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August 15, 1984

# **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee  
By the staff of the Board of Governors of the Federal Reserve System

## DOMESTIC NONFINANCIAL DEVELOPMENTS

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Recent developments. Incoming data indicate a continued strong rate of economic growth at the beginning of the third quarter, although appreciably less than the extraordinary pace of the first half of the year. At the same time, wages and prices have continued to rise at moderate rates.

Industrial production advanced 0.9 percent in July, and the June rise has now been revised up to show a similar increase. Further large gains were recorded in July in the output of business and defense equipment as well as in consumer durables, partly owing to increases in auto and truck assemblies. In contrast, consumer nondurables and construction supplies posted only small gains in production last month. Capacity utilization in manufacturing stood at 82.6 percent in July, the highest reading since early 1980.

July labor market reports provided some mixed signals, as the household survey showed a sudden drop in total employment after two months of especially large increases. The civilian unemployment rate, which plunged to 7.1 percent in June, bounced back up to its May level of 7.5 percent. But these recent monthly readings on labor market conditions probably were affected by statistical problems. On balance, hiring appears to have remained strong, with nonfarm payroll employment, which is usually a reliable indicator of monthly changes in labor demand, rising 300,000 in July. That increase was only slightly less than the average monthly rise over the first half of the year. Factories reported their largest monthly employment gain since

February. However, increases in jobs in services, trade, and construction were smaller than in recent months.

Despite continued strong growth in real income and a still-high level of consumer confidence, household spending flattened out in July, after growing at a robust rate in the second quarter. The advance report of retail sales showed that outlays for consumer goods other than autos were off 1/2 percent last month. Purchases at stores selling general merchandise, apparel, and furniture and appliances, which had been especially brisk in June, fell back sharply. Sales of domestic autos, which fluctuated between an 8 and 8-1/2 million unit pace over the first half of the year, were at an 8.4 million unit rate in July although supplies were relatively lean; but sales dipped in the first 10 days of August. The July selling rate for imported cars remained near the 2-1/2 million unit mark.

Near-term indicators of business fixed investment suggest that outlays are still rising rapidly, after an increase of more than 20 percent in real terms over the preceding year. New orders for nondefense capital goods dipped in June after surging in May; but, on balance, these bookings (in nominal terms) were up 5 percent for the quarter as a whole. Despite the rapid pace of shipments, backlogs were still rising, suggesting further increases in production. The recent strength in nonresidential construction also is likely to spill over into the third quarter; outlays for nonresidential building rose 8-1/2 percent in the second quarter, and contracts and permits for new commercial and industrial building remain at high levels.

Housing starts hovered around 1.9 million units (annual rate) last quarter as growing weakness in the market for single-family units was balanced by a surprising resilience in the multifamily sector. With mortgage interest

rates rising, sales of new single-family homes declined for three consecutive months before levelling off in June. Starts of these units dropped 7 percent in June, bringing the second-quarter average 11 percent below the first-quarter. But multifamily starts rebounded in June to a 10-year high. Although the supply of completed units should expand quickly in coming months, there is, as yet, no sign of general oversupply in the rental market.

Incoming reports on price and wage inflation continue to be quite favorable. The producer price index for finished goods rose 0.3 percent in July after three months of little change. The moderate pickup was due almost entirely to a steep, but likely temporary, advance in food prices. Price increases for most other consumer goods and for capital equipment remained quite small. At the retail level, consumer prices rose just 0.2 percent per month in May and June.

Wage rate adjustments also have stayed moderate for most worker groups. The employment cost index, which covers both blue- and white-collar workers, rose at a 4 percent annual rate in the second quarter. The preliminary data for hourly compensation in the nonfarm business sector showed an even smaller rise of 3-1/2 percent, after a first-quarter increase of 6.1 percent that included the Social Security tax hike. With output gains substantial, productivity increases remained close to 3 percent (annual rate) in the first half of 1984, and unit labor costs have been rising at a 1-3/4 percent annual rate.

Outlook. Real GNP is projected to rise at a 5 percent annual rate in the current quarter, off from the 7-1/2 percent rate in the second quarter. The increase in business investment spending is expected to nearly match the robust growth rate recorded over the first half of this year. In

addition, nonfarm inventory accumulation in the current quarter is expected to be a somewhat more than the second-quarter rate, as the liquidation in auto stocks is halted. But growth in consumer spending is anticipated to be somewhat less rapid than during the second quarter, export sales are expected to slow, and outlays for residential construction are projected to turn down. Prices, as measured by the gross domestic business product fixed-weighted price index, are projected to rise at a 3-1/2 percent annual rate, close to the second-quarter inflation rate and 3/4 percentage point lower than in the last Greenbook.

The staff's assumptions about monetary and fiscal policy are largely unchanged since the last Greenbook. M1 and M2 are assumed to grow at rates close to the midpoints of the FOMC's target ranges for the remainder of this year and then to slow during 1985 in line with the tentative ranges established in July. Over the coming year, interest rates are expected to move up slightly from recent levels. For fiscal policy, the federal budget deficit, on a unified basis, is projected to total \$175 billion in the current fiscal year and \$180 billion in fiscal year 1985. Deficit-reduction efforts totaling some \$23 billion are included in the estimate for fiscal year 1985.

The growth of real GNP is expected to lose more momentum toward the end of this year, and then is projected to be around 3 percent over the four quarters of 1985. With mortgage interest rates higher and the surge in multifamily construction assumed to recede, housing starts are projected to decline gradually through mid-1985. Household spending on durable goods, which has provided a major thrust to overall activity in the past

year, is projected to slow in conjunction with the moderation in the growth of real income. In addition, inventory accumulation is not expected to provide further impetus to production. Although capital spending is anticipated to decelerate over the projection horizon as economic activity slows, business fixed investment remains, along with federal defense purchases, a source of strength in 1985. Moreover, with the price competitiveness of imports likely to begin to erode next year, consistent with a projected decline in the foreign exchange value of the dollar, growth in domestic demand is expected to be met to a greater extent by domestic production than earlier in the recovery.

The outlook for inflation has continued to improve somewhat since the last Greenbook. The gross domestic business product fixed-weighted price index is now projected to rise at around a 4 percent annual rate in the second half of 1984 and then to accelerate to a 5 percent rate during 1985. One important consideration in the near-term improvement in the price projection is the recent strength in the value of the dollar. Another is the continued moderate rise in labor costs so far this year. In addition, given recent, more favorable estimates of agriculture supply prospects, the rise in food prices in coming quarters is now expected to be less rapid than previously projected.

The pickup in inflation projected for 1985 continues to be influenced importantly by the projected depreciation of the dollar. And, although near-term estimates of the civilian unemployment rate are now somewhat higher than in the last Greenbook, a steady expansion of jobs is still expected to reduce the unemployment rate to 6-1/2 percent by the second half of 1985,

providing some upward pressure on wage rates. Nonetheless, with prices now projected to rise less rapidly, the increase in hourly compensation has been lowered a bit to 4-1/2 percent in 1984 and 5-1/2 percent in 1985. Productivity gains, however, are still expected to diminish as output growth decelerates sharply in coming quarters.

Detailed data for these projections are shown in the tables that follow.

## 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					
7/11/84	8/15/84	7/11/84	8/15/84	7/11/84	8/15/84	7/11/84	8/15/84	7/11/84	8/15/84		
<b>Annual changes:</b>											
1982	<1>	4.0	3.8	-1.9	-2.1	6.0	6.0	6.9	7.0	9.7	9.7
1983	<1>	7.7	7.7	3.4	3.7	4.2	3.8	5.1	4.6	9.6	9.6
1984		11.0	11.3	7.0	7.3	4.1	3.8	4.2	4.1	7.2	7.4
1985		8.4	8.2	3.5	3.8	4.9	4.5	5.1	4.9	6.5	6.6
<b>Quarterly changes:</b>											
1983	Q1 <1>	8.2	8.5	2.6	3.3	3.6	2.7	6.7	4.9	10.4	10.4
	Q2 <1>	13.3	12.3	9.7	9.4	4.1	3.9	3.5	3.5	10.1	10.1
	Q3 <1>	11.5	10.1	7.6	6.8	4.7	4.5	5.6	5.4	9.4	9.4
	Q4 <1>	9.1	10.6	5.0	5.9	4.1	3.5	4.4	3.8	8.5	8.5
1984	Q1 <1>	13.9	14.9	9.7	10.1	4.2	4.2	3.7	3.4	7.9	7.9
	Q2 <1>	9.8	10.9	6.7	7.5	3.1	3.3	3.7	4.2	7.5	7.5
	Q3	9.6	8.4	5.3	5.0	4.3	3.6	4.4	4.3	6.9	7.2
	Q4	8.2	8.1	3.5	4.0	4.8	4.4	4.8	4.7	6.7	6.9
1985	Q1	8.1	8.0	3.0	3.4	5.1	4.6	5.1	4.7	6.6	6.8
	Q2	7.7	7.4	2.8	3.1	5.2	4.7	5.4	4.9	6.5	6.7
	Q3	8.2	8.1	2.8	3.1	5.6	5.3	5.9	5.7	6.4	6.6
	Q4	8.5	8.4	2.7	3.0	5.9	5.6	6.2	5.9	6.4	6.5
<b>Two-quarter changes: &lt;2&gt;</b>											
1983	Q2 <1>	10.7	10.4	6.1	6.3	3.9	3.3	5.1	4.2	- .5	- .5
	Q4 <1>	10.3	10.3	6.3	6.4	4.4	4.0	5.0	4.6	-1.6	-1.6
1984	Q2 <1>	11.8	12.9	8.2	8.8	3.6	3.7	3.7	3.8	-1.0	-1.0
	Q4	8.9	8.2	4.4	4.5	4.5	4.0	4.6	4.5	- .8	- .5
1985	Q2	7.9	7.7	2.9	3.3	5.1	4.6	5.2	4.8	- .2	- .3
	Q4	8.3	8.2	2.7	3.0	5.7	5.4	6.1	5.8	- .1	- .2
<b>Four-quarter changes: &lt;3&gt;</b>											
1982	Q4 <1>	2.6	2.7	-1.7	-1.5	4.7	4.7	5.4	5.3	2.4	2.4
1983	Q4 <1>	10.5	10.4	6.2	6.3	4.2	3.7	5.1	4.4	-2.1	-2.1
1984	Q4	10.4	10.5	6.3	6.6	4.1	3.9	4.1	4.2	-1.8	-1.5
1985	Q4	8.1	8.0	2.8	3.2	5.4	5.0	5.6	5.3	- .3	- .5

&lt;1&gt; Actual.

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

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

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

	1982				1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross National Product	3026.0	3061.2	3080.1	3109.6	3173.8	3267.0	3346.6	3431.7
Final sales	3043.1	3072.1	3095.5	3170.8	3216.8	3286.4	3350.9	3419.0
Private	2412.2	2438.4	2439.2	2489.8	2538.0	2604.2	2661.1	2727.6
Domestic final purchases	2384.5	2402.9	2432.6	2483.5	2518.4	2610.7	2677.5	2757.4
Personal consumption expenditures	1931.3	1960.9	2001.3	2046.1	2070.4	2141.6	2181.4	2230.2
Goods	985.8	992.2	1007.0	1025.6	1034.6	1073.0	1095.8	1122.8
Services	945.4	968.6	994.2	1020.6	1035.8	1068.6	1085.7	1107.5
Gross private domestic investment	436.2	431.2	415.9	376.2	405.0	449.6	491.9	540.0
Residential structures	87.5	90.9	89.0	97.9	113.3	129.8	142.3	143.4
Business fixed investment	365.7	351.2	342.2	339.3	334.6	339.3	353.9	383.9
Change in business inventories	-17.0	-10.9	-15.3	-61.1	-42.9	-19.4	-4.3	12.7
Nonfarm	-20.9	-9.5	-11.1	-54.3	-32.6	-5.4	11.6	14.1
Net exports of goods and services <1>	27.7	35.5	6.6	6.3	19.6	-6.5	-16.4	-29.8
Exports	359.4	366.3	346.3	321.7	328.5	328.1	342.0	346.1
Imports	331.7	330.8	339.7	315.4	308.9	334.5	358.4	375.9
Gov't. purchases of goods and services	630.9	633.7	656.3	681.0	678.8	682.2	689.8	691.4
Federal <2>	249.8	245.0	261.6	279.4	273.0	270.5	269.2	266.3
State and local	381.1	388.7	394.7	401.6	405.8	411.6	420.6	425.1
Gross national product in constant (1972) dollars	1483.5	1480.5	1477.1	1478.8	1491.0	1524.8	1550.2	1572.7
Personal income	2536.3	2568.3	2594.2	2639.4	2662.8	2714.7	2763.2	2836.4
Wage and salary disbursements	1546.3	1564.2	1578.0	1586.4	1608.1	1642.1	1671.3	1715.4
Disposable personal income	2132.0	2156.8	2195.8	2237.5	2261.4	2302.9	2367.4	2428.6
Saving rate (percent)	6.7	6.3	6.1	5.8	5.7	4.2	5.0	5.3
Corporate profits with I.V.A. and C.C. Adj.	159.8	161.8	163.3	151.7	179.0	216.6	244.9	259.9
Corporate profits before tax	167.5	169.9	168.9	155.9	161.6	198.1	227.3	225.5
Federal government surplus or deficit (-) (N.I.A. basis)	-106.2	-112.1	-163.8	-210.7	-185.8	-167.3	-181.0	-180.4
High employment surplus or deficit (-) <3>	-36.9	-30.3	-71.5	-107.8	-78.7	-73.9	-110.4	-122.2
State and local government surplus or deficit(-) (N.I.A. basis)	32.6	34.2	33.3	31.4	34.0	43.8	47.4	51.1
Excluding social insurance funds	.5	.9	-1.0	-3.8	-2.0	6.9	9.4	12.0
Civilian labor force (millions)	109.4	110.2	110.5	110.8	110.7	111.3	112.1	112.0
Unemployment rate (percent)	8.8	9.4	10.0	10.6	10.4	10.1	9.4	8.5
Nonfarm payroll employment	90.4	89.9	89.2	88.7	88.8	89.6	90.4	91.7
Manufacturing	19.4	19.0	18.6	18.1	18.1	18.3	18.6	19.0
Industrial production (1967=100)	141.7	139.4	138.2	135.2	138.5	144.5	151.8	155.5
Capacity utilization: all manufacturing (percent)	72.9	71.6	71.1	69.0	70.7	73.9	77.4	78.9
Materials (percent)	73.0	70.7	69.4	67.2	70.1	73.5	77.5	79.6
Housing starts, private (million units, A.R.)	.88	.96	1.12	1.27	1.64	1.69	1.78	1.70
New auto sales (millions, A.R.)	8.12	7.53	7.78	8.57	8.46	9.10	9.22	9.94
Domestic models	5.90	5.53	5.56	6.08	6.06	6.81	6.92	7.29
Foreign models	2.22	1.99	2.22	2.49	2.40	2.28	2.31	2.65

<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 expenditures are shown in the Federal Sector Account table which follows.  
 <3> Estimates in table are evaluated at a 6 percent high employment unemployment rate.

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

August 15, 1984

	1982				1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	-4.7	-.8	-.9	.5	3.3	9.4	6.8	5.9
Final sales	-1.0	-1.5	-.3	5.5	1.1	6.4	4.9	4.2
Private	-1.4	-.9	-2.3	4.1	3.5	8.6	6.2	6.3
Domestic final purchases	.7	-.6	.6	4.8	4.0	12.1	6.9	9.7
Personal consumption expenditures	2.9	2.2	2.2	5.1	2.6	10.0	3.8	6.8
Goods	2.7	1.5	1.8	6.7	3.5	12.6	5.4	9.5
Services	3.1	3.0	2.7	3.4	1.5	7.3	2.1	3.7
Gross private domestic investment	-29.9	-8.1	-11.6	-29.9	34.0	52.5	38.4	37.0
Residential structures	-29.5	16.4	-8.2	51.1	64.4	78.5	31.6	4.3
Business fixed investment	-3.8	-17.6	-7.0	-5.7	.2	9.5	18.9	30.6
Gov't. purchases of goods and services	.8	-4.3	8.3	11.1	-8.1	-2.6	-.5	-4.3
Federal	3.6	-12.6	24.3	28.6	-17.3	-5.9	-5.3	-8.7
National defense	2.1	13.3	13.4	6.6	7.0	7.4	-1.9	9.3
State and local	-1.1	1.4	-.7	.2	-1.1	-.2	2.8	-1.4
Disposable personal income	-1.2	.8	1.2	3.7	2.1	3.4	7.7	8.3
<u>Current Dollars</u>								
Gross national product	-.3	4.7	2.5	3.9	8.5	12.3	10.1	10.6
Final sales	4.6	3.9	3.1	10.1	5.9	8.9	8.1	8.4
Private	4.4	4.4	.1	8.6	8.0	10.8	9.0	10.4
Domestic final purchases	5.2	3.1	5.0	8.6	5.7	15.5	10.6	12.5
Personal consumption expenditures	8.6	6.3	8.5	9.3	4.8	14.5	7.6	9.3
Goods	6.0	2.6	6.1	7.6	3.6	15.7	8.8	10.2
Services	11.4	10.2	11.0	11.1	6.1	13.3	6.6	8.3
Gross private domestic investment	-32.8	-4.5	-13.5	-33.1	34.3	51.9	43.3	45.2
Residential structures	-27.4	16.5	-8.1	46.4	79.4	72.3	44.5	3.1
Business fixed investment	-2.5	-14.9	-9.9	-3.3	-5.4	5.7	18.4	38.5
Gov't. purchases of goods and services	5.4	1.8	15.0	15.9	-1.3	2.0	4.5	.9
Federal	4.8	-7.3	30.0	30.1	-8.9	-3.6	-1.9	-4.2
National defense	6.9	17.4	19.5	17.9	8.0	9.8	3.3	13.1
State and local	5.8	8.2	6.3	7.2	4.2	5.8	9.0	4.3
Disposable personal income	4.3	4.7	7.4	7.8	4.3	7.5	11.7	10.7
Personal income	4.7	5.1	4.1	7.2	3.6	8.0	7.3	11.0
Wage and salary disbursements	3.8	4.7	3.6	2.1	5.6	8.7	7.3	11.0
Corporate profits with I.V.A. and C.C.Adj.	-44.2	5.1	3.8	-25.5	93.9	114.4	63.4	26.8
Corporate profits before tax	-57.7	5.9	-2.3	-27.4	15.4	125.8	73.3	-3.1
Nonfarm payroll employment	-2.7	-1.9	-3.1	-2.3	.5	3.4	3.7	5.8
Manufacturing	-9.2	-8.7	-8.9	-9.5	-.9	5.0	7.0	9.1
Nonfarm business sector								
Output per hour	2.5	-1.6	3.6	1.1	4.4	8.1	2.1	1.0
Compensation per hour	10.5	5.9	7.5	5.1	5.7	3.5	2.2	4.1
Unit labor costs	7.9	7.6	3.7	4.0	1.3	-4.2	.1	3.0
GNP implicit deflator <1>	4.6	5.6	3.4	3.4	5.0	2.6	3.1	4.4
Gross domestic business product								
fixed-weighted price index <2>	5.3	4.4	5.6	3.7	2.7	3.9	4.5	3.5
Excluding food and energy	5.6	6.7	5.2	3.9	4.9	3.5	5.4	3.8
Consumer price index (all urban)	3.8	5.5	7.3	1.5	.3	4.4	4.1	4.5
Industrial production	-11.8	-6.5	-3.4	-8.2	10.1	18.4	21.8	10.2

<1> Excluding the federal pay increase, the rate of change in 1982-Q4 was 3.0 percent.

<2> Uses expenditures in 1972 as weights.

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

August 15, 1984

	1984				Projected 1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross National Product	3553.3	3646.4	3720.9	3793.7	3867.6	3937.7	4014.9	4096.3
Final sales	3479.5	3592.5	3658.7	3739.6	3820.1	3892.8	3972.9	4058.8
Private	2775.1	2846.4	2898.2	2960.5	3018.9	3074.3	3137.2	3205.2
Domestic final purchases	2826.6	2904.4	2969.5	3038.0	3102.9	3163.3	3230.0	3297.5
Personal consumption expenditures	2276.5	2326.7	2371.1	2420.4	2468.9	2516.1	2566.6	2616.9
Goods	1152.2	1176.5	1193.0	1215.0	1236.8	1256.7	1278.5	1299.5
Services	1124.4	1150.2	1178.1	1205.4	1232.1	1259.4	1288.1	1317.4
Gross private domestic investment	623.8	631.5	660.6	671.7	681.5	692.1	705.4	718.1
Residential structures	151.2	156.6	155.7	156.7	156.6	154.1	154.2	155.3
Business fixed investment	398.8	421.2	442.7	460.9	477.4	493.1	509.2	525.3
Change in business inventories	73.8	53.8	62.2	54.1	47.5	44.9	42.0	37.5
Nonfarm	60.6	51.2	58.4	50.3	47.5	44.9	42.0	37.5
Net exports of goods and services <1>	-51.5	-58.0	-71.3	-77.5	-83.9	-89.1	-92.8	-92.3
Exports	358.9	371.4	376.1	387.3	399.3	412.3	426.6	442.0
Imports	410.4	429.4	447.4	464.8	483.2	501.4	519.4	534.3
Gov't. purchases of goods and services	704.4	746.1	760.5	779.0	801.2	818.5	835.7	853.6
Federal <2>	267.6	299.3	304.0	312.8	325.7	333.5	341.0	349.1
State and local	436.8	446.7	456.5	466.2	475.5	485.0	494.7	504.5
Gross national product in constant (1972) dollars	1610.9	1640.2	1660.3	1676.7	1690.7	1703.8	1716.9	1729.5
Personal income	2920.5	2984.9	3052.9	3121.6	3190.4	3251.7	3318.8	3383.8
Wage and salary disbursements	1755.7	1792.0	1826.4	1863.6	1902.9	1940.0	1976.9	2013.8
Disposable personal income	2502.2	2557.6	2610.2	2666.6	2722.0	2771.5	2826.3	2879.1
Saving rate (percent)	6.1	6.0	6.1	6.2	6.3	6.2	6.2	6.1
Corporate profits with I.V.A. and C.C. Adj.	277.4	283.6	292.3	294.2	294.7	296.9	303.3	313.2
Corporate profits before tax	243.3	238.6	244.4	246.3	242.8	241.0	243.9	249.3
Federal government surplus or deficit (-) (N.I.A. basis)	-161.3	-168.0	-169.8	-175.3	-183.7	-185.7	-188.0	-187.7
High employment surplus or deficit (-) <3>	-113.4	-135.4	-144.4	-156.4	-168.7	-173.5	-178.2	-179.8
State and local government surplus or deficit(-) (N.I.A. basis)	54.0	51.9	51.5	50.7	49.7	48.8	47.9	47.2
Excluding social insurance funds	13.5	10.0	8.9	7.4	5.7	4.2	2.7	1.4
Civilian labor force (millions)	112.6	113.6	114.1	114.7	115.2	115.7	116.2	116.7
Unemployment rate (percent)	7.9	7.5	7.2	6.9	6.8	6.7	6.6	6.5
Nonfarm payroll employment	92.8	93.8	94.6	95.5	96.3	97.0	97.6	98.2
Manufacturing	19.4	19.6	19.8	20.0	20.1	20.3	20.4	20.5
Industrial production (1967=100)	159.8	163.0	166.5	168.6	170.6	172.4	174.1	175.7
Capacity utilization: all manufacturing (percent)	80.7	81.8	83.0	83.4	83.8	84.1	84.3	84.4
Materials (percent)	81.6	82.8	84.2	84.8	85.3	85.7	86.1	86.4
Housing starts, private (million units, A.R.)	1.97	1.91	1.73	1.70	1.65	1.60	1.60	1.60
New auto sales (millions, A.R.)	10.46	10.68	10.73	11.00	10.95	11.15	11.15	11.15
Domestic models	8.16	8.26	8.23	8.35	8.50	8.60	8.50	8.40
Foreign models	2.30	2.42	2.50	2.65	2.45	2.55	2.65	2.75

<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 Account table which follows.

<3> Estimates in table are evaluated at a 6 percent high employment unemployment rate.

I-11  
PERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS  
(Annual rates compounded quarterly)

August 15, 1984

	1984				Projected 1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	10.1	7.5	5.0	4.0	3.4	3.1	3.1	3.0
Final sales	3.6	10.4	4.1	4.8	4.2	3.5	3.5	3.5
Private	4.2	8.5	4.4	4.8	4.0	3.4	3.5	3.5
Domestic final purchases	7.6	9.0	5.7	5.1	4.1	3.2	3.2	2.8
Personal consumption expenditures	4.6	6.9	4.1	3.9	3.3	2.8	2.6	2.1
Goods	7.8	9.4	3.9	4.1	3.5	2.7	2.6	2.0
Services	1.2	3.9	4.4	3.7	3.0	3.0	2.7	2.3
Gross private domestic investment	71.5	1.0	16.7	4.8	2.2	2.6	2.9	2.2
Residential structures	20.8	9.6	-6.1	-1.7	-4.8	-10.7	-4.6	-2.1
Business fixed investment	20.5	20.7	18.3	13.4	10.8	9.0	7.9	7.1
Gov't. purchases of goods and services	1.0	19.1	2.8	5.1	5.3	3.9	3.5	3.5
Federal	-2.8	47.7	2.7	8.4	9.2	5.7	4.7	4.7
National defense	3.8	13.0	9.7	7.0	7.6	6.5	6.0	6.2
State and local	3.5	3.2	2.9	2.9	2.7	2.7	2.6	2.6
Disposable personal income	8.6	6.9	4.7	4.2	3.6	2.4	2.5	1.8
<u>Current Dollars</u>								
Gross national product	14.9	10.9	8.4	8.1	8.0	7.4	8.1	8.4
Final sales	7.3	13.6	7.6	9.1	8.9	7.8	8.5	8.9
Private	7.1	10.7	7.5	8.9	8.1	7.5	8.4	9.0
Domestic final purchases	10.4	11.5	9.3	9.6	8.8	8.0	8.7	8.6
Personal consumption expenditures	8.6	9.1	7.9	8.6	8.3	7.9	8.3	8.1
Goods	10.9	8.7	5.7	7.6	7.4	6.6	7.1	6.7
Services	6.2	9.5	10.1	9.6	9.2	9.2	9.4	9.4
Gross private domestic investment	78.1	5.0	19.7	6.9	5.9	6.4	7.9	7.4
Residential structures	23.6	15.1	-2.3	2.6	-3	-6.2	.3	2.9
Business fixed investment	16.5	24.4	22.0	17.5	15.0	13.9	13.7	13.3
Gov't. purchases of goods and services	7.7	25.9	8.0	10.1	11.9	8.9	8.7	8.8
Federal	2.0	56.5	6.4	12.1	17.5	9.9	9.3	9.8
National defense	12.5	15.7	13.5	11.3	16.8	11.3	11.1	11.8
State and local	11.5	9.4	9.1	8.8	8.2	8.2	8.2	8.2
Disposable personal income	12.7	9.2	8.5	8.9	8.6	7.5	8.2	7.7
Personal income	12.4	9.1	9.4	9.3	9.1	7.9	8.5	8.1
Wage and salary disbursements	9.7	8.5	7.9	8.4	8.7	8.0	7.8	7.7
Corporate profits with I.V.A. and C.C.Adj.	29.8	9.2	12.8	2.6	.7	2.9	9.0	13.7
Corporate profits before tax	35.5	-7.5	10.1	3.1	-5.5	-3.0	5.0	9.1
Nonfarm payroll employment	4.8	4.4	3.8	3.8	3.2	2.9	2.7	2.5
Manufacturing	7.5	4.5	4.4	4.1	3.2	2.8	2.4	2.0
Nonfarm business sector								
Output per hour	2.9	3.3	1.5	.1	.4	.4	.9	.9
Compensation per hour	6.1	3.6	4.0	4.4	5.5	5.2	5.5	5.7
Unit labor costs	3.1	.3	2.5	4.3	5.1	4.8	4.6	4.8
GNP implicit deflator <1>	4.4	3.2	3.3	3.9	4.5	4.2	4.8	5.2
Gross domestic business product								
fixed-weighted price index <2>	4.2	3.3	3.6	4.4	4.6	4.7	5.3	5.6
Excluding food and energy	3.4	4.2	4.3	4.7	4.7	4.9	5.7	5.9
Consumer price index (all urban)	5.0	3.7	3.7	4.6	5.0	5.0	5.5	5.7
Industrial production	11.5	8.3	8.9	5.1	4.8	4.3	4.0	3.7

<1> Excluding Federal pay increase, the rate of change in 1984-Q1 is 4.0 percent and in 1985-Q1 is 4.2 percent.  
<2> Uses expenditures in 1972 as weights.

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

	1978	1979	1980	1981	1982	1983	Projected	
							1984	1985
Gross national product	2163.9	2417.8	2631.7	2957.8	3069.3	3304.8	3678.6	3979.1
Final sales	2137.4	2403.5	2641.5	2931.7	3095.4	3318.3	3617.6	3936.2
Private	1705.5	1929.1	2103.7	2335.2	2444.9	2632.7	2870.1	3108.9
Domestic final purchases	1706.6	1915.9	2079.7	2307.2	2425.9	2641.0	2934.6	3198.5
Personal consumption expenditures	1346.5	1507.2	1668.1	1849.1	1984.9	2155.9	2348.7	2542.1
Goods	728.5	813.5	883.5	966.1	1002.7	1081.5	1184.2	1267.9
Services	618.0	693.7	784.5	883.0	982.2	1074.4	1164.5	1274.2
Gross private domestic investment	386.6	423.0	401.9	484.2	414.9	471.6	646.9	699.3
Residential construction	111.2	118.6	102.9	104.3	91.4	132.2	155.0	155.0
Business fixed investment	248.9	290.2	308.8	353.9	349.6	352.9	430.9	501.3
Change in business inventories	26.5	14.3	-9.8	26.0	-26.1	-13.5	61.0	43.0
Nonfarm	25.4	8.6	-4.5	18.2	-24.0	-3.1	55.1	43.0
Net exports of goods and services <1>	-1.1	13.2	23.9	28.0	19.0	-8.3	-64.6	-89.5
Exports	218.7	281.4	338.8	369.9	348.4	336.2	373.4	420.0
Imports	219.8	268.1	314.8	341.9	329.4	344.4	438.0	509.6
Gov't. purchases of goods and services	431.9	474.4	537.8	596.5	650.5	685.5	747.5	827.3
Federal <2>	153.6	168.3	197.0	228.9	258.9	269.7	295.9	337.3
State and local	278.3	306.0	340.8	367.6	391.5	415.8	451.6	489.9
Gross national product in constant (1972) dollars	1438.6	1479.4	1475.0	1512.2	1480.0	1534.7	1647.0	1710.2
Personal income	1732.7	1951.2	2165.3	2429.5	2584.6	2744.3	3020.0	3286.2
Wage and salary disbursements	1106.3	1237.6	1356.7	1493.1	1568.7	1659.2	1809.4	1958.4
Disposable personal income	1474.0	1650.2	1828.9	2041.7	2180.5	2340.1	2584.1	2799.7
Saving rate (percent)	6.1	5.9	6.0	6.7	6.2	5.0	6.1	6.2
Corporate profits with I.V.A. and C.C.Adj.	192.4	194.8	175.4	189.9	159.1	225.1	286.9	302.0
Corporate profits before tax	229.1	252.7	234.6	221.2	165.5	203.1	243.1	244.2
Federal government surplus or deficit (-) (N.I.A. basis)	-29.5	-16.1	-61.2	-64.3	-148.2	-178.6	-168.1	-185.2
High employment surplus or deficit (-)	-33.9	-20.8	-36.4	-31.3	-61.6	-92.7	-137.4	-175.0
State and local government surplus or deficit (-) (N.I.A. basis)	30.3	30.4	30.6	37.6	32.9	44.1	52.0	48.4
Excluding social insurance funds	10.0	6.6	3.5	7.8	-.8	6.6	9.9	3.5
Civilian labor force (millions)	102.3	105.0	106.9	108.7	110.2	111.5	113.8	116.0
Unemployment rate (percent)	6.1	5.8	7.1	7.6	9.7	9.6	7.4	6.6
Nonfarm payroll employment (millions)	86.7	89.8	90.4	91.2	89.6	90.0	94.2	97.3
Manufacturing	20.5	21.0	20.3	20.2	18.9	18.7	19.7	20.3
Industrial production (1967=100)	146.1	152.5	147.0	150.9	138.6	147.6	164.5	173.2
Capacity utilization: all manufacturing (percent)	84.7	86.0	79.6	79.4	71.1	75.2	82.2	84.1
Materials (percent)	85.6	87.6	80.4	80.7	70.1	75.2	83.3	85.8
Housing starts, private (million units, A.R.)	2.00	1.72	1.30	1.10	1.06	1.70	1.83	1.61
New auto sales (millions, A.R.)	11.29	10.68	9.04	8.56	8.00	9.18	10.72	11.10
Domestic models	9.29	8.36	6.62	6.24	5.77	6.79	8.25	8.50
Foreign models	2.00	2.32	2.42	2.32	2.23	2.39	2.47	2.60

<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.

	1978	1979	1980	1981	1982	1983	---Projected---	
							1984	1985
<b>Constant (1972) Dollars</b>								
Gross national product	5.0	2.8	-.3	2.5	-2.1	3.7	7.3	3.8
Final sales	4.9	3.5	.5	1.5	-.7	3.2	5.4	4.4
Private	5.6	4.0	.1	1.6	-1.3	4.1	6.0	4.2
Domestic final purchases	5.5	2.9	-1.0	2.2	-.2	5.6	8.0	4.4
Personal consumption expenditures	4.5	2.7	.5	2.0	1.3	4.8	5.6	3.5
Goods	4.2	1.9	-1.4	1.7	.4	6.0	7.6	3.7
Services	4.8	3.7	2.7	2.3	2.5	3.4	3.2	3.3
Gross private domestic investment	10.5	-.2	-11.8	10.7	-15.9	13.7	32.4	4.5
Residential structures	2.8	-5.3	-20.3	-5.5	-14.8	41.6	13.9	-4.5
Business fixed investment	12.8	7.3	-2.4	5.5	-4.6	2.5	20.6	11.8
Gov't. purchases of goods and services	2.0	1.3	2.2	.9	2.0	-.3	3.2	5.1
Federal	-.1	1.8	4.2	3.7	6.1	-.7	4.9	8.6
National defense	.5	2.6	3.9	5.0	7.6	7.1	6.9	7.5
State and local	3.3	1.1	1.0	-.6	-.6	-.0	2.1	2.8
Disposable personal income	4.9	2.7	.6	2.7	.9	3.5	7.0	3.6
<b>Current Dollars</b>								
Gross national product	12.8	11.7	8.8	12.4	3.8	7.7	11.3	8.2
Final sales	12.8	12.4	9.9	11.0	5.6	7.2	9.0	8.8
Private	13.6	13.1	9.0	11.0	4.7	7.7	9.0	8.3
Domestic final purchases	13.4	12.3	8.5	10.9	5.1	8.9	11.1	9.0
Personal consumption expenditures	11.8	11.9	10.7	10.9	7.3	8.6	8.9	8.2
Goods	10.9	11.7	8.6	9.3	3.8	7.9	9.5	7.1
Services	12.9	12.2	13.1	12.6	11.2	9.4	8.4	9.4
Gross private domestic investment	19.3	9.4	-5.0	20.5	-14.3	13.7	37.2	8.1
Residential structures	16.1	6.6	-13.2	1.3	-12.4	44.7	17.3	-.0
Business fixed investment	21.3	16.6	6.4	14.6	-1.2	.9	22.1	16.3
Gov't. purchases of goods and services	9.7	9.8	13.4	10.9	9.0	5.4	9.0	10.7
Federal	7.1	9.6	17.1	16.2	13.1	4.2	9.7	14.0
National defense	8.0	11.5	17.3	17.2	16.8	11.7	11.9	13.2
State and local	11.2	9.9	11.4	7.9	6.5	6.2	8.6	8.5
Disposable personal income	12.2	12.0	10.8	11.6	6.8	7.3	10.4	8.3
Personal income	12.5	12.6	11.0	12.2	6.4	6.2	10.0	8.8
Wage and salary disbursements	12.5	11.9	9.6	10.1	5.1	5.8	9.1	8.2
Corporate profits with I.V.A. and C.C.Adj.	15.0	1.2	-9.9	8.3	-16.2	41.5	27.4	5.3
Corporate profits before tax	17.7	10.3	-7.1	-5.7	-25.2	22.7	19.7	.5
Nonfarm payroll employment	5.1	3.6	.7	.8	-1.7	.4	4.7	3.3
Manufacturing	4.2	2.6	-3.6	-.6	-6.5	-.9	5.4	3.3
Nonfarm business sector								
Output per hour	.6	-1.5	-.8	1.5	.2	3.4	2.5	.8
Compensation per hour	8.5	9.0	10.4	9.6	8.0	4.8	4.2	4.9
Unit labor costs	8.0	10.7	11.2	8.0	7.8	1.3	1.7	4.2
GNP implicit deflator	7.4	8.6	9.2	9.6	6.0	3.8	3.7	4.2
Gross domestic business product								
fixed-weighted price index <1>	8.0	9.9	9.9	9.7	5.9	3.7	3.8	4.5
Excluding food and energy	7.8	8.6	8.5	9.4	7.0	4.6	4.1	4.9
Consumer price index (all urban)	7.6	11.3	13.5	10.3	6.1	3.2	4.3	4.8
Material production	5.8	4.4	-3.6	2.6	-8.1	6.4	11.5	5.3

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

August 15, 1984

	Fiscal Year 1983*	FY1984 <sup>e</sup> /2/		FY1985 <sup>e</sup> /2/		CY1984 <sup>e</sup>		FRB staff estimates Calendar quarters: not seasonally adjusted											
		Admin. 1/	FRB Staff	Admin. 1/	FRB Staff	CY 1983*	FRB Staff	1983				1984				1985			
								IV*				I*				II		III	
								IV*	I*	II*	III	IV	I	II	III				
Unified budget receipts	601	671	671	764	753	613	690	149	155	187	180	168	173	215	196				
Unified budget outlays	796	845	846	931	933	803	870	213	209	211	213	236	230	234	232				
Surplus/deficit(-), unified budget	-195	-174	-175	-167	-180	-190	-180	-63	-54	-24	-33	-68	-57	-19	-35				
Surplus/deficit(-), off-budget agencies <sup>3</sup>	-12	-13	-11	-13	-14	-10	-15	1	-2	-4	-6	-2	-3	-4	-5				
Combined deficit to be financed	-208	-187	-186	-180	-194	-200	-195	-62	-57	-28	-40	-70	-60	-23	-40				
Means of financing combined deficit:																			
Net borrowing from public	212	n.a.	169	n.a.	199	187	197	36	49	31	52	65	54	39	41				
Decrease in cash operating balance	-8	n.a.	17	n.a.	-7	8	-1	25	-2	1	-7	7	2	-13	-3				
Other <sup>4</sup>	3	n.a.	1	n.a.	2	6	-1	1	10	-3	-6	-2	4	-3	3				
Cash operating balance, end of period	37	n.a.	20	n.a.	27	12	13	12	14	14	20	13	11	24	27				
Memo: Sponsored agency borrowing <sup>5</sup>	-3	n.a.	29	n.a.	23	1	33	3	6	9	11	7	6	5	5				
<b>NIA Budget</b>								<b>Seasonally adjusted annual rates</b>											
Receipts	629	n.a.	690	n.a.	764	641	710	655	686	699	719	736	757	773	790				
Expenditures	816	n.a.	859	n.a.	946	820	878	835	848	867	887	910	940	957	977				
Purchases	273	n.a.	284	n.a.	328	270	296	266	268	299	304	313	326	334	341				
Defense	196	n.a.	218	n.a.	250	201	225	207	213	221	229	237	247	253	261				
Nondefense	77	n.a.	67	n.a.	79	69	71	59	54	78	75	76	79	80	80				
All other expenditures	543	n.a.	575	n.a.	618	550	582	569	580	568	583	597	614	624	636				
Surplus/deficit(-)	-186	n.a.	-170	n.a.	-182	-179	-168	-180	-161	-168	-169	-174	-183	-185	-187				
High employment surplus/deficit(-) evaluated at 6 percent unemployment	-91	n.a.	-127	n.a.	-169	-93	-137	-113	-113	-135	-144	-156	-169	-174	-178				
	*-actual				e--estimated				n.a.--not available										

1. OMB Mid-Session Review of the 1985 Budget, August 1984.

2. The CBO baseline budget estimates show revenues of \$673 billion and \$751 billion, outlays of \$845 billion and \$929 billion and deficits of \$172 billion and \$178 billion in fiscal years 1984 and 1985 respectively (The Economic and Budget Outlook: An Update, August 1984).

Note: Details may not add to totals due to rounding.

3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and Strategic Petroleum Reserve.

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

5. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage-backed securities), Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis.

## DOMESTIC FINANCIAL DEVELOPMENTS

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Recent Developments. Indications of enhanced prospects for more moderate economic growth and continued subdued inflation induced a sizable rally in bond and stock markets during the intermeeting period. Intermediate- and long-term yields have fallen 60 to 80 basis points, and stock indexes are up 7 to 9 percent on record volume. Mortgage rates, which had lagged the uptrend in bond yields during much of this year, have declined about 15 to 35 basis points.

In the money market, the federal funds rate edged still higher, into the 11-1/2 percent area, as depository institutions continued to adopt a more cautious approach to discount window borrowing. Other very short-term rates moved in sympathy with the funds rate, while slightly longer rates (generally more than 3-months maturity) declined. Bank CD rates recorded the largest reduction, reflecting some easing of concern about the financial health of large banks. Nevertheless, some nervousness and tiering persists in the CD market and several large institutions continue to be cautious in using this market, adjusting the size, timing and maturity of their offerings to avoid an adverse rate reaction.

M1 contracted about 2 percent at an annual rate in July following an 11-1/2 percent expansion in June; this puts its level just above the midpoint of its annual target growth range. Reflecting the M1 weakness, M2 growth slowed to a 5 percent rate and this aggregate remained slightly below the midpoint of its target range. Among the nontransactions components of M2, small denomination time deposits accelerated further, and inflows to money market mutual funds remained strong, while savings deposits and MMDAs continued to decline.

A slackening in the runoff of term RPs and Eurodollars kept M3 growing in July at a 9 percent annual rate, and it remained above the upper limit of its annual target range. Large CD issuance moderated, though still accounting for the bulk of the growth in managed liabilities, particularly at thrift institutions.

Underlying business financing needs remain strong as capital spending (including inventories) appears to continue to outpace internal funds by a substantial margin. Beginning in late July, corporate bond issuance picked up as long-term interest rates fell. However, merger-related financing has dropped off: business loans at banks (including foreign branches) plus commercial paper issued by nonfinancial firms grew at about a 16 percent annual rate in July, somewhat below the very rapid pace set earlier in the year.

Consumer loans at commercial banks in July continued to increase at the elevated 20 percent pace that prevailed (and occasionally had been exceeded) throughout most of the year, extending the strong trend apparent in the 22 percent annual growth of total installment credit in June. Real estate lending at banks, on the other hand, moderated to about a 12 percent growth rate in July, the slowest pace this year, and new mortgage commitment activity declined at saving and loan associations in June.

State and local issuance of bonds surged in July, bolstered by a large offering of mortgage revenue bonds following recent enactment of legislation renewing authority for these instruments. Federal borrowing has continued strong during the current quarter.

In the aggregate, domestic nonfinancial debt issuance outside of the federal sector is estimated to have slowed to an 11-3/4 percent pace in

July, down more than 1-1/2 percentage points from the second-quarter rate. Given the strength in the federal sector, however, total nonfinancial debt is estimated to have increased at a 13 percent rate in July, only slightly less than the average of previous months.

Outlook. Some moderation in private credit growth is likely over the remainder of this year as the pace of economic expansion slackens and merger-financing needs abate. In the household sector, expansion in consumer spending and credit demands may recede somewhat as income growth slows, the backlog of demands for durables dwindles, and increased credit costs are encountered. Indications of prospective slackening in mortgage credit demands are now apparent and slowing is likely for the remainder of the year. In the near term, though, the recent declines in corporate and Treasury bond rates may encourage some further easing in mortgage rates: on the other hand, tightened credit standards and higher insurance premiums on the popular ARMs will tend to push effective costs upward.

In the business sector, a further rise in the financing gap is now in prospect and net funds raised by nonfinancial corporations should continue to increase. The decline in merger-related borrowing, however, is expected to reduce the paydowns of equity seen earlier in the year, and the recent buoyant rise in the stock market may continue to call forth new stock issues. Business assumption of debt is hence expected to moderate in the second half of the year, although it will be augmented by some tax-exempt financing owing to the renewed, through limited, authorization of industrial development bonds.

Private-purpose issuance is boosting activity in the municipal bond market and offerings by the state and local sector are likely to

remain strong in this quarter. They are expected to slow toward year end, however, after catching up from the delay in federal legislation pertaining to mortgage and development bonds.

With the federal budget deficit likely to be only slightly higher in fiscal 1985 than in 1984, Treasury borrowing should expand only a bit more than seasonally in the final quarter of the year. Although its contribution to the growth of total domestic nonfinancial debt will be slightly reduced, the growth of federal debt will remain extraordinarily fast.

In sum, slightly reduced growth in total nonfinancial debt is to be expected as the year progresses. Especially after removing the effects of merger financing, however, the slowing is likely be fairly small. It is unlikely to provide room for further sustained declines in market interest rates, following the recent discounting of favorable inflation news, and rates, in general, are expected to remain around present levels.

## INTERNATIONAL DEVELOPMENTS

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Recent developments. The trade-weighted foreign exchange value of the dollar rose further after the last FOMC meeting to a new high in early August, and then tended to fluctuate around a level somewhat below the peak. Since the beginning of the year the dollar has appreciated, on average, about 4 percent. Over the past month the dollar's largest gains have been registered mainly against the German mark and other EMS currencies, with lesser gains against sterling and the yen, and a moderate decline against the Canadian dollar.

The main factors in the rise into early August were sustained relatively high U.S. nominal interest rates, reports of strong U.S. economic activity coupled with low inflation, a June U.S. trade deficit somewhat smaller than expected, and evidence of some economic and political tension in other industrial countries. After the dollar reached a peak some downward movement seemed to be associated with signs of a slowing U.S. economy and continued easing of U.S. long-term interest rates.

. The Bank of England had raised its money market interest rates in July to counter strong pressure on sterling, but was able to lower these rates in August as the pressure subsided.

Economic activity in other industrial countries appears to be moving ahead slowly, with the major exception of Japan, where recovery over the past year has been quite vigorous. Production in both Germany and the United Kingdom has been depressed by industrial disputes, but in

the German case it appears that activity would have been sluggish in any case. French activity remains weak, with a government reshuffle reaffirming a policy of economic austerity. The pace of recovery is somewhat more promising in Italy, and the Canadian growth rate remains high, though reduced from the rapid pace of last year. Inflation rates have generally been subdued in these countries. On the external side, the outstanding features are a notable rise in Japan's current account surplus to a \$33 billion annual rate (s.a.) in the first half, and a drop in Germany's current account surplus from last year's rate. The U.K. external balance also deteriorated compared with the first half of 1983.

Experience of the major debtors among the developing countries has been mixed in recent weeks. Mexico has continued to negotiate a longer-term restructuring of debt with the banks on the basis of its adjustment progress to date, but the banks want to maintain a strong oversight role for the IMF. Venezuela has proposed a restructuring of its public debt to banks involving flat annual payments over a period of 15 years, with each year's payment divided between interest and principal depending on an interest rate formula. Banks have interpreted this arrangement as being effectively an interest rate cap, which they do not wish to accept, and further discussions on this issue, and on the amount to be rescheduled, will be necessary. In the case of Argentina, the gap between the economic program proposed by the government and the targets recommended by the IMF may have been narrowed and an IMF team is scheduled to go to Argentina. Argentina's cash position improved in the seasonally strong first half of the year, and a \$300 million loan

from other Latin American countries was repaid. Brazil has been reducing its external current account deficit on the strength of a large trade surplus, but a high inflation rate suggests some conflict with IMF guidelines later in the year. A deteriorating economic situation in the Philippines is complicating negotiations with the IMF.

In the U.S. international accounts the merchandise trade deficit in June was a little above the May rate, bringing the second-quarter rate somewhat above the already-high first-quarter rate. Non-oil imports declined slightly in the second quarter, but remained robust, reflecting strong U.S. economic activity and the continuing effects of the greatly appreciated dollar. Oil imports in the second quarter were up somewhat as prices and volumes increased. On the export side, shipments of agricultural products declined as volume fell off, while nonagricultural exports rose slightly, mainly to industrial countries, especially Canada.

The current account deficit probably registered a quarterly rate of about \$20 billion (s.a.) in the second quarter, moderately above the first-quarter rate, but the available reported data for capital show a much smaller net inflow. Banks reported a small net outflow in the second quarter in contrast to a sizable net inflow reported in the first quarter. Most of the shift was in positions with unrelated foreign banks, and there was also a small net outflow to foreign nonbanks. Foreign net purchases of private U.S. securities were negligible, but net purchases of Treasury obligations were substantial at \$6-1/2 billion. Foreign official accounts in the United States were reduced further, on balance, with holdings of G-10 and OPEC countries

reduced while there was some increase in assets held by other countries. The implication of these figures is that, unless there was a very large inflow for direct investments in the second quarter, there was again a large positive residual in the accounts.

Outlook. Staff projections of the U.S. trade and current accounts have been modified in recent weeks, mainly because of the higher than anticipated value of the dollar and more rapid U.S. economic growth. The outlook for activity abroad has not changed materially, with Japan expected to register strong growth while elsewhere growth is generally restrained. Another factor influencing the near-term outlook has been the subsidence of imports since April to a more usual relationship to activity. The net effect of these factors has been a slight reduction in the projected 1984 current account deficit, to about \$90 billion, and an increase in the expected 1985 deficit to almost \$120 billion. The staff continues to project a moderate depreciation of the dollar over the period to the end of 1985.

AUGUST 14, 1984

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

	ANNUAL			1983		1984				1985			
	1983	1984-P	1985-P	Q3	Q4	Q1	Q2	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP EXPORTS AND IMPORTS 1/													
CURRENT \$, NET	-8.2	-64.6	-89.5	-16.4	-29.8	-51.5	-58.0	-71.3	-77.5	-83.9	-89.1	-92.8	-92.3
EXPORTS OF G+S	336.2	373.4	420.0	342.0	346.1	358.9	371.4	376.1	387.3	399.3	412.3	426.6	442.0
IMPORTS OF G+S	344.4	438.0	509.6	358.4	375.9	410.4	429.4	447.4	464.8	483.2	501.4	519.4	534.3
CONSTANT 72 \$, NET	12.6	-11.9	-14.3	11.9	1.9	-8.3	-10.0	-14.1	-15.3	-15.8	-15.3	-14.2	-11.8
EXPORTS OF G+S	139.5	149.3	160.0	141.6	141.0	144.9	148.8	150.3	153.4	155.9	158.5	161.3	164.4
IMPORTS OF G+S	126.9	161.3	174.2	129.7	139.1	153.2	158.8	164.3	168.7	171.6	173.7	175.4	176.2
2. U.S. MERCHANDISE TRADE BALANCE 2/	-41.1	-110.1	-131.2	-78.0	-77.6	-102.6	-105.1	-112.8	-119.8	-125.9	-130.8	-134.2	-134.0
EXPORTS	290.3	218.3	239.0	201.7	207.3	216.7	216.4	218.2	221.8	227.2	234.2	242.5	252.3
AGRICULTURAL	36.6	37.1	37.6	37.2	39.2	41.1	37.0	35.4	35.1	36.0	37.3	38.1	39.1
NONAGRICULTURAL	163.6	181.1	201.4	164.5	168.1	175.5	179.4	182.9	186.7	191.2	196.8	204.4	213.2
IMPORTS	241.3	328.4	370.3	271.8	284.9	319.2	321.5	331.0	341.6	353.1	364.9	376.7	386.3
PETROLEUM AND PRODUCTS	93.8	62.3	73.1	63.7	57.1	55.4	59.5	65.0	69.2	70.0	71.9	74.6	75.7
NONPETROLEUM	247.5	266.1	297.2	208.1	227.8	263.8	262.0	266.1	272.4	283.1	293.0	302.1	310.6
3. U.S. CURRENT ACCOUNT BALANCE	-41.6	-91.0	-118.9	-47.4	-68.8	-77.6	-84.8 <sup>P</sup>	-97.4	-104.3	-111.7	-117.9	-122.7	-123.2
OF WHICH: NET INVESTMENT INCOME	23.5	23.4	15.6	28.7	20.5	30.5	24.5 <sup>P</sup>	19.4	19.2	17.7	16.3	14.8	13.8
4. FOREIGN OUTLOOK 3/													
REAL GNP--TEN INDUSTRIAL 4/	1.5	3.0	2.6	2.3	4.2	4.1	1.4	2.6	2.8	2.7	2.8	2.6	2.6
REAL GNP--MONOPEC LDC 5/	0.5	2.7	3.7	1.5	2.3	2.9	3.3	3.5	3.7	3.8	3.8	3.8	3.8
CONSUMER PRICES--TEN IND. 4/	5.7	5.2	4.8	5.3	5.4	5.4	4.8	4.9	4.7	4.8	5.1	4.7	4.9

- 1/ NATIONAL INCOME AND PRODUCT ACCOUNT DATA.  
 2/ INTERNATIONAL ACCOUNTS BASIS.  
 3/ PERCENT CHANGE, ANNUAL RATES.  
 4/ WEIGHTED BY MULTILATERAL TRADE-WEIGHTS OF G-10 COUNTRIES PLUS SWITZERLAND.  
 5/ WEIGHTED BY SHARE IN MONOPEC LDC GNP.  
 P/ PROJECTED