDISE TRADE BALANCE 2/ | | | | | | | | | | | |
| | -25.3 | -26.1 | -44.5 | -18.7 | -27.7 | -29.3 | -28.8 | -34.9 | -41.4 | -48.7 | -53.2 |
| EXPORTS (EXCL. MILITARY) | 224.0 | 239.9 | 236.2 | 244.4 | 241.9 | 236.0 | 237.2 | 235.5 | 235.1 | 236.2 | 237.9 |
| AGRICULTURAL | 42.2 | 45.2 | 48.2 | 50.9 | 44.3 | 41.0 | 44.7 | 46.2 | 47.3 | 49.1 | 50.3 |
| NONAGRICULTURAL | 181.7 | 194.6 | 188.0 | 193.5 | 197.6 | 195.0 | 192.4 | 189.3 | 187.8 | 187.1 | 187.6 |
| IMPORTS | 249.3 | 266.0 | 280.7 | 263.1 | 269.6 | 265.3 | 265.9 | 270.4 | 276.5 | 284.9 | 291.1 |
| PETROLEUM AND PRODUCTS | 78.9 | 78.6 | 74.6 | 83.3 | 84.8 | 74.3 | 71.9 | 73.5 | 74.2 | 75.4 | 75.4 |
| NONPETROLEUM | 170.4 | 187.4 | 206.1 | 179.8 | 184.8 | 191.0 | 194.0 | 196.9 | 202.3 | 209.4 | 215.6 |
| 3. U.S. CURRENT ACCOUNT BALANCE | | | | | | | | | | | |
| | 3.7 | 2.8 | -20.9 | 13.1 | 4.3 | -2.6 | -3.6 | -11.5 | -20.3 | -24.0 | -28.0 |
| OF WHICH: NET INVESTMENT INCOME | 32.8 | 33.9 | 30.2 | 36.2 | 34.6 | 32.8 | 31.8 | 30.2 | 27.7 | 31.2 | 31.6 |
| 4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/ | | | | | | | | | | | |
| REAL GNP, % CHANGE, ANNUAL RATES | 1.8 | .5 | 1.9 | 1.1 | -.4 | -.6 | 1.5 | 2.2 | 2.4 | 2.7 | 2.8 |
| CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES | 10.5 | 9.6 | 8.4 | 10.7 | 10.7 | 8.2 | 8.2 | 8.6 | 8.4 | 7.5 | 7.3 |

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.