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September 26, 1984

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 growth has slowed considerably in the third quarter, while incoming price data, on the whole, suggest that inflation is holding in about the same range as in the first half of the year.

Industrial production increased only 0.2 percent in August, one of the smallest monthly advances of the current business expansion. Output of business equipment continued to expand rapidly, and production of defense and space equipment maintained its strong upward trend. However, production of consumer goods fell 0.4 percent, largely reflecting a decline in output of home goods and a reduction in auto and truck assemblies due to a shortage of quality parts. Auto assemblies fell further in September, owing in part to a strike that temporarily idled about one-sixth of the nation's auto workers. With industrial production slowing in August, the rate of capacity utilization in manufacturing leveled off at 82.8 percent—slightly above the average for the 1967-82 period.

Gains in payroll employment in July and August, while still fairly sizable, fell short of the robust pace of the first half. The slowdown reflected a sharply reduced rate of hiring in the manufacturing sector and little change in construction employment. In contrast, employment in the trade and service sectors continued to increase at a healthy pace. The civilian unemployment rate was unchanged in August and—at 7.5 percent—was the same as the average for the second quarter.

Consumer spending, in real terms, turned down in July and probably declined further in August. Sales of domestic autos were particularly weak

in August; but, given a rebound during the first 20 days of September when 1985 models became available, sales for the third quarter as a whole likely will be near the second-quarter average. Consumer spending for other goods weakened in both July and August after rising rapidly in the first half of the year. The growth of personal income also moderated in August, but not as much as spending, and consequently, the personal saving rate rose further; since June the saving rate has increased by almost a full percentage point and is at the upper end of the range that has prevailed over the past year.

Business investment spending has slowed from its exceptional first-half pace. Shipments of nondefense capital goods by domestic producers fell sharply in July and edged down further in August; new orders for nondefense capital equipment also have weakened, and the backlog of unfilled orders leveled off in August after more than a year and a half of sustained increases. In contrast, imports of capital goods were very strong in July. Moreover, indicators of nonresidential construction spending continued to be quite robust into the third quarter, with the July value of new contracts rising to a particularly high level.

Business inventory accumulation in July continued at the brisk pace of the second quarter. Total stocks in manufacturing and trade have risen a bit faster than sales in recent months; and although inventory-sales ratios remain relatively low in most sectors, there are reports, partly qualitative, of recent overstocking in a few areas, including nonauto retail outlets.

Housing starts declined sharply in both July and August, probably in response to the rise in mortgage interest rates and the weakness in home

sales during the spring. A downturn in mortgage commitment rates since midyear has reversed a portion of the earlier increases and may point to some easing of the downward pressures on housing activity.

The incoming price data have been mixed, but taken as a whole, they suggest that inflation has changed little from the pace of the first half. The consumer price index rose 0.5 percent in August--one of the larger monthly increases so far this year; however, the producer price index for finished goods fell slightly in August after rising only moderately in July. Import competition and stable energy prices continue to exert a restraining influence on domestic inflation rates.

The continued moderate increases in labor costs also have been a damping influence on inflation. The hourly earnings index, a measure of wage change for production and nonsupervisory workers, declined 0.2 percent in August, following increases of 0.4 percent in both June and July; year-to-year rates of increase in this wage measure have been holding at about 3-1/4 percent in recent months.

Outlook. The staff estimates that real GNP rose at an annual rate of 2-3/4 percent in the third quarter, about a third of the average rate of growth in the first half. Growth in consumer spending slowed sharply in the third quarter, and business fixed investment has been rising less rapidly than earlier in the recovery. A sizable portion of the increase in domestic spending continues to be met by imports, thereby damping the impetus to domestic production and employment. Prices, as measured by the fixed-weighted price index for gross domestic business product, are estimated to have risen at an annual rate of about 3-1/2 percent in the

third quarter, compared with a 4 percent rate of increase in the first half.

The current projection of real GNP growth in the third quarter is around 2 percentage points lower than the projection made at the time of the last Greenbook. But because underlying economic conditions seem somewhat stronger than the third-quarter data indicate, the staff is projecting a moderate rebound in real GNP growth in the fourth quarter. The settlement of the auto strike in late September should facilitate that industry's current plans to move to a higher assembly rate in coming months. More generally, with household income still rising at a respectable pace and measures of consumer sentiment quite high, the prospects appear good for renewed strength in consumer spending later this year. Overall, the staff is projecting that real GNP will rise at about a 4-1/4 percent rate in the fourth quarter.

Regarding monetary policy, the staff assumes that M1 and M2 will grow over the remainder of this year at rates near the midpoints of the FOMC target ranges and then slow in 1985 in line with the tentative targets established in July. Interest rates are projected to remain in the neighborhood of current levels. For fiscal policy the staff continues to project a federal budget deficit of around \$180 billion in fiscal 1985; this projection allows for the passage of an additional \$10 billion in deficit-reduction measures in addition to the \$15 billion in cuts already enacted.

The staff's assumptions regarding the exchange rate of the U.S. dollar have been revised this month. In particular, the dollar is projected to

depreciate more than 10 percent over the four quarters of 1985, but, in view of its current high level, close out 1985 significantly higher than was expected previously. The higher value of the dollar is anticipated to contribute to a slightly better inflation performance in 1985 than was shown in the last Greenbook. However, it also is expected to limit export growth and somewhat damp domestic activity next year.

Excluding these exchange rate effects, the outlook for real growth in 1985 has not changed much since the last Greenbook was prepared. As before, the investment sectors--taken as a whole--are projected to provide a smaller stimulus to growth in income and activity than in 1983 or 1984. In addition, as increases in household income moderate, growth in consumer spending is expected to be smaller than in the past two years. However, defense spending, is likely to provide continued stimulus for economic expansion. Overall, real GNP is expected to grow about 3 percent over the four quarters of 1985.

Because real output is lower over the projection horizon, the average levels of economic slack in the staff's forecast are slightly higher than in the last Greenbook. In particular, the civilian unemployment rate is projected to average 6-3/4 percent in the fourth quarter of 1985, up from 6-1/2 percent in the previous projection. This slightly weaker outlook for labor markets, along with the continuing favorable current wage and price data, has led the staff to take a somewhat more optimistic view of prospective wage developments in 1985; compensation in the nonfarm business sector now is projected to rise about 5 percent next year, a half percentage point less than was projected in the last Greenbook.

Price inflation still is expected to accelerate in 1985, but not quite as much as was projected in the last Greenbook. Given the staff's revised exchange rate assumptions, import prices should not begin exerting noticeable upward pressure on domestic inflation rates until well past the start of the year. In addition, the more favorable prospects for domestic labor costs work in the direction of a somewhat better price outlook. Food prices in 1985 are projected to rise about in line with general inflation, and energy prices are expected to rise more slowly than other prices. Overall, the fixed-weighted price index for gross business product is projected to increase about 4-3/4 percent in 1985, after rising about 4 percent this year.

September 26, 1984

STAFF GNP PROJECTIONS

Percent changes, annual rate											
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)			
				Total		Excluding food and energy					
8/15/84	9/26/84	8/15/84	9/26/84	8/15/84	9/26/84	8/15/84	9/26/84	8/15/84	9/26/84		
Annual changes:											
1982	<1>	3.8	3.8	-2.1	-2.1	6.0	6.0	7.0	7.0	9.7	9.7
1983	<1>	7.7	7.7	3.7	3.7	3.8	3.8	4.6	4.6	9.6	9.6
1984		11.3	11.0	7.3	7.0	3.8	4.0	4.1	4.3	7.4	7.5
1985		8.2	7.8	3.8	3.5	4.5	4.4	4.9	4.7	6.6	6.9
Quarterly changes:											
1983	Q1 <1>	8.5	8.5	3.3	3.3	2.7	2.7	4.9	4.9	10.4	10.4
	Q2 <1>	12.3	12.3	9.4	9.4	3.9	3.9	3.5	3.5	10.1	10.1
	Q3 <1>	10.1	10.1	6.8	6.8	4.5	4.5	5.4	5.4	9.4	9.4
	Q4 <1>	10.6	10.6	5.9	5.9	3.5	3.5	3.8	3.8	8.5	8.5
	Q1 <1>	14.9	14.9	10.1	10.1	4.2	4.2	3.4	3.4	7.9	7.9
	Q2 <1>	10.9	10.7	7.5	7.1	3.3	4.1	4.2	5.4	7.5	7.5
	Q3	8.4	6.3	5.0	2.7	3.6	3.6	4.3	4.2	7.2	7.5
	Q4	8.1	8.8	4.0	4.3	4.4	4.4	4.7	4.6	6.9	7.2
1985	Q1	8.0	8.1	3.4	3.2	4.6	4.5	4.7	4.6	6.8	7.0
	Q2	7.4	7.1	3.1	2.9	4.7	4.5	4.9	4.6	6.7	6.9
	Q3	8.1	7.3	3.1	2.8	5.3	4.7	5.7	4.9	6.6	6.8
	Q4	8.4	7.7	3.0	3.0	5.6	5.0	5.9	5.3	6.5	6.7
Two-quarter changes: <2>											
1983	Q2 <1>	10.4	10.4	6.3	6.3	3.3	3.3	4.2	4.2	-1.5	-1.5
	Q4 <1>	10.3	10.3	6.4	6.4	4.0	4.0	4.6	4.6	-1.6	-1.6
1984	Q2 <1>	12.9	12.8	8.8	8.6	3.7	4.2	3.8	4.4	-1.0	-1.0
	Q4	8.2	7.5	4.5	3.5	4.0	4.0	4.5	4.4	-1.5	-1.3
1985	Q2	7.7	7.6	3.3	3.0	4.6	4.5	4.8	4.6	-1.3	-1.3
	Q4	8.2	7.5	3.0	2.9	5.4	4.9	5.8	5.1	-1.2	-1.2
Four-quarter changes: <3>											
1982	Q4 <1>	2.7	2.7	-1.5	-1.5	4.7	4.7	5.3	5.3	2.4	2.4
1983	Q4 <1>	10.4	10.4	6.3	6.3	3.7	3.7	4.4	4.4	-2.1	-2.1
1984	Q4	10.5	10.1	6.6	6.0	3.9	4.1	4.2	4.4	-1.5	-1.3
1985	Q4	8.0	7.5	3.2	3.0	5.0	4.7	5.3	4.9	-1.5	-1.5

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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

	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	2763.3	2836.5
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	245.0	260.0
Corporate profits before tax	167.5	169.9	168.9	155.9	161.6	198.1	227.4	225.5
Federal government surplus or deficit (-) (N.I.A. basis)	-106.2	-112.1	-163.8	-210.7	-185.8	-167.3	-180.9	-180.5
High employment surplus or deficit (-) <3>	-36.9	-30.3	-71.5	-107.8	-81.0	-74.4	-102.3	-113.1
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	51.2
Excluding social insurance funds	.5	.9	-1.0	-3.8	-2.0	6.9	9.5	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 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.

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

September 26, 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	3.8
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	4.0
Business fixed investment	-3.8	-17.6	-7.0	-5.7	.2	9.5	18.7	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	9.2
State and local	-1.1	1.4	-.7	.2	-1.1	-.2	2.7	-1.4
Disposable personal income	-1.2	.8	1.2	3.7	2.1	3.4	7.7	8.2
<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	43.2	45.3
Residential structures	-27.4	16.5	-8.1	46.4	79.4	72.3	44.4	3.3
Business fixed investment	-2.5	-14.9	-9.9	-3.3	-5.4	5.7	18.5	38.4
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	-7.5	30.0	30.1	-8.9	-3.6	-2.0	-4.3
National defense	6.9	17.4	19.5	17.9	8.0	9.8	3.3	13.2
State and local	5.8	8.2	6.3	7.2	4.2	5.8	9.0	4.4
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	63.7	26.8
Corporate profits before tax	-57.7	5.9	-2.3	-27.4	15.4	125.8	73.6	-3.3
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.)

	1984				Projected 1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross National Product	3553.3	3644.7	3700.4	3778.8	3853.5	3919.8	3989.0	4063.8
Final sales	3479.5	3594.1	3634.6	3725.0	3808.2	3877.5	3950.7	4029.6
Private	2775.1	2850.4	2872.0	2944.4	3006.7	3059.1	3115.6	3177.2
Domestic final purchases	2826.6	2909.1	2947.1	3018.1	3082.5	3144.1	3207.8	3272.5
Personal consumption expenditures	2276.5	2332.7	2360.4	2414.9	2462.6	2510.1	2558.9	2607.3
Goods	1152.2	1179.0	1179.3	1206.4	1227.4	1247.5	1268.4	1288.2
Services	1124.4	1153.7	1181.1	1208.5	1235.2	1262.6	1290.5	1319.1
Gross private domestic investment	623.8	627.0	652.5	657.0	665.2	676.3	687.2	699.4
Residential structures	151.2	155.6	153.6	154.1	155.6	155.1	155.6	157.6
Business fixed investment	398.8	420.8	433.1	449.1	464.3	478.9	493.3	507.6
Change in business inventories	73.8	50.6	65.8	53.8	45.3	42.3	38.3	34.2
Nonfarm	60.6	47.0	56.8	47.8	44.3	41.3	38.3	34.2
Net exports of goods and services <1>	-51.5	-58.7	-75.1	-73.7	-75.7	-85.0	-92.2	-95.3
Exports	358.9	362.4	371.5	380.6	390.8	398.9	407.4	417.7
Imports	410.4	421.1	446.6	454.3	466.5	483.9	499.5	513.0
Gov't. purchases of goods and services	704.4	743.7	762.6	780.6	801.5	818.4	835.1	852.4
Federal <2>	267.6	296.4	304.4	312.8	324.3	332.2	339.8	347.9
State and local	436.8	447.4	458.2	467.8	477.2	486.2	495.3	504.5
Gross national product in constant (1972) dollars	1610.9	1638.8	1649.9	1667.3	1680.5	1692.5	1704.3	1716.7
Personal income	2920.5	2984.5	3045.0	3110.6	3180.7	3243.0	3302.2	3371.5
Wage and salary disbursements	1755.7	1793.1	1817.5	1852.7	1890.9	1925.3	1959.4	1994.5
Disposable personal income	2502.2	2554.3	2600.9	2654.4	2714.3	2764.4	2811.6	2868.3
Saving rate (percent)	6.1	5.7	6.1	5.9	6.1	6.0	5.8	5.9
Corporate profits with I.V.A. and C.C. Adj.	277.4	291.2	285.6	297.3	297.8	297.3	299.7	305.2
Corporate profits before tax	243.3	246.2	233.2	245.2	242.7	239.7	238.6	240.6
Federal government surplus or deficit (-) (N.I.A. basis)	-161.3	-163.9	-168.9	-172.3	-183.1	-185.5	-184.8	-189.9
High employment surplus or deficit (-) <3>	-113.4	-130.1	-136.7	-146.8	-161.1	-165.0	-165.3	-172.0
State and local government surplus or deficit(-) (N.I.A. basis)	54.0	54.3	49.6	50.4	49.4	48.2	47.9	47.2
Excluding social insurance funds	13.5	12.4	7.0	7.1	5.4	3.6	2.7	1.4
Civilian labor force (millions)	112.6	113.6	113.8	114.4	114.9	115.4	115.9	116.4
Unemployment rate (percent)	7.9	7.5	7.5	7.2	7.0	6.9	6.8	6.7
Nonfarm payroll employment	92.8	93.8	94.5	95.3	96.1	96.8	97.4	98.0
Manufacturing	19.4	19.6	19.7	19.9	20.1	20.2	20.3	20.4
Industrial production (1967=100)	159.8	163.1	165.9	167.8	169.6	171.2	172.9	174.5
Capacity utilization: all manufacturing (percent)	80.7	81.8	82.6	83.1	83.3	83.3	83.4	83.4
Materials (percent)	81.6	82.8	83.5	84.1	84.4	84.6	84.7	84.9
Housing starts, private (million units, A.R.)	1.97	1.90	1.67	1.75	1.70	1.65	1.65	1.65
New auto sales (millions, A.R.)	10.46	10.68	10.40	10.75	10.85	11.05	11.25	11.20
Domestic models	8.16	8.26	8.00	8.10	8.40	8.50	8.60	8.45
Foreign models	2.30	2.42	2.40	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.

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

	1984				Projected 1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Constant (1972) Dollars							
Gross national product	10.1	7.1	2.7	4.3	3.2	2.9	2.8	3.0
Final sales	3.6	10.3	.4	5.9	4.3	3.3	3.3	3.4
Private	4.2	8.5	-8	6.3	4.3	3.1	3.3	3.5
Domestic final purchases	7.6	9.5	1.7	5.9	4.4	3.4	3.3	3.0
Personal consumption expenditures	4.6	7.9	.8	5.2	3.5	2.9	2.8	2.4
Goods	7.8	10.7	-1.3	6.3	3.7	2.8	2.7	2.1
Services	1.2	4.6	3.5	3.8	3.4	3.1	2.9	2.7
Gross private domestic investment	71.5	-2.2	19.3	-1	1.4	3.0	2.4	2.6
Residential structures	20.8	1.3	-4.5	-1.6	.0	-5.7	-3.2	.6
Business fixed investment	20.5	21.4	8.1	12.0	10.3	8.7	7.8	6.8
Gov't. purchases of goods and services	1.0	18.6	5.9	3.9	4.3	3.9	3.5	3.4
Federal	-2.8	45.4	8.2	5.4	6.8	5.9	4.9	4.8
National defense	3.8	12.0	8.8	6.3	7.8	6.8	6.2	6.3
State and local	3.5	3.7	4.3	2.8	2.6	2.6	2.6	2.4
Disposable personal income	8.6	6.3	3.4	4.1	4.7	2.6	1.9	2.9
Current Dollars								
Gross national product	14.9	10.7	6.3	8.8	8.1	7.1	7.3	7.7
Final sales	7.3	13.8	4.6	10.3	9.2	7.5	7.8	8.2
Private	7.1	11.3	3.1	10.5	8.7	7.2	7.6	8.1
Domestic final purchases	10.4	12.2	5.3	10.0	8.8	8.2	8.4	8.3
Personal consumption expenditures	8.6	10.2	4.8	9.6	8.1	7.9	8.0	7.8
Goods	10.9	9.6	.1	9.5	7.1	6.7	6.9	6.4
Services	6.2	10.8	9.8	9.6	9.1	9.2	9.1	9.2
Gross private domestic investment	78.1	2.1	17.3	2.8	5.0	6.9	6.6	7.3
Residential structures	23.6	12.2	-5.0	1.3	4.0	-1.3	1.3	5.2
Business fixed investment	16.5	24.0	12.2	15.7	14.2	13.2	12.6	12.1
Gov't. purchases of goods and services	7.7	24.3	10.6	9.8	11.1	8.7	8.4	8.6
Federal	2.0	50.5	11.2	11.5	15.5	10.1	9.5	9.9
National defense	12.5	14.6	10.5	12.4	17.1	11.5	11.4	11.9
State and local	11.5	10.1	10.0	8.6	8.2	7.8	7.7	7.7
Disposable personal income	12.7	8.6	7.5	8.5	9.3	7.6	7.0	8.3
Personal income	12.4	9.1	8.4	8.9	9.3	8.1	7.5	8.7
Wage and salary disbursements	9.7	8.8	5.6	8.0	8.5	7.5	7.3	7.4
Corporate profits with I.V.A. and C.C.Adj.	29.8	21.4	-7.4	17.3	.7	-.7	3.3	7.6
Corporate profits before tax	35.5	4.9	-19.5	22.1	-4.0	-4.8	-1.8	3.4
Nonfarm payroll employment	4.8	4.5	3.2	3.5	3.4	2.8	2.5	2.6
Manufacturing	7.5	4.5	3.5	3.7	3.0	2.6	2.4	2.0
Nonfarm business sector								
Output per hour	2.9	4.7	-.2	1.0	.4	.4	.6	.8
Compensation per hour	6.1	3.7	3.4	4.0	5.0	4.7	4.9	5.2
Unit labor costs	3.1	-.9	3.6	3.0	4.6	4.3	4.3	4.4
GNP implicit deflator <1>	4.4	3.3	3.4	4.3	4.8	4.1	4.3	4.6
Gross domestic business product								
fixed-weighted price index <2>	4.2	4.1	3.6	4.4	4.5	4.5	4.7	5.0
Excluding food and energy	3.4	5.4	4.2	4.6	4.6	4.6	4.9	5.3
Consumer price index (all urban)	5.0	3.7	3.7	4.6	4.7	4.8	5.0	5.1
Industrial production	11.5	8.5	7.0	4.7	4.4	4.0	4.0	3.6

<1> Excluding Federal pay increase, the rate of change in 1984-Q1 is 4.0 percent and in 1985-Q1 is 4.4 percent.
 <2> Uses expenditures in 1972 as weights.

CONFIDENTIAL - FR
CLASS II FOMC

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CORRECTED
September 26, 1984

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	3669.3	3956.5
Final sales	2137.4	2403.5	2641.5	2931.7	3095.4	3318.3	3608.3	3916.5
Private	1705.5	1929.1	2103.7	2335.2	2444.9	2632.7	2860.5	3089.7
Domestic final purchases	1706.6	1915.9	2079.7	2307.2	2425.9	2641.0	2925.2	3176.7
Personal consumption expenditures	1346.5	1507.2	1668.1	1849.1	1984.9	2155.9	2346.1	2534.7
Goods	728.5	813.5	883.5	966.1	1002.7	1081.5	1179.2	1257.9
Services	618.0	693.7	784.5	883.0	982.2	1074.4	1166.9	1276.8
Gross private domestic investment	386.6	423.0	401.9	484.2	414.9	471.6	640.1	682.0
Residential construction	111.2	118.6	102.9	104.3	91.4	132.2	153.6	156.0
Business fixed investment	248.9	290.2	308.8	353.9	349.6	352.9	425.5	486.0
Change in business inventories	26.5	14.3	-9.8	26.0	-26.1	-13.5	61.0	40.0
Nonfarm	25.4	8.6	-4.5	18.2	-24.0	-3.1	53.0	39.5
Net exports of goods and services <1>	-1.1	13.2	23.9	28.0	19.0	-8.3	-64.8	-87.0
Exports	218.7	281.4	338.8	369.9	348.4	336.2	368.3	403.7
Imports	219.8	268.1	314.8	341.9	329.4	344.4	433.1	490.7
Gov't. purchases of goods and services	431.9	474.4	537.8	596.5	650.5	685.5	747.8	826.8
Federal <2>	153.6	168.3	197.0	228.9	258.9	269.7	295.3	336.1
State and local	278.3	306.0	340.8	367.6	391.5	415.8	452.6	490.8
Gross national product in constant (1972) dollars	1438.6	1479.4	1475.0	1512.2	1480.0	1534.7	1641.7	1698.5
Personal income	1732.7	1951.2	2165.3	2429.5	2584.6	2744.3	3015.2	3274.4
Wage and salary disbursements	1106.3	1237.6	1356.7	1493.1	1568.7	1659.2	1804.8	1942.6
Disposable personal income	1474.0	1650.2	1828.9	2041.7	2180.5	2340.1	2577.9	2789.7
Saving rate (percent)	6.1	5.9	6.0	6.7	6.2	5.0	6.0	5.9
Corporate profits with I.V.A. and C.C.Adj.	192.4	194.8	175.4	189.9	159.1	225.1	287.9	300.0
Corporate profits before tax	229.1	252.7	234.6	221.2	165.5	203.1	242.0	240.4
Federal government surplus or deficit (-) (N.I.A. basis)	-29.5	-16.1	-61.2	-64.3	-148.2	-178.6	-166.6	-185.8
High employment surplus or deficit (-)	-33.9	-20.8	-36.4	-31.3	-61.6	-92.7	-131.7	-165.9
State and local government surplus or deficit (-) (N.I.A. basis)	30.3	30.4	30.6	37.6	32.9	44.1	52.1	48.2
Excluding social insurance funds	10.0	6.6	3.5	7.8	-8	6.6	10.0	3.3
Civilian labor force (millions)	102.3	105.0	106.9	108.7	110.2	111.5	113.6	115.7
Unemployment rate (percent)	6.1	5.8	7.1	7.6	9.7	9.6	7.5	6.9
Nonfarm payroll employment (millions)	86.7	89.8	90.4	91.2	89.6	90.1	94.1	97.1
Manufacturing	20.5	21.0	20.3	20.2	18.8	18.5	19.7	20.3
Industrial production (1967=100)	146.1	152.5	147.0	150.9	138.6	147.6	164.1	172.0
Capacity utilization: all manufacturing (percent)	84.7	86.0	79.6	79.4	71.1	75.2	82.0	83.3
Materials (percent)	85.6	87.6	80.4	80.7	70.1	75.2	83.0	84.6
Housing starts, private (million units, A.R.)	2.00	1.72	1.30	1.10	1.06	1.70	1.82	1.66
New auto sales (millions, A.R.)	11.29	10.68	9.04	8.56	8.00	9.18	10.57	11.09
Domestic models	9.29	8.36	6.62	6.24	5.77	6.79	8.13	8.49
Foreign models	2.00	2.32	2.42	2.32	2.23	2.39	2.44	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.

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CONFIDENTIAL - FR
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1978	1979	1980	1981	1982	1983	---Projected---	
							1984	1985
Constant (1972) Dollars								
Gross national product	5.0	2.8	-.3	2.5	-2.1	3.7	7.0	3.5
Final sales	4.9	3.5	.5	1.5	-.7	3.2	5.0	4.1
Private	5.6	4.0	.1	1.6	-1.3	4.1	5.4	3.9
Domestic final purchases	5.5	2.9	-1.0	2.2	-.2	5.6	7.6	4.2
Personal consumption expenditures	4.5	2.7	.5	2.0	1.3	4.8	5.4	3.5
Goods	4.2	1.9	-1.4	1.7	.4	6.0	7.3	3.6
Services	4.8	3.7	2.7	2.3	2.5	3.4	3.2	3.4
Gross private domestic investment	10.5	-.2	-11.8	10.7	-15.9	13.7	31.5	3.4
Residential structures	2.8	-5.3	-20.3	-5.5	-14.8	41.6	12.5	-2.3
Business fixed investment	12.8	7.3	-2.4	5.5	-4.6	2.5	19.3	10.1
Gov't. purchases of goods and services	2.0	1.3	2.2	.9	2.0	-.3	3.4	5.0
Federal	-.1	1.8	4.2	3.7	6.1	-.7	5.1	8.1
National defense	.5	2.6	3.9	5.0	7.6	7.1	6.6	7.4
State and local	3.3	1.1	1.0	-.6	-.6	.0	2.3	2.9
Disposable personal income	4.9	2.7	.6	2.7	.9	3.5	6.7	3.7
Current Dollars								
Gross national product	12.8	11.7	8.8	12.4	3.8	7.7	11.0	7.8
Final sales	12.8	12.4	9.9	11.0	5.6	7.2	8.7	8.5
Private	13.6	13.1	9.0	11.0	4.7	7.7	8.7	8.0
Domestic final purchases	13.4	12.3	8.5	10.9	5.1	8.9	10.8	8.6
Personal consumption expenditures	11.8	11.9	10.7	10.9	7.3	8.6	8.8	8.0
Goods	10.9	11.7	8.6	9.3	3.8	7.9	9.0	6.7
Services	12.9	12.2	13.1	12.6	11.2	9.4	8.6	9.4
Gross private domestic investment	19.3	9.4	-5.0	20.5	-14.3	13.7	35.7	6.5
Residential structures	16.1	6.6	-13.2	1.3	-12.4	44.7	16.2	1.5
Business fixed investment	21.3	16.6	6.4	14.6	-1.2	.9	20.6	14.2
Gov't. purchases of goods and services	9.7	9.8	13.4	10.9	9.0	5.4	9.1	10.6
Federal	7.1	9.6	17.1	16.2	13.1	4.2	9.5	13.8
National defense	8.0	11.5	17.3	17.2	16.8	11.7	11.4	13.1
State and local	11.2	9.9	11.4	7.9	6.5	6.2	8.8	8.5
Disposable personal income	12.2	12.0	10.8	11.6	6.8	7.3	10.2	8.2
Personal income	12.5	12.6	11.0	12.2	6.4	6.2	9.9	8.6
Wage and salary disbursements	12.5	11.9	9.6	10.1	5.1	5.8	8.8	7.6
Corporate profits with I.V.A. and C.C.Adj.	15.0	1.2	-9.9	8.3	-16.2	41.5	27.9	4.2
Corporate profits before tax	17.7	10.3	-7.1	-5.7	-25.2	22.7	19.1	-.7
Nonfarm payroll employment	5.1	3.6	.6	.8	-1.7	.6	4.4	3.2
Manufacturing	4.2	2.6	-3.6	-.6	-6.9	-1.5	6.3	3.1
Nonfarm business sector								
Output per hour	.6	-1.5	-.7	1.5	.2	3.5	2.6	.7
Compensation per hour	8.6	9.0	10.3	9.6	8.0	4.9	4.2	4.5
Unit labor costs	8.0	10.7	11.1	8.0	7.7	1.4	1.6	3.7
GNP implicit deflator	7.4	8.6	9.2	9.6	6.0	3.8	3.8	4.2
Gross domestic business product								
fixed-weighted price index <1>	8.0	9.9	10.0	9.6	6.0	3.8	4.0	4.4
Excluding food and energy	7.8	8.6	8.5	9.4	7.0	4.6	4.3	4.7
Consumer price index (all urban)	7.6	11.3	13.5	10.3	6.1	3.2	4.3	4.6
Industrial production	5.8	4.4	-3.6	2.6	-8.1	6.4	11.2	4.8

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1983*	FY1984 ^a /2/		FY1985 ^a /2/		CY1984*		FRB staff estimates								
		Admin. 1/	FRB Staff	Admin. 1/	FRB Staff	CY 1983*	FRB Staff	Calendar quarters; not seasonally adjusted								
								1983			1984			1985		
		IV ^a	I ^a	II ^a	III	IV	I	II	III							
Unified budget receipts	601	671	670	764	750	613	688	149	155	187	179	166	173	215	195	
Unified budget outlays	796	845	843	931	929	803	865	213	209	211	210	235	229	233	231	
Surplus/deficit(-), unified budget	-195	-174	-173	-167	-179	-190	-177	-63	-54	-24	-31	-67	-56	-18	-36	
Surplus/deficit(-), off-budget agencies ³	-12	-13	-11	-13	-14	-10	-14	1	-2	-4	-6	-2	-3	-4	-5	
Combined deficit to be financed	-208	-187	-184	-180	-193	-200	-191	-62	-57	-28	-37	-69	-59	-22	-41	
Means of financing combined deficit:																
Net borrowing from public	212	161	170	178	185	187	191	36	49	31	54	57	56	34	38	
Decrease in cash operating balance	-8	17	6	0	6	8	-3	25	-2	1	-17	16	-1	-10	0	
Other ⁴	3	0	8	2	2	6	4	1	10	-3	1	-3	4	-2	3	
Cash operating balance, end of period	37	20	31	20	25	12	14	12	14	14	31	14	15	25	25	
Memo: Sponsored agency borrowing ⁵	-3	n.a.	32	n.a.	23	1	36	3	6	9	14	7	6	5	5	
<u>NIA Budget</u>								Seasonally adjusted annual rates								
Receipts	629	694	691	788	762	641	711	655	686	704	717	737	754	770	786	
Expenditures	816	863	859	952	943	820	878	835	848	868	885	909	938	955	971	
Purchases	273	288	284	337	327	270	295	266	268	296	304	313	324	332	340	
Defense	196	219	217	252	245	201	223	207	213	221	226	233	243	249	256	
Nondefense	77	69	67	84	82	69	72	59	54	76	78	80	82	83	84	
All other expenditures	543	575	576	619	616	550	582	569	580	572	581	596	614	623	631	
Surplus/deficit(-)	-186	-169	-169	-164	-181	-179	-167	-180	-161	-164	-169	-172	-183	-185	-185	
High employment surplus/deficit(-) evaluated at 6 percent unemployment	-91	n.a.	-123	n.a.	-160	-93	-132	-113	-113	-130	-137	-147	-161	-165	-165	
	a--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

Recent Developments. All the monetary aggregates were quite weak in August. M1 expanded 1-3/4 percent at an annual rate, placing it near the midpoint of its annual target range. M2 remained in the lower half of its range, expanding at only a 4-1/2 percent annual rate; the slow growth in M2 reflected the weakness in M1 and moderation in the growth of nontransactions balances. The composition of nontransactions balances continued to shift away from MMDAs and savings deposits, as depositors responded to increasingly favorable rates on small time deposits. A substantial fall off of large time deposit issuance at thrifts and commercial banks sharply curtailed M3 growth in August, moving this aggregate to near the upper end of its target range. Expansion in the aggregates appears to have strengthened somewhat in September, based on early data.

The third-quarter weakness in the aggregates and growing evidence of at least a near-term moderation in economic activity fueled a continuation of the rally in credit markets over the intermeeting period. Added impetus to rate declines came in September as market participants increasingly adopted the view that there had been some easing by the Federal Reserve. The federal funds rate has moved down to the 11 percent area most recently, from 11-3/4 percent prevailing at the time of the August FOMC meeting. Private short-term market rates have fallen 40 to 50 basis points. An improvement in inflation expectations also has contributed to lower long-term yields, which have dropped 5 to 25 basis points since mid-August.

Responding to declines in bond rates, nonfinancial businesses issued a large volume of long-term debt in August, including an increase in Euro-bond offerings. The volume of public bond offerings has continued strong

in September, and the monthly average in the third quarter will exceed by a sizable amount the average earlier in the year. Short-term borrowing by business, meanwhile, moderated in August and seems to be continuing at a reduced pace in September, largely owing to a reduction in large merger financing and repayments of some earlier borrowing for mergers with the proceeds of bond offerings. Total business borrowing, however, likely remained quite strong as capital expenditures continue to rise rapidly while internal funds growth has slowed.

Borrowing by the household sector appears to have slackened in the third quarter, according to latest available data. Consumer loans at commercial banks expanded less rapidly in August, and given the weakness in retail sales last month, it is probable that consumer installment credit growth decelerated further from the very rapid pace in May and June. Automobile production constraints contributed in part to the recent slowing, but with higher consumer lending rates, other components of installment lending were off in July and evidently were weaker in August. Data for early September, furthermore, imply continued moderation in consumer loan growth at large commercial banks. Higher costs of credit also have damped home mortgage activity in recent months. Although interest rates on new home mortgage loans have drifted down 10 to 30 basis points since the August FOMC meeting, they remain almost a full percentage point above lows earlier in the year. In July, mortgage commitments outstanding at federally insured savings and loan institutions registered their smallest monthly increase in two years.

The Treasury raised approximately \$54 billion (NSA) in public debt markets in the third quarter to finance a combined deficit for the period

of about \$37 billion, while building up its cash balance substantially. Municipal market activity also was robust in the third quarter, with tax-exempt bond volume bolstered by a surge in private-purpose issuance since June following legislative clarification of restrictions on some of these issues.

On balance, private credit demands are estimated to have expanded at a somewhat slower pace in the third quarter. But quite rapid growth in public sector borrowing in July and August likely will boost the growth rate of total domestic nonfinancial debt in the third quarter to more than 12 percent at an annual rate, about 3/4 percentage point below the second-quarter growth rate.

Outlook. The staff anticipates that interest rates will fluctuate around present levels over the remainder of the year, with market participants continuing to watch closely evidence of the strength of real activity and of monetary growth. Total credit expansion is expected to remain vigorous owing to government sector demands and continuing large needs of the business sector to finance inventories and fixed investment outlays. But with moderation of household borrowing and an abatement of merger activity, the growth rate of domestic nonfinancial debt is likely to be lower than in the third quarter.

The Treasury is expected to run a combined deficit of about \$70 billion (NSA) in the fourth quarter, nearly double that in the third. Although the Treasury apparently will end the third quarter with a sizable cash balance, the bulk of the U.S. government's fourth-quarter financing needs will be met in credit markets with perhaps a \$10 billion decline in the cash balance. The composition of Treasury financing remains uncertain, as concerns about

the debt ceiling already have led to postponements of previously scheduled auctions. The outlook assumes that the debt ceiling will be raised early in October and revised financing plans will be forthcoming soon after. Municipal debt issuance may continue strong as state and local units expand their capital programs; but the volume of tax-exempt bonds to finance private-purpose programs should taper off as the backlog of such issues is reduced.

Corporate capital outlays are projected to run well ahead of internal funds in the fourth quarter, but total debt issuance by corporations may decline because of a lessening pace of large merger activity. Longer-term debt and equity issuance is expected to account for a greater portion of corporate financing in coming months, with bank borrowing and commercial paper issuance staying below the merger-enlarged pace of the first half.

Current interest rates on mortgage and consumer loans appear to be restraining household credit demands. Although consumption expenditures are expected to pick up in the fourth quarter, the expansion in consumer credit likely will continue below the unusually rapid pace of the first half. Recent declines in mortgage commitment activity and slowing in real estate loan growth at banks also suggest a moderating pace of mortgage credit flows over the remainder of the year.

In the aggregate, preliminary estimates imply about a percentage point slower growth (at an annual rate) in total public and private sector credit in the fourth quarter relative to earlier in 1984. For 1984 as a whole, growth of the domestic nonfinancial debt aggregate now is projected to be near 12-1/2 percent, approximately 1-1/2 percentage points above the upper end of the FOMC's monitoring range.

INTERNATIONAL DEVELOPMENTS

Recent developments. The dollar rose by 7 percent on a trade-weighted average basis between the last FOMC meeting and September 20. An increased probability of the re-election of the incumbent administration and the agreement between banks and Mexico allowing the currency redenomination of a portion of Mexico's debt were cited as factors serving to boost the dollar early in the period. The dollar's rise in the two weeks to September 20, however, had the appearance of a speculative bubble. In any event, after advancing further on the morning of September 21, the dollar fell on the news of the U.S. CPI increase for August

. From its peak rate of DM 3.17, the dollar tumbled to around DM 3.04 in chaotic trading conditions. Since the close on Friday the dollar has risen moderately, on balance,

. The Desk sold a total of \$50 million against marks on September 24 and September 26 as the dollar moved back up. On balance, over the period the trade-weighted dollar advanced by nearly 6 percent.

Economic activity in foreign industrial countries is proceeding along recent patterns, with Japan expanding rapidly, Canada less so, and Europe generally growing at a very weak pace. Second quarter GNP actually declined in Germany and the United Kingdom, under the influence of labor stoppages, but industrial production in Germany has since recovered following the end of the metalworkers' strike.

Growth in exports (especially to the United States) has played a major role in the increase in aggregate demand in Japan and Canada.

Europe's exports to the United States have also increased; nevertheless, the current accounts of Italy, Germany, and the United Kingdom have actually weakened as compared to the previous year.

Inflation remains very low in Japan and Germany, somewhat higher but stable in the United Kingdom and Canada, and continues to moderate from still higher levels in France and Italy.

Among major developing country debtors, the picture remains mixed. Argentina reached agreement with the IMF management on a stand-by program and the Philippines appears to be moving toward Fund approval of a program. Mexico and Brazil continue to improve their external positions with increasing trade surpluses, and economic activity appears to be increasing in both countries. Mexico's inflation rate continues to decline, but Brazil's remains unchanged at around 200 percent per annum. Brazil recently enacted new measures to limit the rate of growth of the monetary base to a target 95 percent, down from annual rates in excess of 100 percent in recent months.

Mexico and its Bank Advisory Committee reached agreement to restructure Mexico's public sector debt to banks, originally scheduled to mature in 1985-90, over a 14-year period with relatively easy terms -- spreads averaging 1-1/8 percent over LIBOR and no rescheduling fee. A feature of this agreement is the option for banks to redenominate a portion of this debt from dollars to their local currencies. Venezuela also has completed negotiations on a multi-year restructuring of its debt, on terms very similar to those granted Mexico.

The U.S. trade deficit in July recorded a new high at \$164 billion (SAAR) as a surge in imports exceeded a strong increase in exports. The

rise in imports was in a broad range of manufactured goods, especially from Japan, but was also in agricultural commodities and petroleum. Exports in July were at their highest rate in several years. Since the first quarter nonagricultural exports, particularly industrial supplies and business machines, have increased steadily, with most of the increase going to developing countries. Agricultural exports, while higher in July than in June, were still substantially below the first quarter pace, at least in part due to relatively high U.S. export prices.

The U.S. current account deficit rate in the second quarter, at \$98 billion (SAAR) was \$20 billion higher than the first quarter rate. All of the deterioration was in the services account, with half of it due to capital losses on our direct investment position abroad as a result of exchange rate changes.

Recorded capital flows did not cover all of the channels by which capital flowed, net, into the United States in the first seven months of the year. The statistical discrepancy was \$20 billion (not annual rate) in the first half, with the second quarter discrepancy twice the size of the first quarter. After a large net inflow through banks in the first quarter, there was a small net outflow in the second quarter and the outflow continued at even a higher rate in July. Private foreign net purchases of U.S. Treasury securities did show a large jump in the second quarter and rose further in July. Foreign official reserve assets in the United States declined slightly in the second quarter and rose modestly in July.

Outlook. Projections for the U.S. current account deficits in 1984 and 1985 are little changed from those of the last Greenbook -- at around

\$95 and \$120 billion, respectively. Despite downward revisions of U.S. GNP growth for the second half of 1984, which would slow import growth, a higher than previously projected value of the dollar will serve to increase imports and slow export growth as compared with August projections. The outlook for foreign economic activity is little changed from last month, and we continue to expect growth of a little less than 3 percent over the forecast period. Taking account of the dollar's strong rise since the August Greenbook, the staff has raised somewhat the projected path of the dollar's exchange value over the projection period, while still projecting a moderate depreciation to the end of 1985.

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	-64.7	-87.0	-16.4	-29.8	-51.5	-58.4	-75.1	-73.7	-75.7	-85.0	-92.2	-95.3
EXPORTS OF G+S	336.2	368.3	403.7	342.0	346.1	358.9	362.4	371.5	380.6	390.8	398.9	407.4	417.7
IMPORTS OF G+S	344.4	433.0	490.7	358.4	375.9	410.4	420.8	446.6	454.3	466.5	483.9	499.5	513.0
CONSTANT 72 \$, NET	12.6	-14.5	-19.9	11.9	1.9	-8.3	-11.4	-19.7	-18.7	-19.2	-20.4	-20.7	-19.4
EXPORTS OF G+S	139.5	147.0	154.0	141.6	141.0	144.9	144.7	148.0	150.3	152.3	153.3	154.4	156.2
IMPORTS OF G+S	126.9	161.5	174.0	129.7	139.1	153.2	156.1	167.8	169.0	171.5	173.7	175.1	175.6
2. U.S. MERCHANDISE TRADE BALANCE 2/	-61.1	-108.8	-126.1	-70.0	-77.6	-103.4	-102.9	-115.4	-113.2	-115.4	-124.2	-130.6	-134.2
EXPORTS	200.3	221.8	239.0	201.7	207.3	215.7	218.4	224.3	228.8	233.2	236.6	240.4	245.8
AGRICULTURAL	36.6	38.0	37.4	37.2	39.2	41.2	37.1	36.8	36.9	37.5	37.4	37.3	37.3
NONAGRICULTURAL	163.6	183.8	201.6	164.5	168.1	174.5	181.3	187.5	192.0	195.7	199.2	203.1	208.5
IMPORTS	261.3	330.6	365.1	271.8	284.9	319.2	321.3	339.8	342.0	348.6	360.7	371.0	380.0
PETROLEUM AND PRODUCTS	53.8	59.5	69.0	63.7	57.1	55.4	59.6	57.4	65.4	65.2	67.9	70.7	72.3
NONPETROLEUM	207.5	271.1	296.1	208.1	227.8	263.8	261.7	282.4	276.6	283.4	292.8	300.4	307.7
3. U.S. CURRENT ACCOUNT BALANCE	-41.6	-95.8	-118.9	-47.4	-68.8	-78.7	-97.6	-103.5	-103.4	-106.2	-116.4	-124.6	-128.6
OF WHICH: NET INVESTMENT INCOME	23.5	20.4	12.9	28.7	20.5	31.0	14.6	19.8	16.3	15.1	13.5	11.7	11.1
4. FOREIGN OUTLOOK 3/													
REAL GNP--TEN INDUSTRIAL 4/	1.5	2.9	2.6	2.2	4.2	4.5	-0.5	4.2	3.0	2.6	2.5	2.4	2.5
REAL GNP--NONOPEC LDC 5/	0.4	2.7	3.7	0.9	1.3	4.2	3.4	3.5	3.7	3.8	3.8	3.8	3.8
CONSUMER PRICES--TEN IND. 4/	5.7	5.0	4.6	5.3	5.5	5.3	4.8	2.9	5.1	4.6	4.9	4.5	4.9

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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 NONOPEC LDC GNP.
P/ PROJECTED