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November 9, 1983

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

Recent developments. Economic activity has continued to expand at a vigorous pace, although less rapidly than in the spring. Employment and industrial production recorded further gains in September and October, and unemployment fell sharply. Sales have been brisk since Labor Day, and the inventory cycle, now in its expansion phase, still is contributing to growth in real activity. Wage and price increases in recent months have been somewhat larger than in the first half of the year.

Industrial production increased nearly 1-1/2 percent in September and is estimated to have risen an additional 3/4 to 1 percent in October. Output of consumer goods rose further, and production of business equipment continued to register strong gains. Auto production dipped slightly in October, but current production schedules point to a rebound in assemblies in November. The capacity utilization rate apparently rose to about 78-1/2 percent in October, up about 9 percentage points from its recession low. Thus far in the recovery, industrial production has increased at a pace similar to that of earlier postwar expansions.

Payroll employment (strike-adjusted) rose more than 330,000 in both September and October, about in line with the average monthly gains over the four preceding months. Increased hiring was widespread in both the goods-producing and service-producing sectors. In manufacturing, the rise in employment in October was the largest monthly gain of the current expansion; the factory workweek, however, fell 0.2 of an hour, partly reversing an exceptionally large September advance. The unemployment

rate fell an additional one-half percentage point in October and, at 8.8 percent, is down 2 percentage points from the peak of last December.

After a midsummer lull, consumer spending has exhibited new vitality. Unit sales of domestic and foreign-made autos increased in October, reversing a reduced volume during the preceding two months that had resulted from limited stocks of some popular models. Outside the auto sector, retail sales also have picked up, rising about twice as fast in September as in the three preceding months. Strong income gains continue to provide the underpinnings for increased consumer outlays; buoyed by a midyear tax cut, real disposable income rose at a 6-3/4 percent annual rate in the third quarter, and private payrolls increased further in October. The saving rate averaged 4-3/4 percent in the third quarter, up from the second quarter, but still low by historical standards.

Homebuilding weakened in September, as housing starts fell back to about their second-quarter average. The drop in starts had been widely expected, as activity around midyear had surged to levels that seemed unsustainable in light of prevailing mortgage market conditions. Permits also fell in September for the second month in a row. After three months of decline, sales of new homes rose in September to near their average pace for the second quarter; sales of existing homes were little changed from their August level.

The expansion in business investment activity accelerated in the third quarter. In real terms, fixed investment spending rose at nearly a 15 percent annual rate; outlays for equipment increased for the third quarter in a row, and spending for structures turned up after hav-

ing declined in each of the six previous quarters. Recent data on capital goods orders point to further advances in equipment spending into 1984, as do private surveys of spending intentions.

Inventory investment also has turned up recently. In constant-dollar terms, nonfarm businesses accumulated inventories at about a \$10 billion annual rate in the third quarter, after having liquidated stocks over the previous year and a half. In manufacturing, the book value of stocks rose in both August and September; however, with shipments advancing rapidly, inventory-sales ratios remain at low levels in most industries. Inventories in the trade sector also increased in August; auto dealers' stocks have risen slightly in recent months, but still are low by past standards.

Recent wage increases have been somewhat larger than in earlier months. The hourly earnings index rose about 1/2 percent in October; wage increases for production workers were small again in manufacturing and construction but large in the trade and service sectors. In addition, wage increases for white collar workers, as measured by the employment cost index, have gradually accelerated this year. Productivity gains continued to blunt labor cost pressures in the third quarter as output per hour in the nonfarm business sector rose at about a 5 percent annual rate, similar to the strong advances of the two previous quarters.

Recent price increases, too, have been larger than in the first half of the year, when temporary influences tended to exaggerate the slowing of inflation. The consumer price index advanced at about a 5-1/4 percent annual rate during the third quarter, compared with a 3

percent rate of increase during the first half of the year. Producer prices, which were little changed during the first half, increased at a 2-3/4 percent annual rate during the third quarter. Consumer energy prices have increased in each of the past six months after having dropped sharply early in the year. In addition, prices for consumer goods other than food and energy have shown some acceleration, reflecting rapidly rising profits in some industries.

Outlook. The rate of growth in real GNP in the third quarter, at 7.9 percent, was moderately lower than the exceptionally rapid second quarter pace; the staff's projection of GNP growth for the fourth quarter, while higher than in the last Greenbook, shows a further gradual slowing to about a 6-1/4 percent annual rate. Consumer spending is expected to rise faster than in the third quarter, and a further swing toward inventory accumulation is projected in the nonfarm business sector. However, spending for residential construction appears likely to level off in coming months after strong advances in earlier quarters, and weakness in net exports probably will persist through the end of the year. A further decline in farm output is expected to be accompanied by a reduction in inventories held by the Commodity Credit Corporation, and hence, owing to NIPA accounting conventions, to a reduction in government purchases.

The staff's current policy assumptions are similar to those in the last Greenbook. Over the balance of the forecasting horizon, M-2 is assumed to rise at about an 8 percent annual rate--the midpoint of the FOMC range for 1984. Interest rates are expected to be little changed

from current levels. With respect to fiscal policy, it is assumed that the deficit for fiscal 1984 will total \$190 billion, somewhat smaller than was assumed in the last Greenbook. The revision mainly reflects the impact of a stronger economy on revenues and outlays. As in the last Greenbook, the staff assumes that there will be no major tax legislation in fiscal 1984.

The staff's projections of both real growth and inflation for 1984 have been raised moderately in the current Greenbook. Nevertheless, the economy in 1984 still is expected to follow a growth trajectory similar in many respects to the second year of previous postwar expansions. Real GNP, after rising 6-1/2 percent over the four quarters of 1983, is expected to grow at about a 4-1/4 percent pace during 1984. A key element in the slowdown is that the cyclical swing in inventories, from liquidation to rapid accumulation, is likely to have run its course by early 1984. Similarly, housing activity, which typically levels off or declines during the second year of economic recoveries, is expected to contribute little to GNP growth in 1984, and growth of consumer spending on durable goods also is expected to slow next year, in line with reduced income gains. Business fixed investment, however, is likely to remain strong through 1984, and the foreign sector, which depressed GNP growth in 1982 and 1983, should strengthen slightly in 1984.

By the fourth quarter of next year, the expansion of output is expected to reduce the unemployment rate an additional three fourths of a percentage point, to around 8 percent. With labor demand increasing, and with a significant increase in payroll taxes, the moderating trend

in hourly compensation increases is likely to end; consequently, the staff is expecting most wage measures to rise slightly faster in 1984 than in 1983.

Prices, too, are expected to rise a little faster next year than they have in 1983, reflecting strengthening demand conditions in labor and product markets, a rise in import prices stemming from an expected depreciation of the dollar, and advances in food prices resulting from the lagged effects of the summer drought. Over the four quarters of 1984, the fixed-weighted price index for gross business product, a price measure for goods and services produced domestically, is projected to increase 4.9 percent, about 3/4 percentage point more than during 1983. The acceleration in the consumer price index, which includes imports as well as domestically produced goods and services, is likely to be larger, owing to the rising prices of imports.

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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			
	9/28/83	11/9/83	9/28/83	11/9/83	9/28/83	11/9/83	9/28/83	11/9/83	9/28/83	11/9/83
Annual changes:										
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	7.7	7.9	3.3	3.5	4.2	4.2	5.0	5.0	9.7	9.6
1984	9.4	10.1	5.0	5.5	4.5	4.7	4.4	4.6	8.6	8.3
Quarterly changes:										
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>	13.3	13.3	9.7	9.7	4.1	4.1	3.5	3.5	10.1	10.1
Q3 <1>	11.1	11.6	6.9	7.9	4.4	4.1	4.8	4.8	9.4	9.4
Q4	9.1	11.2	4.8	6.3	4.8	4.8	4.7	4.7	9.1	8.7
1984 Q1	8.8	9.8	4.1	4.8	4.4	4.7	4.3	4.7	8.9	8.6
Q2	8.8	8.9	4.3	4.2	4.5	4.8	4.3	4.7	8.8	8.4
Q3	9.0	8.8	4.4	4.2	4.7	4.9	4.4	4.7	8.6	8.2
Q4	8.8	9.0	4.1	4.2	4.9	5.0	4.7	4.9	8.4	8.0
Two-quarter changes: <2>										
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>	10.7	10.7	6.1	6.1	3.9	3.9	5.1	5.1	-0.6	-0.6
Q4	10.1	11.4	5.8	7.1	4.6	4.5	4.7	4.8	-1.0	-1.4
1984 Q2	8.8	9.4	4.2	4.5	4.5	4.8	4.3	4.7	-0.3	-0.3
Q4	8.9	8.9	4.3	4.2	4.8	5.0	4.6	4.8	-0.4	-0.4
Four-quarter changes: <3>										
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	10.4	11.1	6.0	6.6	4.2	4.2	4.9	4.9	-1.6	-2.0
1984 Q4	8.9	9.1	4.2	4.3	4.6	4.9	4.4	4.7	-0.7	-0.7

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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

	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	188.0	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>	-43.4	-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)	38.3	36.7	37.3	32.0	28.8	32.0	31.3	32.9
Excluding social insurance funds	3.4	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)	131.8	132.5	133.0	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	71.1	69.0
Materials (percent)	82.7	81.9	82.0	76.2	73.0	70.7	69.4	67.2
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

<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.

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

	1981				1982			
	Q1	Q2	Q3	Q4	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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CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1983				Projected 1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3171.5	3272.0	3363.3	3454.0	3535.8	3612.1	3689.0	3769.6
Final sales	3210.9	3286.6	3351.5	3416.9	3485.4	3574.3	3651.2	3730.5
Private	2533.5	2603.2	2649.7	2710.6	2763.7	2819.6	2876.5	2937.1
Domestic final purchases	2516.5	2611.7	2675.6	2751.9	2817.7	2879.0	2941.6	3005.3
Personal consumption expenditures	2073.0	2147.0	2186.5	2248.0	2298.8	2345.6	2390.1	2437.4
Goods	1035.6	1077.3	1102.9	1134.0	1157.6	1177.0	1197.9	1219.1
Services	1037.4	1069.7	1083.6	1114.0	1141.2	1168.6	1192.2	1218.3
Gross private domestic investment	404.1	450.1	501.0	541.0	569.3	571.2	589.3	607.0
Residential structures	111.3	128.4	140.7	142.7	144.7	147.2	152.7	155.7
Business fixed investment	332.1	336.3	348.4	361.2	374.2	386.2	398.8	412.2
Change in business inventories	-39.4	-14.5	11.8	37.1	50.4	37.8	37.8	39.1
Nonfarm	-39.0	-10.3	22.3	34.1	43.6	40.0	37.0	37.3
Net exports of goods and services <1>	17.0	-8.5	-25.9	-41.3	-54.0	-59.4	-65.1	-68.2
Exports	326.9	327.1	339.2	345.0	351.9	363.1	372.2	385.5
Imports	309.9	335.6	365.1	386.3	406.0	422.5	437.3	453.6
Gov't. purchases of goods and services	677.4	683.4	701.8	706.3	721.7	754.7	774.7	793.4
Federal <2>	273.5	273.7	281.2	275.0	280.7	304.7	315.3	324.2
State and local	404.0	409.7	420.6	431.3	441.0	450.0	459.4	469.2
Gross national product in constant (1972) dollars	1490.1	1525.1	1554.4	1578.3	1597.0	1613.4	1629.9	1646.9
Personal income	2657.7	2713.6	2761.4	2852.8	2923.9	2968.0	3027.6	3087.8
Wage and salary disbursements	1610.7	1648.4	1681.5	1730.9	1769.9	1804.7	1839.0	1873.9
Disposable personal income	2255.9	2301.0	2361.5	2435.8	2496.1	2535.0	2585.2	2636.0
Saving rate (percent)	5.4	4.0	4.7	5.0	5.2	4.8	4.9	4.9
Corporate profits with I.V.A. and C.C. Adj.	181.8	218.2	254.6	258.3	261.4	269.7	283.3	299.5
Corporate profits before tax	169.7	203.3	231.5	229.2	226.3	228.6	236.2	246.4
Federal government surplus or deficit (-) (N.I.A. basis)	-183.3	-166.1	-187.9	-187.9	-183.6	-184.3	-187.3	-188.8
High employment surplus or deficit (-) <3>	-72.4	-65.2	-102.7	-111.8	-112.2	-119.0	-127.3	-133.5
State and local government surplus or deficit (-) (N.I.A. basis)	40.4	51.7	54.5	59.1	56.0	51.5	47.6	44.4
Excluding social insurance funds	5.5	16.1	17.9	22.1	18.3	13.1	8.5	4.6
Civilian labor force (millions)	110.5	111.2	112.2	112.2	113.0	113.5	113.9	114.4
Unemployment rate (percent)	10.3	10.1	9.4	8.7	8.6	8.4	8.2	8.0
Nonfarm payroll employment (millions)	88.8	89.5	90.2	91.4	92.2	93.0	93.6	94.2
Manufacturing	18.3	18.5	18.8	19.1	19.5	19.8	20.1	20.4
Industrial production (1967=100)	138.5	144.5	151.5	156.0	158.3	160.6	163.2	165.7
Capacity utilization: all manufacturing (percent)	70.7	73.9	77.3	79.2	79.9	80.7	81.6	82.5
Materials (percent)	70.1	73.5	77.4	80.0	81.3	82.5	83.9	85.1
Housing starts, private (million units, A.R.)	1.69	1.68	1.79	1.65	1.65	1.70	1.75	1.75
New auto sales (millions, A.R.)	8.46	9.10	9.22	9.70	9.70	9.90	10.05	10.10
Domestic models	6.06	6.81	6.92	7.30	7.40	7.50	7.55	7.60
Foreign models	2.40	2.28	2.31	2.40	2.30	2.40	2.50	2.50

<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.

CONFIDENTIAL - FR
CLASS II FOMC

PERCENT 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	7.9	6.3	4.8	4.2	4.2	4.2
Final sales	.6	6.8	5.1	2.9	3.3	6.0	4.2	4.2
Private	3.0	8.8	5.0	4.6	3.8	3.8	3.7	4.0
Domestic final purchases	3.9	11.9	6.2	7.2	4.8	3.5	3.3	3.3
Personal consumption expenditures	2.9	10.0	3.5	6.5	4.0	2.7	2.0	2.2
Goods	4.4	13.5	5.3	6.8	3.9	1.8	2.0	1.8
Services	1.4	6.4	1.4	6.2	4.2	3.6	2.0	2.7
Gross private domestic investment	28.7	49.8	44.3	35.5	18.3	-4.0	8.6	8.0
Residential structures	57.3	79.5	37.0	1.6	.8	1.8	10.0	2.4
Business fixed investment	-1.5	7.9	14.6	13.1	11.2	9.1	9.3	9.6
Gov't. purchases of goods and services	-8.8	-1.1	5.7	-3.8	1.3	16.1	6.3	4.8
Federal	-18.0	-2.8	6.8	-15.1	-1.9	39.7	11.4	7.6
National defense	6.5	7.4	7.2	11.6	9.2	9.5	6.2	6.2
State and local	-1.8	.0	5.0	4.4	3.4	2.7	2.8	3.0
Disposable personal income	2.9	3.5	6.7	7.9	4.9	.7	2.3	2.2
<u>Current Dollars</u>								
Gross national product	8.2	13.3	11.6	11.2	9.8	8.9	8.8	9.0
Final sales	5.8	9.8	8.1	8.0	8.3	10.6	8.9	9.0
Private	7.8	11.5	7.3	9.5	8.1	8.3	8.3	8.7
Domestic final purchases	5.9	16.0	10.2	11.9	9.9	9.0	9.0	8.9
Personal consumption expenditures	5.2	15.1	7.6	11.7	9.3	8.4	7.8	8.2
Goods	4.2	17.1	9.8	11.8	8.6	6.9	7.3	7.3
Services	6.3	13.0	5.3	11.7	10.1	10.0	8.3	9.0
Gross private domestic investment	31.4	53.9	53.5	36.0	22.6	1.3	13.3	12.6
Residential structures	75.3	76.7	44.5	5.7	5.7	7.1	15.8	8.1
Business fixed investment	-5.7	5.1	15.3	15.5	15.2	13.5	13.7	14.1
Gov't. purchases of goods and services	-1.3	3.6	11.2	2.6	9.0	19.6	11.0	10.0
Federal	-8.0	.3	11.4	-8.5	8.6	38.8	14.7	11.8
National defense	7.8	10.7	13.4	16.0	18.8	14.5	11.0	11.6
State and local	3.5	5.8	11.1	10.6	9.3	8.4	8.6	8.8
Disposable personal income	5.1	8.2	10.9	13.2	10.3	6.4	8.2	8.1
Personal income	4.0	8.7	7.2	13.9	10.3	6.2	8.3	8.2
Wage and salary disbursements	6.4	9.7	8.3	12.3	9.3	8.1	7.8	7.8
Corporate profits with I.V.A. and C.C. Adj.	59.0	107.5	85.4	5.9	4.9	13.3	21.9	24.8
Corporate profits before tax	5.4	106.0	68.1	-3.9	-5.0	4.1	14.1	18.3
Nonfarm payroll employment	.1	2.9	3.4	5.4	3.7	3.1	2.8	2.7
Manufacturing	-.1	5.2	7.0	7.6	7.1	6.7	6.2	6.1
Nonfarm business sector								
Output per hour	3.7	6.6	5.0	1.4	1.0	.7	1.2	1.6
Compensation per hour	6.8	4.3	4.5	5.1	6.8	5.2	5.3	5.3
Unit labor costs	3.0	-2.1	-.5	3.7	5.7	4.4	4.1	3.6
GNP implicit deflator <1>	5.5	3.3	3.4	4.6	4.7	4.6	4.5	4.6
Gross domestic business product								
fixed-weighted price index <2>	3.6	4.1	4.1	4.8	4.7	4.8	4.9	5.0
Excluding food and energy	6.7	3.5	4.8	4.7	4.7	4.7	4.7	4.9
Consumer price index (all urban)	-.4	4.3	4.7	5.4	5.2	5.3	5.4	5.5
Industrial production	10.1	18.4	21.0	12.1	6.0	5.9	6.6	6.3

<1> Excluding the Federal pay increase, the rate of change in 1984-Q1 is 4.4 percent.
<2> Uses expenditures in 1972 as weights.

November 9, 1983

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	3315.2	3651.6
Final sales	1895.3	2137.4	2403.5	2641.5	2935.6	3097.5	3316.5	3610.4
Private	1501.5	1705.5	1929.1	2103.7	2339.9	2448.3	2624.3	2849.2
Domestic final purchases	1505.5	1706.6	1915.9	2079.7	2313.6	2430.9	2638.9	2910.9
Personal consumption expenditures	1204.4	1346.5	1507.2	1668.1	1857.2	1991.9	2163.6	2368.0
Goods	657.0	728.5	813.5	883.5	970.0	1005.5	1087.4	1187.9
Services	547.4	618.0	693.7	784.5	887.1	986.4	1076.2	1180.1
Gross private domestic investment	324.1	386.6	423.0	401.9	474.9	414.5	474.0	584.2
Residential construction	95.8	111.2	118.6	102.9	104.3	90.8	130.8	150.1
Business fixed investment	205.2	248.9	290.2	308.8	352.2	348.3	344.5	392.8
Change in business inventories	23.0	26.5	14.3	-9.8	18.5	-24.5	-1.3	41.3
Nonfarm	21.9	25.4	8.6	-4.5	10.9	-23.1	1.8	39.5
Net exports of goods and services <1>	-4.0	-1.1	13.2	23.9	26.3	17.4	-14.7	-61.7
Exports	182.7	218.7	281.4	338.8	368.8	347.6	334.6	368.2
Imports	186.7	219.8	268.1	314.8	342.5	330.2	349.2	429.8
Gov't. purchases of goods and services	393.8	431.9	474.4	537.8	595.7	649.2	692.2	761.1
Federal <2>	143.4	153.6	168.3	197.0	229.2	258.7	275.8	306.2
State and local	250.4	278.3	306.0	340.8	366.5	390.5	416.4	454.9
Gross national product in constant (1972) dollars	1369.7	1438.6	1479.4	1475.0	1513.8	1485.4	1537.0	1621.8
Personal income	1540.4	1732.7	1951.2	2165.3	2435.0	2578.6	2746.4	3001.8
Wage and salary disbursements	983.2	1106.3	1237.6	1356.7	1493.2	1568.1	1667.9	1821.9
Disposable personal income	1314.0	1474.0	1650.2	1828.9	2047.6	2176.5	2338.5	2563.0
Saving rate (percent)	5.9	6.1	5.9	6.0	6.6	5.8	4.8	4.9
Corporate profits with I.V.A. and C.C.Adj.	167.3	192.4	194.8	175.4	192.3	164.8	228.2	278.5
Corporate profits before tax	194.7	229.1	252.7	234.6	227.0	174.2	208.4	234.4
Federal government surplus or deficit(-) (N.I.A. basis)	-45.9	-29.5	-16.1	-61.2	-62.2	-147.1	-181.3	-186.0
High employment surplus or deficit(-)	-30.6	-29.2	-18.6	-36.0	-25.9	-58.8	-88.0	-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	51.4	49.9
Excluding social insurance funds	10.1	10.0	6.6	3.5	4.4	-1.9	15.4	11.1
Civilian labor force (millions)	99.0	102.3	105.0	106.9	108.7	110.2	111.5	113.7
Unemployment rate (percent)	7.1	6.1	5.8	7.1	7.6	9.7	9.6	8.3
Nonfarm payroll employment (millions)	82.5	86.7	89.8	90.4	91.2	89.6	90.0	93.3
Manufacturing	19.7	20.5	21.0	20.3	20.2	18.9	18.7	19.9
Industrial production (1967=100)	138.1	146.1	152.5	147.0	150.9	138.6	147.6	161.9
Capacity utilization: all manufacturing (percent)	82.2	84.7	86.0	79.6	79.4	71.1	75.3	81.2
Materials (percent)	82.6	85.6	87.6	80.4	80.7	70.1	75.2	83.2
Housing starts, private (million units, A.R.)	1.96	2.00	1.72	1.30	1.10	1.06	1.70	1.71
New auto sales (millions, A.R.)	11.13	11.29	10.68	9.04	8.56	8.00	9.12	9.94
Domestic models	9.07	9.29	8.36	6.62	6.24	5.77	6.77	7.51
Foreign models	2.06	2.00	2.32	2.42	2.32	2.23	2.35	2.43

<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.

CONFIDENTIAL - FR
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	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	3.5	5.5
Final sales	5.1	4.9	3.5	.5	1.8	-.7	2.8	4.4
Private	6.0	5.6	4.0	.1	2.0	-1.3	3.3	4.4
Domestic final purchases	6.5	5.5	2.9	-1.0	2.7	-.1	5.0	5.3
Personal consumption expenditures	5.0	4.5	2.7	.5	2.7	1.4	4.4	4.1
Goods	5.1	4.2	1.9	-1.4	2.1	.1	5.7	4.4
Services	4.9	4.8	3.7	2.7	3.3	2.9	3.0	3.9
Gross private domestic investment	16.1	10.5	-.2	-11.8	9.2	-14.5	13.0	18.9
Residential structures	18.6	2.8	-5.3	-20.3	-5.1	-15.4	40.3	9.8
Business fixed investment	11.7	12.8	7.3	-2.4	5.2	-4.8	.2	11.0
Gov't. purchases of goods and services	1.5	2.0	1.3	2.2	.8	1.8	.6	4.2
Federal	3.7	-.1	1.8	4.2	3.8	5.6	.9	5.4
National defense	.8	.4	2.6	3.9	5.2	7.1	8.1	8.8
State and local	.2	3.3	1.1	1.0	-1.0	-.5	.5	3.3
Disposable personal income	4.0	4.9	2.7	.6	3.2	.5	3.3	4.3
<u>Current Dollars</u>								
Gross national product	11.7	12.8	11.7	8.8	12.2	4.0	7.9	10.1
Final sales	11.1	12.8	12.4	9.9	11.1	5.5	7.1	8.9
Private	11.7	13.6	13.1	9.0	11.2	4.6	7.2	8.6
Domestic final purchases	13.2	13.4	12.3	8.5	11.2	5.1	8.6	10.3
Personal consumption expenditures	11.1	11.8	11.9	10.7	11.3	7.3	8.6	9.4
Goods	9.8	10.9	11.7	8.6	9.8	3.7	8.2	9.2
Services	12.7	12.9	12.2	13.1	13.1	11.2	9.1	9.7
Gross private domestic investment	25.7	19.3	9.4	-5.0	18.2	-12.7	14.4	23.2
Residential structures	33.1	16.1	6.6	-13.2	1.4	-13.0	44.1	14.8
Business fixed investment	17.9	21.3	16.6	6.4	14.1	-1.1	-1.1	14.0
Gov't. purchases of goods and services	8.8	9.7	9.8	13.4	10.8	9.0	6.6	10.0
Federal	11.0	7.1	9.6	17.1	16.3	12.9	6.6	11.0
National defense	8.0	8.0	11.5	17.3	17.4	16.5	13.3	14.8
State and local	7.5	11.2	9.9	11.4	7.5	6.6	6.6	9.2
Disposable personal income	10.0	12.2	12.0	10.8	12.0	6.3	7.4	9.6
Personal income	10.7	12.5	12.6	11.0	12.5	5.9	6.5	9.3
Wage and salary disbursements	10.5	12.5	11.9	9.6	10.1	5.0	6.4	9.2
Corporate profits with I.V.A. and C.C.Adj.	21.1	15.0	1.3	-9.9	9.6	-14.3	38.5	22.0
Corporate profits before tax	17.1	17.7	10.3	-7.1	-3.3	-23.2	19.6	12.5
Nonfarm payroll employment	3.9	5.1	3.6	.6	.8	-1.7	.4	3.7
Manufacturing	3.6	4.2	2.6	-3.6	-.6	-6.5	-1.0	6.8
Nonfarm business sector								
Output per hour	2.2	.6	-1.5	-.7	1.9	-.1	3.4	1.9
Compensation per hour	7.5	8.6	9.0	10.4	9.8	7.8	5.8	5.4
Unit labor costs	5.2	8.0	10.7	11.1	7.7	7.9	2.3	3.5
GNP implicit deflator	5.8	7.4	8.6	9.2	9.4	6.0	4.2	4.4
Gross domestic business product								
fixed-weighted price index <1>	6.1	8.0	9.9	10.0	9.5	6.0	4.2	4.7
Excluding food and energy	6.3	7.8	8.6	8.5	9.3	6.9	5.0	4.6
Consumer price index (all urban)	6.5	7.6	11.3	13.5	10.3	6.2	3.3	5.2
Industrial production	5.9	5.8	4.4	-3.6	2.6	-8.1	6.5	9.7

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1982*	Fiscal Year 1983*	FY1984e 2/		CY 1982*	CY1983e/ F.R. Board	FRR Staff Estimates								
			Admin. 1/	F.R. Board			Calendar quarters; not seasonally adjusted								
							1982			1983			1984		
						IV*	I*	II*	III*	IV	I	II	III		
Unified budget receipts	618	601	668	667	609	612	137	140	167	157	149	155	190	174	
Unified budget outlays	728	796	848	857	740	803	205	201	196	196	212	216	214	215	
Surplus/deficit(-), unified budget	-111	-195	-180	-190	-131	-190	-68	-61	-29	-37	-63	-61	-25	-41	
Surplus/deficit(-), off-budget agencies ³	-17	-12	-14	-15	-15	-14	-1	-2	-4	-5	-3	-3	-5	-5	
Combined deficit to be financed	-128	-208	-194	-205	-146	-204	-69	-63	-34	-42	-66	-64	-29	-46	
Means of financing combined deficit:															
Net borrowing from public	135	212	194	187	161	195	62	56	47	48	44	56	43	43	
Decrease in cash operating balance	-11	-8	0	17	-8	5	10	4	-13	-9	22	5	-10	0	
Other ⁴	4	3	0	1	-8	5	-2	3	-1	4	-0	3	-4	3	
Cash operating balance, end of period	59	37	20	20	20	15	20	15	28	37	15	10	20	20	
Memo: Sponsored agency borrowing ⁵	20	0	n.a.	23	17	3	-2	-3	0	1	4	5	7	7	
NIA Budget															
							Seasonally adjusted annual rates								
Receipts	628	693	701	699	617	646	613	623	653	644	666	695	709	726	
Expenditures	740	820	873	885	764	828	821	807	819	832	854	879	893	913	
Purchases	251	277	300	294	259	276	279	274	274	281	275	281	305	315	
Defense	173	196	227	226	179	203	191	194	199	206	214	223	231	237	
Nondefense	78	79	73	68	79	73	89	79	74	75	61	58	74	78	
All other expenditures	489	543	573	591	506	552	542	533	545	551	579	598	588	598	
Surplus/deficit(-)	-112	-186	-172	-186	-147	-181	-208	-183	-166	-188	-188	-184	-184	-187	
High Employment (H.E.) surplus/deficit(-) evaluated at the unemployment rate of 6 percent	-46	-85	-83	-118	-59	-88	-100	-72	-65	-103	-112	-112	-119	-127	
	actual			e-estimated			n.a.—not available								

1. Mid-Session Review of the 1984 Budget, July 1983.
2. The August CBO estimate of the First Concurrent Resolution on the Budget -- Fiscal Year 1984 indicated revenues of \$677 billion and outlays of \$840 billion. The lack of Congressional action on revenue measures has led CBO to reestimate FY1984 receipts to be \$666 billion and outlays to be \$858 billion. Outlays in either estimate 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. FRR staff estimates and actuals include Federal Home Loan Banks, FHLNC (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

Recent Developments. The monetary aggregates in October remained within their longer-run ranges. M1 moved below the midpoint of its monitoring range by posting only a small gain for the third straight month. However, M2 growth picked up markedly from its weak September pace to a 9 percent annual rate, owing largely to a near doubling in the expansion of its nontransactions component. The further deregulation of deposit rates on October 1 evidently played only a small role in the strengthening, as recent growth in small time deposits simply matched the advanced July-August pace after some moderation in September. Heavier inflows to overnight RPs and Eurodollars and to those money market mutual funds included in M2 also contributed to the faster growth of this aggregate. The rebound in M3 was much less pronounced than for M2, as banks ran off large time deposits and term RPs in volume as part of a sizable reduction in managed liabilities.

The federal funds rate quickly settled into a 9-1/4 to 9-1/2 trading range after quarter-end statement date pressures abated; other market interest rates have moved up on balance since the last FOMC meeting, 1/8 to 1/4 percentage point for short-term instruments and 1/4 to 1/2 percentage point for bonds. The steepening yield curve seems attributable to indications that the pace of economic expansion is more robust than previously anticipated by market participants, increasing the likelihood of a prospective firming in shorter-term credit markets, especially given the lack of legislative progress in reducing future federal budget deficits. In addition, there has been a small contraction in Treasury bill supplies as the Treasury has maneuvered to manage its finances in

the absence of congressional action on the federal debt ceiling. The Treasury has drawn down its total cash balance, which had ballooned to \$37 billion by the end of September, to about \$8 billion most recently.

Business demands for external credit appear to have remained quite limited in October; although capital expenditures have been strengthening, so, too, have cash flows. The composition of business borrowing continues to be weighted in favor of short-term credits, in association with further inventory accumulation as well as a desire by businesses to wait for more attractive bond market conditions. Commercial paper issuance and lending to U.S. businesses by foreign branches of U.S. banks and by smaller domestic banks represented the main sources of such credit. Gross offerings of corporate bonds by nonfinancial firms were very light in October. Although some stock price indexes reached new highs just after the last FOMC meeting, price declines thereafter more than retraced these gains and new share offerings, while substantial, remained well below the very heavy volume of the first half of the year.

Consumer installment credit is estimated to have registered an 11 percent annual rate of advance in both August and September. Growth of consumer loans at commercial banks in October appears to have soared to around a 25 percent pace, likely reflecting strength in purchases of consumer durables, especially autos, and increased bank willingness to grant such loans. Auto loan rates at commercial banks have declined somewhat further in recent months, and with the phaseout of rebate subsidy programs at finance subsidiaries of domestic auto manufacturers nearly completed, the commercial bank share of auto financing has been on the upswing.

Mortgage credit growth likely has been slowing from the brisk third-quarter pace, but the recent modest easing in rates on fixed-rate mortgages and the more active promotion of adjustable-rate mortgages probably have tended to bring forth some added housing transactions. New and outstanding mortgage commitments at S&Ls in September maintained their previous high levels. Even so, the net change in mortgage assets at these institutions eased off further from a peak in July. Issuance of GNMA pass-throughs has been well maintained with a portion of them being packaged into mortgage-backed bonds by finance subsidiaries of large building companies.

Offerings of housing-related tax-exempt bonds by state and local governments also have surged in recent months, accounting for a sizable portion of total municipal long-term offerings. Overall gross offerings of tax-exempt bonds in October, however, were up only a bit from the third-quarter average.

Outlook. The monetary and credit aggregates appear fairly securely within their ranges for the current year, and the staff is not anticipating any significant change in market interest rates in the period immediately ahead. However, in light of the projected course of economic expansion and credit demands, it seems likely that if any rate pressures emerge in the next several months, they will be in an upward direction.

The federal sector will be continuing to absorb a large proportion of private savings. The Treasury recently announced that its marketable borrowing this quarter will total \$42 billion, near the third-quarter figure, despite a sizable widening of the deficit. The essentially flat level of borrowing by the Treasury in the current quarter is somewhat

deceptive in terms of the attendant market impact, since the decline in the Treasury's cash balance places added pressure on credit supplies as commercial banks issue more managed liabilities than otherwise to replace government deposits and the Federal Reserve sells securities to offset the reserve impact of any decline in Treasury balances held with the System. The first quarter will, in any event, see a resurgence of such federal borrowing to a level of around \$55 billion. State and local borrowing is likely to remain substantial as well, although the outcome of congressional deliberations regarding mortgage and industrial revenue bonds cannot be judged at this time.

The corporate financing gap is expected to grow in coming months as capital expenditures expand faster than internally generated funds. Since corporations are unlikely to move decisively to fund their debt at current bond rate levels, and inventories are likely to be rising, short-term business debt probably will continue growing moderately. Barring a material drop in stock prices, new equity issues should remain an important source of funds.

Credit flows to households probably will be moderately above third-quarter levels into the winter months. Household mortgage debt formation should be restrained, though, by pressure on fixed-rate mortgage rates to restore a more normal spread over bond rates and effects of the recent softening of building activity. But, given the projected pattern of consumer spending on durables and the prevailing attitudes of households and lenders, consumer installment credit flows are apt to remain above the third-quarter pace.

INTERNATIONAL DEVELOPMENTS

Recent developments. The U.S. dollar has firmed since the last FOMC meeting, appreciating about 1-1/2 percent on a trade-weighted average basis. Factors supporting the dollar were a slight increase in U.S. short-term interest rates relative to foreign rates, together with increased political tensions in the Middle East and the Caribbean.

The German mark depreciated considerably against the dollar early in November when it was reported that a large German commercial bank was experiencing difficulties. Other continental European currencies have also shown comparable declines against the dollar over the period, but the French and Italian authorities were able recoup some of their earlier reserve losses as the franc and lira came under upward pressure in the EMS in recent weeks. The Japanese yen has declined slightly over the past month, partly reflecting the adoption in Japan of a mildly stimulative economic package, including a widely anticipated one-half percentage point decline in the discount rate.

U.S.

authorities purchased \$30 million equivalent of yen in the market.

The prices of gold and silver have declined considerably over the past month. In the case of silver the price has fallen nearly 15 percent, apparently because of news of official sales by Peru and the apprehension that there might be other sales out of holdings by debtor countries. The drop in silver prices may have influenced the gold price, and both prices were affected by increases in long-term interest rates.

Economic activity in the major foreign industrial countries is somewhat mixed, but averages out to a rather slow pace. Industrial production was up briskly in Japan in the third quarter, and was rising in Canada, though at a slowed pace, but in the other countries industrial production has not shown any sustained gains. Unemployment rates are holding at historic highs, except for Canada where unemployment has been declining for ten months. Inflation rates in the industrial countries have generally been lower through September than they were in 1982, but recent monthly data show some divergent experience across countries with no clear trend overall.

Developments in the international debt situation are also diverse. Mexico, Chile, and Ecuador are meeting the conditions of their IMF programs, but Argentina and Peru have not met some conditions and Brazil and the Philippines are having difficulty in establishing new agreements with the IMF. Venezuela apparently has the resources to manage the servicing of its debt but has strained relations with its bank creditors because interest arrears have accumulated. BIS data show a very sharp decline in bank lending to developing countries since the middle of 1982, and also indicate that U.S. banks have slowed their lending somewhat more than other banks. It was announced that the BIS countries plus Switzerland, but excluding the United States, favored in principle lending SDR 3 billion to the IMF as interim financing when the process of ratifying the increase in IMF quotas is completed.

The U.S. merchandise trade deficit rose markedly to a \$72 billion annual rate in the third quarter. Exports rose slightly, but much less than imports, especially of oil. Agricultural exports were up in the

third quarter, largely because of increased shipments of soybeans. Nonagricultural exports rose in several categories. Much of the increase was in shipments to non-OPEC developing countries, possibly reflecting some recovery from the earlier deep cuts as well as continued strong demand in some countries in Asia. Exports to Western Europe were well below year-earlier levels. On the import side, the volume of oil imports was up considerably as U.S. oil consumption rose and stocks were slightly increased, and average oil import prices were also up moderately. Nonoil imports continued to gain in line with the strengthening of the U.S. economy, plus the continuing effects of an appreciated dollar.

Net inflows of private capital through banks rose sharply in the third quarter, and transactions in securities also resulted in net inflows. Banks reported net inflows from their own foreign offices as well as from nonaffiliated foreign accounts -- possibly reflecting the slowdown in lending to LDCs as well as a more general reduction in interbank and other lending abroad. Weekly data for October indicate some reflow to foreign offices, partly to finance increased loans to U.S. residents that were booked at the foreign branches. In securities transactions, net foreign purchases of U.S. corporate stocks were substantial through September, though the rate of inflow has slowed during the year. U.S. net purchases of foreign securities were considerably reduced in the third quarter. Foreign official accounts in the United States were drawn down substantially in the third quarter, including a continued reduction in OPEC holdings. Preliminary data for

October show some rebuilding of foreign official accounts, but OPEC accounts were still declining.

Outlook. The dominant feature of the outlook over the next year is the much faster pace of recovery projected for the United States than for other industrial countries. While recent projections have raised the pace of recovery here, the pace abroad continues to be projected at about half the U.S. rate. This pattern of activity has resulted in some increase in the trade and current-account deficits projected for next year -- to about \$110 billion and over \$85 billion, respectively. However, there has been some reduction in the deficits projected earlier for the final quarter of 1983, based on the more recent trade data. The emergence of massive and growing deficits is expected to lead to a moderate depreciation of the dollar over the course of 1984, but the extent of the decline is likely to be cushioned by relatively firm U.S. interest rates.

NOVEMBER 8, 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 Q3	1983-P Q4	1984-P Q1	1984-P Q2	1984-P Q3	1984-P Q4
1. GNP NET EXPORTS													
CURRENT \$, NET	17.4	-14.7	-61.7	1.0	5.5	17.0	-8.5	-25.9	-41.3	-54.0	-59.4	-65.0	-68.2
EXPORTS OF G+S	347.6	334.6	368.2	346.0	321.6	326.9	327.1	339.2	345.0	351.9	363.1	372.2	385.5
IMPORTS OF G+S	330.2	349.2	429.8	345.0	316.1	309.9	335.6	365.1	386.3	406.0	422.5	437.3	453.6
CONSTANT 72 \$, NET	28.9	10.7	-0.1	24.0	23.0	20.5	12.3	8.8	1.1	-2.0	-1.1	0.2	2.5
EXPORTS OF G+S	147.3	138.2	144.3	146.4	136.5	137.3	136.2	139.9	139.6	140.5	143.0	145.1	148.6
IMPORTS OF G+S	118.4	127.6	144.4	122.4	113.5	116.8	123.9	131.1	138.4	142.5	144.1	145.0	146.1
TERMS OF TRADE (1972=100) 1/	84.6	88.5	85.8	83.9	84.6	89.7	88.7	87.1	88.6	88.0	86.6	85.1	83.6
2. U.S. MERCHANDISE TRADE BALANCE 2/													
EXPORTS (EXCL. MILITARY)	211.2	200.5	214.1	209.0	193.4	198.0	195.7	203.1	205.4	206.6	211.1	214.9	224.0
AGRICULTURAL	37.2	37.5	39.6	33.8	33.1	36.0	35.3	37.8	40.7	40.0	40.3	39.3	39.0
NONAGRICULTURAL	174.0	163.1	174.5	175.2	160.3	162.0	160.3	165.3	164.7	166.6	170.9	175.6	185.0
IMPORTS	247.6	263.7	325.7	261.3	238.8	233.3	254.3	274.6	292.8	308.2	320.0	330.6	344.1
PETROLEUM AND PRODUCTS	61.2	56.5	68.2	68.9	60.5	42.0	52.1	66.3	65.5	65.8	67.2	68.4	71.6
NONPETROLEUM	186.4	207.3	257.5	192.3	178.3	191.3	202.2	208.3	227.3	242.4	252.8	262.2	272.5
3. U.S. CURRENT ACCOUNT BALANCE													
OF WHICH: NET INVESTMENT INCOME	-11.2	-40.7	-87.0	-26.4	-26.5	-14.3	-38.8	-46.5 ^P	-63.3	-77.3	-84.1	-91.1	-95.5
	27.3	26.2	27.8	27.3	24.0	20.4	23.7	30.5 ^P	30.4	29.1	28.2	27.3	26.8
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/													
REAL GNP, % CHANGE, ANNUAL RATES	0.0	1.2	2.3	-1.7	0.6	2.5	1.5	1.7	2.3	2.5	2.4	2.5	2.8
CONSUMER PRICES, % CHANGE, ANNUAL RATES	8.1	5.7	5.5	6.0	6.0	4.5	6.0	5.3	5.4	5.5	5.6	5.3	5.3

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.

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