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September 28, 1983

## **SUMMARY AND OUTLOOK**

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## DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent developments. The expansion of economic activity has moderated from the exceptionally vigorous pace of the second quarter. Industrial production and employment both increased strongly in July and August, and housing and business fixed investment remained at high levels; however, real consumer spending, which had led the rapid recovery in the second quarter, declined in August after little change in July. Purchases of durable goods were weak, particularly of autos. Wage and price inflation continues to be comparatively slow, although the summer drought has raised prices of some farm products considerably.

The index of industrial production increased an estimated 0.9 percent in August, after rising 2.0 percent in July. Gains in August were widespread, but especially large in the output of home goods and construction supplies. Auto production, at a 7.5 million unit annual rate in August, was marginally higher than in July. With dealers' stocks low, current schedules call for increased output in September to 7.8 million units. Output of industrial equipment and supplies showed strong gains in August, while production of coal and steel expanded less rapidly than in July.

Accompanying the expansion in output in August was a substantial increase in employment (after adjustment for strike activity), although not as large as the gains in June and July. Employment in the manufacturing sector (strike-adjusted) rose 85,000, and the factory workweek edged up one-tenth of an hour for the third consecutive month. Gains in employment were also large in services and construction. With growth in the civilian labor force roughly matching the rise in employment, the unemployment rate remained at 9.5 percent after a sharp drop in July.

Consumer spending is estimated to have dropped in August after remaining about unchanged in real terms in July. Domestic auto sales declined in August, but appear to have picked up in mid-September with the increased availability of 1984 models. Purchases of furniture and appliances also declined in August, as did spending on services. In contrast, outlays for nondurable goods expanded at about the same pace as the average of the previous five months. With the drop in consumption and the boost to income from the July tax cut, the personal saving rate in July and August averaged 5 percent, a percentage point higher than the unusually low rate in the second quarter.

Homebuilding strengthened in August despite the higher mortgage interest rates that have prevailed since May. Housing starts rose to over 1.9 million units at an annual rate in August, after three months in the 1-3/4 million unit range; both single- and multifamily units recorded gains. But other indicators suggest that housing activity is weakening. Building permits declined in August after four consecutive monthly increases. In addition, sales of new and existing homes fell in July, and sales of existing homes declined again in August.

Spending on business fixed investment continued at the relatively high rate of the second quarter. Excluding the volatile aircraft component, shipments of nondefense capital goods in July and August averaged 3 percent above the second-quarter level. Moreover, new orders (excluding aircraft) increased 1 percent in August and have risen 20 percent since their low in late 1982. Investment in nonresidential structures has stabilized in recent months after declines earlier in the year.

Recent data suggest that the rebuilding phase of the inventory cycle is beginning after the liquidation in 1982 and the first half of 1983. In constant-dollar terms, manufacturing and trade inventories rose at an annual rate of \$7 billion. Despite the July accumulation, business inventories are still quite lean, with the overall inventory-sales ratio at its lowest level since 1973.

Growth in federal outlays continued to slow in July and August, reflecting lower unemployment insurance payments and a slower pace of defense and farm outlays; at the same time, the revenue side of the budget was strengthened by the economic recovery. It now appears that the budget deficit for fiscal year 1983 will be in the range of \$195 billion to \$200 billion. Although expenditures by state and local governments appear to have increased in the third quarter, revenues have been pushed up even more by the economic recovery and recent tax legislation, improving their financial situation.

Wage increases continued to moderate as a result of high unemployment and low price inflation. In August, the hourly earnings index for production workers declined slightly, reflecting to some extent the strike in the telephone industry. This measure of wages has risen little more than 3 percent at an annual rate over the first eight months of this year. Union workers continued to accept pay cuts or freezes in certain new contracts negotiated in construction and at smaller steel firms. In addition, the recent telephone settlement provides substantially smaller wage increases than those negotiated three years earlier.

Although price increases have remained moderate on balance, the effects of the summer drought have begun to show up in food prices. The

producer price index for crude foods jumped nearly 4 percent in August (after three months of decline), with large increases registered for soybeans, corn, poultry, and fresh vegetables. The consumer price index rose at an annual rate of about 5 percent in July and August, after a 3 percent average increase during the preceding six months. The food component of the CPI turned up a bit in August after two months of decline, as sharp increases in prices of fresh vegetables and poultry were largely offset by further declines in meat prices. The pickup in the CPI also reflected higher gasoline and auto prices.

Outlook. The staff estimates that real GNP will increase nearly 7 percent at an annual rate in the third quarter, essentially the same as the Department of Commerce's "flash" estimate, but with some differences in composition. The principal factor in the deceleration from the 9-3/4 percent growth rate for real GNP in the second quarter is an estimated sharp reduction in the growth of consumption spending from the torrid 10 percent annual rate in the second quarter. All other major components of final demand--investment, government, and exports--are estimated to increase at or above second-quarter rates. With production outpacing sales, there is expected to be a swing toward inventory accumulation after six quarters of destocking.

The staff's assumptions about monetary policy are little changed since the last Greenbook. M2 is assumed to grow from here on at around an 8 percent rate--the middle of the FOMC's tentative range for 1984. Interest rates are projected to remain near current levels for the rest of this year and to decline only a little, if at all, during 1984. For fiscal policy, the staff's estimate of the budget deficit for fiscal year 1984 has been raised

\$6 billion to \$198 billion, reflecting the diminished likelihood of a major tax initiative.

The rate of expansion of the economy is projected to moderate further in the fourth quarter to a growth rate of about 5 percent. The deceleration largely reflects a smaller contribution from inventory accumulation. Growth in final sales is expected to be slightly higher, with stronger consumption about offset by a slackening in other sectors.

Real GNP is expected to rise about 4-1/4 percent during 1984. Business fixed investment should maintain a normal recovery pace in an environment of rising capacity utilization and improved profitability. In addition, federal defense outlays and state and local government spending are expected to provide considerable support to GNP growth. Rising exports of goods and services also should become a source of strength, in contrast to the experience of 1982 and 1983. However, advances in consumer spending for autos and other durable goods as well as housing outlays are likely to moderate from the rapid pace in 1983.

With the outlook for real activity over the next five quarters essentially unchanged from the last Greenbook, the staff projections of unemployment, wages, and prices are also little changed. The civilian unemployment rate is projected to decline about one percentage point over the next five quarters, reaching 8-1/2 percent at the end of 1984. Despite the continuing slack in labor markets, somewhat higher inflation and improved profits suggest less downward pressure on wage increases. In addition, an increase in payroll taxes will add to labor costs. Over the four quarters of 1984, hourly compensation is projected to rise about 5 percent, close to

the pace expected for 1983. For prices, the gross business product fixed-weighted price index is projected to rise 4-1/2 percent during 1984, slightly higher than the pace expected for 1983.



September 28, 1983

## 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				
8/17/83	9/28/83	8/17/83	9/28/83	8/17/83	9/28/83	8/17/83	9/28/83	8/17/83	9/28/83	
<b>Annual changes:</b>										
1981 <1>	12.2	12.2	2.6	2.6	9.5	9.5	9.3	9.3	7.6	7.6
1982 <1>	4.0	4.0	-1.9	-1.9	6.0	6.0	6.9	6.9	9.7	9.7
1983	7.9	7.7	3.2	3.3	4.4	4.2	5.2	5.0	9.7	9.7
1984	9.4	9.4	5.0	5.0	4.5	4.5	4.3	4.4	8.6	8.6
<b>Quarterly changes:</b>										
1982 Q1 <1>	-1.4	-1.4	-5.5	-5.5	4.9	4.9	5.8	5.8	8.8	8.8
Q2 <1>	6.6	6.6	1.0	1.0	4.5	4.5	6.4	6.4	9.4	9.4
Q3 <1>	2.7	2.7	-1.0	-1.0	5.8	5.8	5.4	5.4	10.0	10.0
Q4 <1>	2.5	2.5	-1.3	-1.3	3.8	3.8	3.9	3.9	10.7	10.7
1983 Q1 <1>	8.2	8.2	2.6	2.6	3.6	3.6	6.7	6.7	10.3	10.3
Q2 <1>	13.5	13.3	8.7	9.7	5.3	4.1	4.7	3.5	10.1	10.1
Q3	12.4	11.1	8.2	6.9	4.3	4.4	4.4	4.8	9.3	9.4
Q4	8.6	9.1	4.8	4.8	4.5	4.8	4.3	4.7	9.0	9.1
1984 Q1	8.7	8.8	4.1	4.1	4.2	4.4	4.0	4.3	8.8	8.9
Q2	8.6	8.8	4.1	4.3	4.5	4.5	4.3	4.3	8.7	8.8
Q3	8.5	9.0	3.8	4.4	4.7	4.7	4.5	4.4	8.5	8.6
Q4	8.6	8.8	3.8	4.1	4.9	4.9	4.8	4.7	8.4	8.4
<b>Two-quarter changes: &lt;2&gt;</b>										
1982 Q2 <1>	2.5	2.5	-2.3	-2.3	4.7	4.7	6.1	6.1	1.1	1.1
Q4 <1>	2.6	2.6	-1.2	-1.2	4.7	4.7	4.6	4.6	1.3	1.3
1983 Q2 <1>	10.8	10.7	5.6	6.1	4.4	3.9	5.7	5.1	-6	-6
Q4	10.5	10.1	6.5	5.8	4.4	4.6	4.4	4.7	-1.1	-1.0
1984 Q2	8.7	8.8	4.1	4.2	4.4	4.5	4.1	4.3	-3	-3
Q4	8.5	8.9	3.8	4.3	4.8	4.8	4.6	4.6	-3	-4
<b>Four-quarter changes: &lt;3&gt;</b>										
1981 Q4 <1>	10.8	10.8	2.0	2.0	8.7	8.7	9.2	9.2	.9	.9
1982 Q4 <1>	2.6	2.6	-1.7	-1.7	4.7	4.7	5.4	5.4	2.4	2.4
1983 Q4	10.7	10.4	6.0	6.0	4.4	4.2	5.0	4.9	-1.7	-1.6
1984 Q4	8.6	8.9	4.0	4.2	4.6	4.6	4.4	4.4	-6	-7

&lt;1&gt; Actual.

&lt;2&gt; Percent change from two quarters earlier.

&lt;3&gt; Percent change from four quarters earlier.

September 28, 1983

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

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2866.6	2912.5	3004.9	3032.2	3021.4	3070.2	3090.7	3109.6
Final sales	2855.7	2897.5	2971.4	3017.9	3047.1	3081.4	3095.6	3165.9
Private	2279.4	2314.0	2371.1	2395.1	2417.3	2449.8	2439.9	2486.2
Domestic final purchases	2247.5	2292.9	2348.3	2365.9	2387.4	2416.5	2439.0	2480.6
Personal consumption expenditures	1802.8	1835.8	1886.1	1904.1	1938.9	1972.8	2008.8	2046.9
Goods	953.2	964.0	984.6	978.5	989.1	997.6	1010.0	1025.1
Services	849.6	871.8	901.5	925.6	949.7	975.2	998.9	1021.8
Gross private domestic investment	455.5	472.1	495.8	476.2	422.9	432.5	425.3	377.4
Residential structures	111.6	109.5	101.7	94.3	87.3	91.0	87.9	96.8
Business fixed investment	333.1	347.6	360.6	367.6	361.3	352.7	342.3	337.0
Change in business inventories	10.9	15.0	33.6	14.3	-25.7	-11.2	-4.9	-56.4
Nonfarm	8.1	5.0	24.1	6.2	-27.6	-8.8	-2.3	-53.7
Net exports of goods and services <1>	31.9	21.1	22.8	29.2	29.9	33.3	.9	5.6
Exports	367.3	369.2	367.5	371.0	358.4	364.5	346.0	321.6
Imports	335.4	348.1	344.7	341.7	328.5	331.2	345.0	316.1
Gov't. purchases of goods and services	576.3	583.5	600.3	622.8	629.8	631.6	655.7	679.7
Federal <2>	215.7	220.4	232.4	248.5	249.7	244.1	261.7	279.2
State and local	360.5	363.2	367.9	374.3	380.0	387.5	394.0	400.5
Gross national product in constant (1972) dollars	1510.1	1512.5	1525.8	1506.9	1485.8	1489.3	1485.7	1480.7
Personal income	2338.3	2394.2	2490.9	2516.6	2528.1	2563.2	2591.3	2632.0
Wage and salary disbursements	1451.7	1478.1	1512.3	1530.6	1542.8	1563.8	1579.8	1586.0
Disposable personal income	1967.6	2010.4	2092.0	2120.5	2127.9	2159.0	2191.5	2227.8
Saving rate (percent)	5.7	6.0	7.2	7.5	6.1	5.9	5.6	5.4
Corporate profits with I.V.A. and C.C. Adj.	194.7	185.0	197.6	192.0	162.0	166.8	168.5	161.9
Corporate profits before tax	243.9	219.0	227.7	217.2	173.2	178.8	177.3	167.5
Federal government surplus or deficit (-) (N.I.A. basis)	-43.4	-47.3	-62.4	-95.8	-108.5	-113.2	-158.3	-208.2
High employment surplus or deficit (-) <3>	-15.4	-12.3	-29.7	-46.4	-38.1	-32.7	-64.9	-99.6
State and local government surplus or deficit(-) (N.I.A. basis)	35.3	36.7	37.3	32.0	28.8	32.0	31.3	32.9
Excluding social insurance funds	5.4	6.1	5.9	.2	-3.5	-.8	-2.1	-1.2
Civilian labor force (millions)	108.2	108.8	108.6	109.1	109.3	110.1	110.6	111.0
Unemployment rate (percent)	7.4	7.4	7.4	8.3	8.8	9.4	10.0	10.7
Nonfarm payroll employment (millions)	91.0	91.2	91.4	91.0	90.3	89.9	89.3	88.8
Manufacturing	20.2	20.3	20.3	19.9	19.4	19.1	18.7	18.3
Industrial production (1967=100)	151.8	152.5	153.0	146.3	141.7	139.4	138.2	135.2
Capacity utilization: all manufacturing (percent)	80.6	80.8	80.3	75.9	72.9	71.6	71.0	69.0
Materials (percent)	82.7	81.9	82.0	76.2	73.0	70.7	69.4	67.1
Housing starts, private (million units, A.R.)	1.39	1.18	.96	.87	.90	.95	1.12	1.26
New auto sales (millions, A.R.)	9.96	7.89	9.04	7.36	8.12	7.53	7.78	8.57
Domestic models	7.31	5.63	6.90	5.13	5.90	5.53	5.56	6.08
Foreign models	2.66	2.25	2.14	2.23	2.22	1.99	2.22	2.49

&lt;1&gt; Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

&lt;2&gt; Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

&lt;3&gt; Estimates in table are evaluated at a 6.0 percent high employment unemployment rate.

September 28, 1983

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

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	9.0	.7	3.6	-4.9	-5.5	1.0	-1.0	-1.3
Final sales	6.8	-.9	1.6	-2.3	-1.3	-.8	-1.5	4.5
Private	7.3	-.6	1.1	-3.7	-1.6	.1	-4.0	3.0
Domestic final purchases	6.6	.8	2.6	-3.9	.0	.8	-.9	3.4
Personal consumption expenditures	5.9	.5	3.5	-3.0	2.4	3.1	.9	3.6
Goods	8.3	-1.6	3.5	-6.8	2.0	1.5	-.1	5.1
Services	3.3	2.8	3.6	1.4	2.9	4.7	2.1	1.9
Gross private domestic investment	26.3	12.9	12.3	-22.4	-34.1	3.4	-5.8	-34.6
Residential structures	-2.3	-11.7	-30.7	-30.2	-28.5	17.9	-13.0	53.2
Business fixed investment	13.2	6.0	8.7	-1.6	-5.9	-14.3	-8.8	-6.6
Gov't. purchases of goods and services	4.5	-2.0	3.8	3.9	-.2	-5.0	9.4	10.6
Federal	12.5	2.2	15.2	10.0	.2	-14.0	26.3	28.3
National defense	6.7	13.4	6.3	7.5	-1.3	13.0	14.0	5.1
State and local	.1	-4.6	-2.7	.2	-.5	1.3	-.4	-.1
Disposable personal income	4.4	1.9	8.9	-1.4	-3.4	1.9	-.3	2.6
<u>Current Dollars</u>								
Gross national product	20.5	6.6	13.3	3.7	-1.4	6.6	2.7	2.5
Final sales	16.1	6.0	10.6	6.4	3.9	4.6	1.9	9.4
Private	16.9	6.2	10.2	4.1	3.8	5.5	-1.6	7.8
Domestic final purchases	15.3	8.3	10.0	3.0	3.7	5.0	3.8	7.0
Personal consumption expenditures	14.7	7.5	11.4	3.9	7.5	7.2	7.5	7.8
Goods	16.6	4.6	8.8	-2.5	4.4	3.5	5.1	6.1
Services	12.7	10.9	14.3	11.1	10.8	11.2	10.1	9.5
Gross private domestic investment	49.9	15.4	21.6	-14.9	-37.8	9.5	-6.5	-38.0
Residential structures	7.9	-7.5	-25.6	-26.0	-26.5	18.2	-13.0	46.9
Business fixed investment	21.4	18.7	15.8	8.0	-6.7	-9.1	-11.3	-6.0
Gov't. purchases of goods and services	12.9	5.1	12.0	15.9	4.6	1.2	16.1	15.5
Federal	18.8	8.9	23.6	30.7	2.1	-8.7	32.1	29.5
National defense	12.9	23.8	10.2	33.9	3.5	18.0	20.8	16.5
State and local	9.6	2.9	5.3	7.2	6.2	8.1	6.8	6.8
Disposable personal income	13.1	9.0	17.2	5.6	1.4	6.0	6.1	6.8
Personal income	13.6	9.9	17.2	4.2	1.8	5.7	4.5	6.4
Wage and salary disbursements	11.7	7.5	9.6	4.9	3.2	5.6	4.2	1.6
Corporate profits with I.V.A. and C.C. Adj.	51.1	-18.5	30.2	-10.9	-49.3	12.4	4.1	-14.8
Corporate profits before tax	17.2	-35.0	16.9	-17.2	-59.6	13.6	-3.3	-20.3
Nonfarm payroll employment	1.7	.9	1.1	-1.8	-3.0	-1.8	-2.7	-2.3
Manufacturing	.8	2.4	.1	-7.2	-9.5	-7.5	-7.7	-8.6
Nonfarm business sector								
Output per hour	5.2	.4	3.8	-4.4	.1	-.4	2.3	1.3
Compensation per hour	11.5	7.3	9.6	7.6	10.0	5.8	7.2	5.8
Unit labor costs	6.0	6.9	5.6	12.6	9.9	6.2	4.7	4.4
GNP implicit deflator <1>	10.6	5.9	9.4	9.0	4.3	5.6	3.7	3.8
Gross domestic business product								
fixed-weighted price index <2>	10.6	8.1	9.2	7.2	4.9	4.5	5.8	3.8
Excluding food and energy	9.0	8.9	10.6	8.2	5.8	6.4	5.4	3.9
Consumer price index (all urban)	10.5	8.5	12.1	7.1	3.0	5.3	7.7	1.9
Industrial production	8.4	1.9	1.4	-16.6	-11.8	-6.5	-3.4	-8.2

<1> Excluding Federal pay increases, rates of change were: 1981-Q1, 10.5 percent; 1981-Q4, 8.1 percent; 1982-Q1, 4.2 percent; 1982-Q4, 3.5 percent.

<2> Uses expenditures in 1972 as weights.

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CLASS II FOMC

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

	-----Projected-----							
	1983				1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3171.5	3272.0	3359.5	3433.8	3507.0	3581.5	3659.8	3737.9
Final sales	3210.9	3286.6	3337.9	3396.6	3467.5	3547.7	3627.9	3705.8
Private	2533.5	2603.2	2643.3	2689.9	2736.4	2795.0	2858.4	2919.5
Domestic final purchases	2516.5	2611.7	2669.7	2734.6	2788.3	2847.7	2909.6	2970.3
Personal consumption expenditures	2073.0	2147.0	2187.2	2239.0	2281.6	2325.0	2368.7	2413.9
Goods	1035.6	1077.3	1098.6	1127.7	1147.0	1166.3	1186.6	1206.2
Services	1037.4	1069.7	1088.6	1111.3	1134.6	1158.7	1182.1	1207.7
Gross private domestic investment	404.1	450.1	504.1	532.8	546.2	556.5	572.8	588.5
Residential structures	111.3	128.4	139.1	143.1	144.1	149.6	156.6	160.6
Business fixed investment	332.1	336.3	343.4	352.5	362.6	373.1	384.3	395.8
Change in business inventories	-39.4	-14.5	21.6	37.2	39.5	33.8	31.9	32.1
Nonfarm	-39.0	-10.3	24.6	30.2	43.5	37.8	29.9	30.1
Net exports of goods and services <1>	17.0	-8.5	-26.4	-44.7	-51.9	-52.7	-51.2	-50.8
Exports	326.9	327.1	332.8	339.1	345.7	360.0	372.7	387.3
Imports	309.9	335.6	359.2	383.8	397.7	412.7	423.9	438.1
Gov't. purchases of goods and services	677.4	683.4	694.6	706.7	731.1	752.7	769.5	786.3
Federal <2>	273.5	273.7	275.7	278.8	294.4	307.4	315.3	322.9
State and local	404.0	409.7	418.9	427.9	436.7	445.3	454.2	463.4
Gross national product in constant (1972) dollars	1490.1	1525.1	1550.6	1569.0	1585.0	1601.8	1619.2	1635.6
Personal income	2657.7	2713.6	2768.3	2846.4	2898.8	2951.3	3010.1	3067.9
Wage and salary disbursements	1610.7	1648.4	1681.8	1720.2	1754.8	1786.6	1819.7	1853.5
Disposable personal income	2255.9	2301.0	2367.6	2431.9	2476.3	2521.6	2570.8	2619.6
Saving rate (percent)	5.4	4.0	4.9	5.2	5.1	5.1	5.2	5.2
Corporate profits with I.V.A. and C.C. Adj.	181.8	218.2	248.1	253.7	251.6	265.5	280.9	297.7
Corporate profits before tax	169.7	203.3	220.8	220.4	212.3	220.2	229.6	240.4
Federal government surplus or deficit (-) (N.I.A. basis)	-183.3	-166.1	-185.1	-199.5	-194.2	-197.3	-196.3	-196.6
High employment surplus or deficit (-) <3>	-72.4	-65.1	-95.5	-114.8	-112.9	-121.9	-126.4	-130.9
State and local government surplus or deficit (-) (N.I.A. basis)	40.4	51.7	53.6	57.5	54.9	52.2	49.0	45.8
Excluding social insurance funds	5.5	16.1	17.3	20.5	17.2	13.8	9.9	6.0
Civilian labor force (millions)	110.5	111.2	112.1	112.5	113.0	113.5	113.9	114.4
Unemployment rate (percent)	10.3	10.1	9.4	9.1	8.9	8.8	8.6	8.4
Nonfarm payroll employment (millions)	88.8	89.5	90.3	91.3	91.9	92.5	93.2	93.9
Manufacturing	18.3	18.5	18.8	19.3	19.6	19.8	20.1	20.4
Industrial production (1967=100)	138.5	144.5	150.5	153.4	155.7	157.9	160.6	163.1
Capacity utilization: all manufacturing (percent)	70.7	73.8	76.7	77.8	78.5	79.3	80.2	81.1
Materials (percent)	70.1	73.5	76.6	78.1	79.4	80.5	81.8	83.0
Housing starts, private (million units, A.R.)	1.69	1.68	1.81	1.65	1.65	1.75	1.80	1.80
New auto sales (millions, A.R.)	8.46	9.08	9.30	9.80	9.90	9.80	9.95	10.10
Domestic models	6.06	6.81	6.90	7.40	7.50	7.60	7.65	7.70
Foreign models	2.40	2.27	2.40	2.40	2.40	2.20	2.30	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 6.0 percent high employment unemployment rate.

September 28, 1983

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

	1983				Projected 1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	<u>Constant (1972) Dollars</u>							
Gross national product	2.6	9.7	6.9	4.8	4.1	4.3	4.4	4.1
Final sales	.6	6.8	2.5	2.8	4.0	5.3	4.8	4.2
Private	3.0	8.8	2.9	3.3	3.1	4.6	4.8	4.2
Domestic final purchases	3.9	11.9	5.1	5.5	3.3	3.7	3.7	3.1
Personal consumption expenditures	2.9	10.0	3.0	5.0	2.7	2.5	2.3	2.2
Goods	4.4	13.5	3.7	6.4	2.4	2.1	2.1	1.6
Services	1.4	6.4	2.2	3.3	3.1	3.0	2.5	2.9
Gross private domestic investment	28.7	49.8	52.9	22.1	6.7	2.4	7.4	6.3
Residential structures	57.3	79.5	34.8	7.6	-1.7	10.8	14.5	4.8
Business fixed investment	-1.5	7.9	9.0	8.3	8.3	8.3	8.5	8.1
Gov't. purchases of goods and services	-8.8	-1.1	1.1	1.1	7.9	8.2	4.6	4.4
Federal	-18.0	-2.8	-1.9	-1.6	16.1	17.1	7.5	6.8
National defense	6.5	7.4	12.9	19.0	6.4	6.4	3.3	5.0
State and local	-1.8	.0	3.2	2.9	2.7	2.5	2.6	2.7
Disposable personal income	2.9	3.5	7.2	6.4	2.4	2.2	2.5	2.1
<u>Current Dollars</u>								
Gross national product	8.2	13.3	11.1	9.1	8.8	8.8	9.0	8.8
Final sales	5.8	9.8	6.4	7.2	8.6	9.6	9.3	8.9
Private	7.8	11.5	6.3	7.2	7.1	8.9	9.4	8.8
Domestic final purchases	5.9	16.0	9.2	10.1	8.1	8.8	9.0	8.6
Personal consumption expenditures	5.2	15.1	7.7	9.8	7.8	7.8	7.7	7.9
Goods	4.2	17.1	8.1	11.0	7.0	6.9	7.1	6.8
Services	6.3	13.0	7.3	8.6	8.7	8.8	8.3	8.9
Gross private domestic investment	31.4	53.9	57.3	24.8	10.4	7.8	12.2	11.4
Residential structures	75.3	76.7	37.9	12.0	2.8	16.2	20.1	10.6
Business fixed investment	-5.7	5.1	8.8	11.0	12.0	12.1	12.6	12.5
Gov't. purchases of goods and services	-1.3	3.6	6.7	7.2	14.5	12.4	9.2	9.0
Federal	-8.0	.3	3.0	4.6	24.3	18.9	10.7	10.0
National defense	7.8	10.7	16.1	24.1	16.1	10.4	7.8	9.3
State and local	3.5	5.8	9.3	8.9	8.5	8.1	8.2	8.4
Disposable personal income	5.1	8.2	12.1	11.3	7.5	7.5	8.0	7.8
Personal income	4.0	8.7	8.3	11.8	7.6	7.4	8.2	7.9
Wage and salary disbursements	6.4	9.7	8.4	9.5	8.3	7.4	7.6	7.6
Corporate profits with I.V.A. and C.C. Adj.	59.0	107.5	67.0	9.4	-3.2	23.9	25.3	26.2
Corporate profits before tax	5.4	106.0	39.0	-.7	-13.8	15.6	18.3	20.2
Nonfarm payroll employment	.1	2.9	3.8	4.4	2.8	2.6	3.0	3.0
Manufacturing	-.1	5.2	7.3	9.9	6.4	5.6	5.7	5.6
Nonfarm business sector								
Output per hour	3.7	6.1	4.8	1.8	.9	1.0	1.2	1.1
Compensation per hour	6.8	4.3	4.5	4.5	6.4	4.7	4.8	4.8
Unit labor costs	3.0	-1.6	-.3	2.7	5.5	3.7	3.6	3.6
GNP implicit deflator <1>	5.5	3.3	4.0	4.1	4.5	4.3	4.4	4.5
Gross domestic business product								
fixed-weighted price index <2>	3.6	4.1	4.4	4.8	4.4	4.5	4.7	4.9
Excluding food and energy	6.7	3.5	4.8	4.7	4.3	4.3	4.4	4.7
Consumer price index (all urban)	-.4	4.3	4.7	5.0	4.9	5.0	5.2	5.3
Industrial production	10.1	18.3	18.0	7.9	6.1	5.8	7.0	6.4

&lt;1&gt; Excluding Federal pay increases, the rate of change in 1984-Q1 is 4.1 percent.

&lt;2&gt; Uses expenditures in 1972 as weights.

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

	1977	1978	1979	1980	1981	1982	---Projected---	
							1983	1984
Gross national product	1918.3	2163.9	2417.8	2631.7	2954.1	3073.0	3309.2	3621.6
Final sales	1895.3	2137.4	2403.5	2641.5	2935.6	3097.5	3308.0	3587.2
Private	1501.5	1705.5	1929.1	2103.7	2339.9	2448.3	2617.5	2827.3
Domestic final purchases	1505.5	1706.6	1915.9	2079.7	2313.6	2430.9	2633.1	2879.0
Personal consumption expenditures	1204.4	1346.5	1507.2	1668.1	1857.2	1991.9	2161.5	2347.3
Goods	657.0	728.5	813.5	883.5	970.0	1005.5	1084.8	1176.5
Services	547.4	618.0	693.7	784.5	887.1	986.4	1076.7	1170.8
Gross private domestic investment	324.1	386.6	423.0	401.9	474.9	414.5	472.8	566.0
Residential construction	95.8	111.2	118.6	102.9	104.3	90.8	130.5	152.7
Business fixed investment	205.2	248.9	290.2	308.8	352.2	348.3	341.1	378.9
Change in business inventories	23.0	26.5	14.3	-9.8	18.5	-24.5	1.2	34.3
Nonfarm	21.9	25.4	8.6	-4.5	10.9	-23.1	1.4	35.3
Net exports of goods and services <1>	-4.0	-1.1	13.2	23.9	26.3	17.4	-15.7	-51.6
Exports	182.7	218.7	281.4	338.8	368.8	347.6	331.5	366.4
Imports	186.7	219.8	268.1	314.8	342.5	330.2	347.1	418.1
Gov't. purchases of goods and services	393.8	431.9	474.4	537.8	595.7	649.2	690.5	759.9
Federal <2>	143.4	153.6	168.3	197.0	229.2	258.7	275.4	310.0
State and local	250.4	278.3	306.0	340.8	366.5	390.5	415.1	449.9
Gross national product in constant (1972) dollars	1369.7	1438.6	1479.4	1475.0	1513.8	1485.4	1533.7	1610.4
Personal income	1540.4	1732.7	1951.2	2165.3	2435.0	2578.6	2746.5	2982.0
Wage and salary disbursements	983.2	1106.3	1237.6	1356.7	1493.2	1568.1	1665.3	1803.6
Disposable personal income	1314.0	1474.0	1650.2	1828.9	2047.6	2176.5	2339.1	2547.1
Saving rate (percent)	5.9	6.1	5.9	6.0	6.6	5.8	4.9	5.1
Corporate profits with I.V.A. and C.C.Adj.	167.3	192.4	194.8	175.4	192.3	164.8	225.4	273.9
Corporate profits before tax	194.7	229.1	252.7	234.6	227.0	174.2	203.5	225.6
Federal government surplus or deficit(-) (N.I.A. basis)	-45.9	-29.5	-16.1	-61.2	-62.2	-147.1	-183.5	-196.1
High employment surplus or deficit(-)	-30.6	-29.2	-18.6	-36.0	-25.9	-58.8	-87.0	-123.0
State and local government surplus or deficit (-) (N.I.A. basis)	28.0	30.3	30.4	30.6	35.3	31.3	50.8	50.5
Excluding social insurance funds	10.1	10.0	6.6	3.5	4.4	-1.9	14.9	11.7
Civilian labor force (millions)	99.0	102.3	105.0	106.9	108.7	110.2	111.6	113.7
Unemployment rate (percent)	7.1	6.1	5.8	7.1	7.6	9.7	9.7	8.6
Nonfarm payroll employment (millions)	82.5	86.7	89.8	90.4	91.2	89.6	90.0	92.9
Manufacturing	19.7	20.5	21.0	20.3	20.2	18.9	18.7	20.0
Industrial production (1967=100)	138.1	146.1	152.5	147.0	150.9	138.6	146.7	159.3
Capacity utilization: all manufacturing (percent)	82.2	84.7	86.0	79.6	79.4	71.1	74.8	79.8
Materials (percent)	82.6	85.6	87.6	80.4	80.7	70.1	74.6	81.2
Housing starts, private (million units, A.R.)	1.96	2.00	1.72	1.30	1.10	1.06	1.71	1.75
New auto sales (millions, A.R.)	11.13	11.29	10.68	9.04	8.56	8.00	9.16	9.94
Domestic models	9.07	9.29	8.36	6.62	6.24	5.77	6.79	7.61
Foreign models	2.06	2.00	2.32	2.42	2.32	2.23	2.37	2.33

<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.

	1977	1978	1979	1980	1981	1982	--Projected--	
							1983	1984
<u>Constant (1972) Dollars</u>								
Gross national product	5.5	5.0	2.8	-.3	2.6	-1.9	3.3	5.0
Final sales	5.1	4.9	3.5	.5	1.8	-.7	2.5	4.1
Private	6.0	5.6	4.0	.1	2.0	-1.3	3.0	4.0
Domestic final purchases	6.5	5.5	2.9	-1.0	2.7	-.1	4.7	4.5
Personal consumption expenditures	5.0	4.5	2.7	.5	2.7	1.4	4.3	3.5
Goods	5.1	4.2	1.9	-1.4	2.1	.1	5.5	3.8
Services	4.9	4.8	3.7	2.7	3.3	2.9	2.9	3.1
Gross private domestic investment	16.1	10.5	-.2	-11.8	9.2	-14.5	13.1	15.5
Residential structures	18.6	2.8	-5.3	-20.3	-5.1	-15.4	40.5	12.6
Business fixed investment	11.7	12.8	7.3	-2.4	5.2	-4.8	-.8	8.4
Gov't. purchases of goods and services	1.5	2.0	1.3	2.2	.8	1.8	.4	4.6
Federal	3.7	-.1	1.8	4.2	3.8	5.6	.7	7.6
National defense	.8	.4	2.6	3.9	5.2	7.1	9.3	9.0
State and local	.2	3.3	1.1	1.0	-1.0	-.5	.2	2.6
Disposable personal income	4.0	4.9	2.7	.6	3.2	.5	3.2	3.8
<u>Current Dollars</u>								
Gross national product	11.7	12.8	11.7	8.8	12.2	4.0	7.7	9.4
Final sales	11.1	12.8	12.4	9.9	11.1	5.5	6.8	8.4
Private	11.7	13.6	13.1	9.0	11.2	4.6	6.9	8.0
Domestic final purchases	13.2	13.4	12.3	8.5	11.2	5.1	8.3	9.3
Personal consumption expenditures	11.1	11.8	11.9	10.7	11.3	7.3	8.5	8.6
Goods	9.8	10.9	11.7	8.6	9.8	3.7	7.9	8.5
Services	12.7	12.9	12.2	13.1	13.1	11.2	9.2	8.7
Gross private domestic investment	25.7	19.3	9.4	-5.0	18.2	-12.7	14.1	19.7
Residential structures	33.1	16.1	6.6	-13.2	1.4	-13.0	43.8	17.1
Business fixed investment	17.9	21.3	16.6	6.4	14.1	-1.1	-2.1	11.1
Gov't. purchases of goods and services	8.8	9.7	9.8	13.4	10.8	9.0	6.4	10.0
Federal	11.0	7.1	9.6	17.1	16.3	12.9	6.5	12.6
National defense	8.0	8.0	11.5	17.3	17.4	16.5	14.2	14.5
State and local	7.5	11.2	9.9	11.4	7.5	6.6	6.3	8.4
Disposable personal income	10.0	12.2	12.0	10.8	12.0	6.3	7.5	8.9
Personal income	10.7	12.5	12.6	11.0	12.5	5.9	6.5	8.6
Wage and salary disbursements	10.5	12.5	11.9	9.6	10.1	5.0	6.2	8.3
Corporate profits with I.V.A. and C.C.Adj.	21.1	15.0	1.3	-9.9	9.6	-14.3	36.8	21.5
Corporate profits before tax	17.1	17.7	10.3	-7.1	-3.3	-23.2	16.8	10.9
Nonfarm payroll employment	3.9	5.1	3.6	.6	.8	-1.7	.4	3.2
Manufacturing	3.6	4.2	2.6	-3.6	-.6	-6.5	-.8	6.8
Nonfarm business sector								
Output per hour	2.2	.6	-1.5	-.7	1.9	-.1	3.3	1.9
Compensation per hour	7.5	8.6	9.0	10.4	9.8	7.8	5.8	5.1
Unit labor costs	5.2	8.0	10.7	11.1	7.7	7.9	2.3	3.1
GNP implicit deflator	5.8	7.4	8.6	9.2	9.4	6.0	4.3	4.2
Gross domestic business product								
fixed-weighted price index <1>	6.1	8.0	9.9	10.0	9.5	6.0	4.2	4.5
Excluding food and energy	6.3	7.8	8.6	8.5	9.3	6.9	5.0	4.4
Consumer price index (all urban)	6.5	7.6	11.3	13.5	10.3	6.2	3.2	4.9
Industrial production	5.9	5.8	4.4	-3.6	2.6	-8.1	5.8	8.6

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

	Fiscal Year 1982*	FY1983e		FY1984e 2/		CY1983e/		FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board	CY 1982*	F.R. Board	Calendar quarters; unadjusted data								
								1982			1983			1984		
								IV*	I*	II*	III	IV	I	II	III	
Unified budget receipts	618	600	601	668	662	609	611	137	140	167	158	147	154	189	172	
Unified budget outlays	728	810	798	848	860	740	804	205	201	196	197	211	213	218	218	
Surplus/deficit(-), unified budget	-111	-210	-197	-180	-198	-131	-193	-68	-61	-29	-39	-64	-59	-30	-45	
Surplus/deficit(-), off-budget agencies <sup>3</sup>	-17	-16	-11	-14	-15	-15	-13	-1	-2	-4	-4	-2	-3	-4	-5	
Combined deficit to be financed	-128	-226	-209	-194	-213	-146	-206	-69	-63	-34	-43	-66	-63	-34	-50	
Means of financing combined deficit:																
Net borrowing from public	135	216	212	194	198	161	197	62	56	47	48	47	55	51	46	
Decrease in cash operating balance	-11	9	-8	0	17	-8	2	10	4	-13	-9	19	11	-13	1	
Other <sup>4</sup>	4	1	4	0	-2	-8	7	-2	3	-1	4	1	-3	-4	4	
Cash operating balance, end of period	29	20	37	20	20	20	18	20	15	28	37	18	7	21	20	
Item: Sponsored agency borrowing <sup>5</sup>	20	n.a.	-2	n.a.	21	17	2	-2	-3	0	2	2	5	7	7	
<b>NIA Budget</b>																
								Seasonally adjusted annual rates								
Receipts	628	632	633	701	691	617	645	613	623	653	644	660	686	701	719	
Expenditures	740	827	819	873	888	764	828	821	807	819	829	860	880	898	915	
Purchases	251	280	276	300	299	259	275	279	274	274	276	279	294	307	315	
Defense	173	199	198	227	229	179	205	191	194	199	207	219	227	233	237	
Nondefense	78	81	78	73	70	79	71	89	79	74	69	60	68	75	78	
All other expenditures	489	547	543	573	589	506	553	542	533	545	553	581	585	591	600	
Surplus/deficit(-)	-112	-198	-186	-172	-197	-147	-183	-208	-183	-166	-185	-199	-194	-197	-196	
High Employment (H.R.) surplus/deficit(-) evaluated at the unemployment rate of 6 percent	-46	n.a.	-83	n.a.	-119	-59	-87	-100	-72	-65	-95	-115	-113	-122	-126	
		*--actual			e--estimated			n.a.--not available								

1. Mid-Session Review of the 1984 Budget, July 1983.

2. The August CBO reestimate of the First Concurrent Resolution on the Budget -- Fiscal Year 1984 indicated revenues of \$677 billion and outlays of \$860 billion; outlays would be \$8.5 billion higher if the "Reserve fund" for recession relief is fully utilized.

3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the Strategic Petroleum Reserve.

4. Checks issued less checks paid, accrued items and other transactions.

5. FRB staff estimates and actuals include Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage-backed securities), Federal Land Banks, Federal Intermediate Credit Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis.

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



## DOMESTIC FINANCIAL DEVELOPMENTS

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Recent developments. M1 appears to have increased at about a 3 percent annual rate in September, in line with August's reduced pace of advance. Demand deposits declined in September, as in August, and growth of other checkable deposits slowed further, to a rate well below that recorded over the first half of the year. Growth of M2 and M3 in September was at annual rates of 5-1/4 and 7-1/2 percent, respectively, thus continuing the relatively moderate pace of advance of July and August. Reflecting savers' responses to the steepening in the maturity structure of interest rates that occurred over the late spring and early summer, small time deposits recorded another relatively strong expansion, while the total of savings and MMDA accounts declined once again in September. M3 growth was bolstered by continued substantial issuance of large time deposits by thrift institutions. Levels for all three aggregates are now comfortably within ranges specified by the FOMC.

Domestic nonfinancial debt is estimated to have expanded at about a 9 percent annual rate over the third quarter, and for the year to date, this aggregate has risen at a rate around the middle of its FOMC monitoring range. Commercial bank credit advanced at about a 9-1/4 percent annual rate over the third quarter, a bit slower than the pace recorded over the first half of the year, as growth in total loans accelerated while expansion of security holdings slowed significantly.

Against the backdrop of slower growth in monetary aggregates and widespread indications that the pace of economic activity is moderating, interest rates generally have declined since the August FOMC meeting, with short-term rates off about 1/4 to 1/2 percentage point and bond yields and

conventional mortgage rates down about 1/8 to 1/4 of a point. In general, interest rates remain about 3/4 to 1-1/2 percentage points above their lows for the year established in early May. Major stock indexes have increased about 2 percent to 4-1/2 percent since the August FOMC meeting.

Business credit demands have remained moderate in the third quarter. Gross offerings of bonds in September, as in August, amounted to only about two-thirds the average monthly volume recorded over the first seven months of the year, as firms continued to delay debt restructuring activities in the face of relatively high bond yields. Growth in business loans at banks and commercial paper, on the other hand, accelerated in July and again in August, but appears to have moderated in September.

Credit demands of the household sector appear to have accelerated further in the third quarter. Consumer installment credit, after expanding at a 16-1/2 percent annual rate in July, is estimated to have posted sizable though somewhat smaller gains in August and September. A drop-back in growth of such credit would be consistent with the slackening of sales of autos and other durable goods. For the quarter, growth is estimated at about a 15 percent annual rate, up considerably from the second quarter's 11 percent rate of advance. S&Ls added to their holdings of mortgages at a record pace in July. Judging from the further sharp rise in outstanding commitments in that month as well as the continued substantial issuance of CDs by these institutions, growth likely remained relatively strong in August and September. Also, real estate loan growth at commercial banks was appreciably faster in the third quarter than in the second.

In the government sector, states and municipalities' gross offerings of bonds increased markedly in August and then dropped back in September.

Overall, such borrowing in the third quarter was below the extraordinary volume of offerings recorded over the spring of the year. The U. S. Treasury has continued to issue new debt in record volume to finance its combined budget deficit. Indeed, in the third quarter the Treasury's security offerings are once again expected to exceed its deficit, resulting in a further buildup in its end-of-quarter cash balance to an unprecedented \$37 billion level.

Outlook. Given the prospects for more moderate growth in economic activity and for inflationary pressures to remain muted, the recent prevailing balance between demands and supplies for money and credit appears likely to prove sustainable over coming months. Thus, the general level of interest rates likely will change little over the balance of the year. However, market participants' expectations appear to be even more tentatively held than normal at the present time, and thus bond yields may continue to be more responsive than usual to incoming news pertaining to economic activity, inflation and monetary growth rates.

The staff is now estimating that the Treasury will run a combined deficit of about \$66 billion in the fourth quarter, up about \$23 billion from the third quarter. The volume of debt to be issued by the Treasury will be about the same as in the third quarter, however, as the Treasury has indicated that it intends to meet a sizable part of its financing needs through running down its cash balance. State and local debt issuance is expected to continue at a pace in line with recent months.

Household borrowing is expected to continue in the next several months at around the recent strong pace. Installment debt growth will be buoyed by a resumption of somewhat brisker auto sales, while mortgage debt growth

is projected to ease slightly in light of some slackening in housing activity. In line with the projected further accumulation of inventories and additional strengthening of fixed investment spending, businesses are likely to increase their issuance of debt. But with profits rising rapidly and thus bolstering internal funds, the volume of such financing is likely to remain relatively light. Barring a strong rally in the bond market, shorter-term business debt is likely to continue growing moderately.

Recent developments. Activity abroad continues to revive, although the pattern among countries is mixed. In the second quarter, real GNP rose strongly in Canada and more moderately in Germany and Japan; real output rose marginally in France, but declined in Italy and in the United Kingdom (after a sharp rise in the first quarter) where there is some concern that the recovery may be faltering. Unemployment abroad remains high by historical standards, although it has moved down from the peak rates of last spring in Canada and the United Kingdom.

Fiscal policies in most major industrial countries abroad are restrictive, and interest rates changed little on balance during the intermeeting period, although firming slightly in late September as central banks in Germany, Austria, and the Netherlands raised their key lending rates by 1/2 of 1 percent.

The dollar's foreign exchange value has fluctuated within a range of two percent. After firming moderately late in August, the dollar depreciated to earlier levels, reflecting an easing of dollar interest rates and reports showing a widening U.S. trade deficit.

The U.S. merchandise trade deficit rose in July to an annual rate of about \$70 billion, up from the second quarter rate of nearly \$60 billion, as imports advanced further across a broad range of goods. Oil imports accounted for about half of the July rise.

Net inflows through banks continued in August, in large part reflecting borrowings from their own foreign offices by the largest

U.S. banks. These banks reportedly extended the maturities of their interbank borrowings by substituting term borrowings in the Eurodollar market for short-term funding in the United States.

Among the major debtor countries Mexico, Chile, Ecuador and Peru are continuing to operate under stabilization programs agreed to with the IMF, and have recently drawn on bank credit lines. Mexico repaid on schedule the emergency financing received from the BIS and U.S. authorities and has announced that by year-end it will repay \$560 million of private sector interest arrears owed to commercial banks. Mexico is current on public sector interest payments. Mexico also announced that the "free" rate for the peso would be allowed to depreciate about 0.1 percent per day.

On the other hand, Brazil, which signed a new letter of intent with the IMF following its failure to meet earlier performance tests, may have difficulty in meeting the new conditions of the Fund program, especially if the Brazilian parliament rejects a decree law limiting the degree of wage indexation. Argentina is in danger of falling out of compliance with the terms of its Fund agreement.

Outlook. The staff's forecast continues to be for moderate recovery abroad, with little or no reduction in unemployment from current levels and some further slight deceleration in inflation. In light of the relatively slow pace of recovery in foreign G-10 countries -- GNP is expected to grow about 2 percent from the fourth quarter of 1982 to the fourth quarter of this year, and by somewhat more in 1984 -- reinforced by the high exchange rate for the dollar, U.S. exports are not expected to pick up in volume terms until the second quarter of

next year, and the trade balance is expected to deteriorate further throughout the forecast period. The trade deficit is expected to rise from the nearly \$60 billion annual rate of the second quarter of this year to about \$110 billion in the last half of next year. The current account deficit is projected to be about \$80 billion in 1984. These record deficits, in contrast to the substantial current account surplus expected for foreign G-10 countries as a group, are expected to contribute to a substantial depreciation of the dollar by the end of 1984.

SEPTEMBER 27, 1983

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

	1982 ANN.	1983-P ANN.	1984-P ANN.	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983-P Q3	1983-P Q4	1984-P Q1	1984-P Q2	1984-P Q3	1984-P Q4
<b>1. GNP NET EXPORTS</b>													
CURRENT \$, NET	17.4	-15.7	-51.6	1.0	5.5	17.0	-8.5	-26.4	-44.7	-51.9	-52.7	-51.2	-50.8
EXPORTS OF G+S	347.6	331.5	366.5	346.0	321.6	326.9	327.1	332.8	339.1	345.7	360.0	372.7	387.3
IMPORTS OF G+S	330.2	347.1	418.1	345.0	316.1	309.9	335.6	359.2	383.8	397.7	412.7	423.9	438.1
CONSTANT 72 \$, NET	28.9	9.4	3.2	24.0	23.0	20.5	12.3	5.8	-0.9	-1.5	1.2	4.8	8.3
EXPORTS OF G+S	147.3	136.7	143.5	146.4	136.5	137.3	136.2	136.6	136.8	137.7	141.7	145.2	149.5
IMPORTS OF G+S	118.4	127.3	140.3	122.4	113.5	116.8	123.9	130.7	137.7	139.2	140.4	140.4	141.2
TERMS OF TRADE (1972=100) 1/	84.6	89.0	85.8	83.9	84.6	89.7	88.7	88.7	89.0	88.0	86.5	85.1	83.6
<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>													
	-36.4	-65.8	-109.5	-52.3	-45.4	-35.2	-58.6	-75.4	-93.9	-103.2	-108.7	-111.0	-115.0
EXPORTS (EXCL. MILITARY)	211.2	198.0	210.6	209.0	193.4	198.0	195.7	198.2	200.1	202.0	207.2	212.9	220.4
AGRICULTURAL	37.2	36.6	40.0	33.8	33.1	36.0	35.3	36.1	38.8	40.0	41.1	40.2	38.7
NONAGRICULTURAL	174.0	161.4	170.6	175.2	160.3	162.0	160.3	162.2	161.3	161.9	166.2	172.8	181.7
IMPORTS	247.6	263.8	320.1	261.3	238.8	233.3	254.3	273.7	294.0	305.2	315.9	323.9	335.3
PETROLEUM AND PRODUCTS	61.2	55.6	67.5	68.9	60.5	42.0	52.1	63.2	65.2	65.3	66.6	67.4	70.6
NONPETROLEUM	186.4	208.2	252.6	192.3	178.3	191.3	202.2	210.5	228.8	239.9	249.3	256.5	264.7
<b>3. U.S. CURRENT ACCOUNT BALANCE</b>													
	-11.2	-43.6	-81.4	-26.4	-26.5	-14.3	-38.8	-50.8	-70.4	-79.5	-81.9	-81.8	-82.5
OF WHICH: NET INVESTMENT INCOME	27.3	25.8	30.9	27.3	24.0	20.4	23.7	29.8	29.4	28.3	30.1	31.4	33.7
<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/</b>													
REAL GNP, % CHANGE, ANNUAL RATES	-0.1	1.2	2.4	-1.8	0.6	2.7	1.3	1.9	2.2	2.7	2.3	2.6	3.0
CONSUMER PRICES, % CHANGE, ANNUAL RATES	8.1	5.7	5.4	6.0	6.0	4.5	6.0	5.1	5.6	5.5	5.5	5.1	5.1

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.

GERMANY (20.8%), JAPAN (13.6%), FRANCE (13.1%), UNITED KINGDOM (11.8%), CANADA (9.1%), ITALY (9.0%), THE NETHERLANDS (8.3%), BELGIUM (6.4%), SWEDEN (4.2%), SWITZERLAND (3.6%)

P/ PROJECTED