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May 11, 1988

# SUMMARY AND OUTLOOK

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

## Recent Developments

The economy seems to have had considerable upward thrust as the second quarter began. The most significant indicators in this regard are the strong labor market data. More generally, though, the available statistical and anecdotal information suggests that activity has been expanding at a pace sufficient to eat into an already reduced margin of unutilized resources and produce added inflationary pressure.

A sharp increase of 610,000 in employment was registered in the household survey in April, more than offsetting the decline in March; and the civilian unemployment rate fell two-tenths to 5.4 percent, the lowest since 1974. The increase in nonfarm payroll employment, 174,000, was more moderate than in other recent months, but the average workweek was up sharply. As a result, aggregate hours of production workers rose 1 percent in April.

Manufacturing hiring totaled 44,000 in April, after upward-revised gains in February and March. The strength in factory labor demand implies a sizable pickup in industrial production last month. In particular, a substantial rise in hours worked in the business equipment sector points to another strong rise in that sector's output. Auto assemblies were up 5 percent to a 7 million unit rate. On balance, production increases elsewhere appear to have been moderate.

Consumer purchases advanced 3-3/4 percent in real terms in the first quarter, after a drop at the end of 1987. A turnaround in auto sales accounted for a part of the rise. In April, car sales dipped to 7.2 million units at an annual rate--1/2 million units below the incentive-boosted first quarter rate, but close to the production rate planned by automakers for the second quarter. Sales could slacken again in May in response to reductions in incentive plans. Household spending on other durables and services was strong, while nondurable goods outlays continued to be sluggish.

There was a jump in business investment in the last quarter, owing in part to a surge in purchases of information processing equipment. However, gains in spending for other equipment categories were also substantial. Orders for nondefense goods have softened recently after sharp increases around the turn of the year; but the current high level of bookings suggests that spending will remain at an advanced level into the second quarter. Outlays for structures, in contrast, weakened in the first quarter, with declines in the office and commercial sectors; forward commitments for nonresidential building have been essentially flat in nominal terms.

The housing sector in recent months has been characterized by a relatively strong single-family market and weak multifamily construction. Single-family starts rose in February and March, reaching a pace of nearly 1.2 million units. Sales of both new and existing homes rose. At the same time, multifamily starts, which still are being depressed by high vacancy rates, dropped to a 358,000 unit rate in March, the slowest pace in nearly six years.

Nonfarm inventory investment remained substantial early in the year, with the largest increases occurring in industries in which domestic and foreign demand has been strong. Manufacturers reported sizable buildups in the business equipment, aircraft, chemical, and paper industries; in the wholesale sector, stocking was concentrated in machinery. At retail, auto stocks were reduced sharply last quarter, and it now appears that new car inventories are at comfortable levels. In contrast, inventories at other retail establishments grew a little further early in the year and remain high relative to sales.

Prices rose more rapidly in March than in recent months. Producer prices for finished goods were up 0.6 percent, more than reversing the decline in the previous month. Some of the acceleration reflected a bottoming out of energy prices, while prices for finished consumer goods (less food and energy) rose 0.4 percent.

The CPI advanced 0.5 percent in March. Retail energy prices were about unchanged and food prices rose 0.3 percent. The CPI excluding food and energy jumped 0.6 percent, bringing the rise between December and March to a 5.4 percent annual rate--considerably higher than the rate of increase recorded during the second half of last year.

The employment cost index (ECI) for private industry workers, a comprehensive measure of changes in labor compensation, shows that wage increases in a number of sectors have firmed and that benefit costs climbed sharply for most workers. The ECI rose nearly 4 percent over the year ending in March, three-fourths percentage point above the previous 12-month period. Benefits were raised, in part, by the social security payroll tax increase in January, but there was also a large increase in health insurance costs. Wages accelerated in the past year for most blue-collar workers, but those increases were offset by a slower rise in wages for commissioned workers and for executives and managers.

Outlook

The contour of the staff projection has changed significantly from the last Greenbook. The economy appears stronger at this juncture than we had anticipated, and unemployment has fallen below the level in our previous forecast. In view of the emerging pressures on resources and the FOMC's desire to contain inflation, interest rates are now projected to rise appreciably more over the next few quarters than had been forecast earlier. The greater tightening in credit market conditions is expected to move output growth by 1989 below the longer run trend and to push the jobless rate back toward 6 percent.

Under the assumed monetary policy, growth in M2 would be expected to slow substantially from its recent pace; for 1988, it would be around the middle of its range, with growth for 1989 appreciably lower. M3 is expected to grow somewhat faster than M2 in both years.

The unified budget deficit is projected to be $160 billion in fiscal 1988, $5 billion above the previous forecast. Tax reform has not produced quite the punch to corporate tax revenues anticipated earlier, and outlays appear to be running a bit above expectations. In fiscal 1989, the deficit is forecast to rise to $165 billion, rather than declining to $150 billion as in the previous forecast. The change in contour results from rising interest rates, which add to outlays, and slower revenue growth owing to the smaller increases forecast for nominal income and employment. The staff has retained the assumption that Congress will enact legislation implementing the budget summit accord reached at the end of last year.

Real GNP in the current quarter is projected to rise at a 3-1/2 percent annual rate. Growing export demand and increased auto production are expected to provide considerable impetus to domestic output. However, consumption is anticipated to grow only 2-1/4 percent, as a decline in auto sales partly offsets increases anticipated for other goods and services. Given the drop in auto sales, the increased production is expected to show up as an accumulation in dealer inventories. Business fixed investment is projected to rise only slightly, after the exceptional gain in the first quarter. Spending on new housing construction is also adding marginally to output growth.

Real GNP is projected to decelerate to 2-1/4 percent in the second half as businesses reduce their rate of inventory investment. Activity is expected to slow further in 1989--to around a 2 percent pace--reflecting the cumulative effects of higher interest rates on final sales as well as additional reductions in inventory investment. The depreciation of the dollar is projected to be less than forecasted earlier; nonetheless, past and prospective declines in the dollar are anticipated to provide support for a further rapid expansion of exports. Housing activity is expected to turn down in the next few months and fall to roughly 1.4 million units in 1989. Projected consumer spending decelerates to a very low rate of growth--1 percent in 1989--in line with smaller increases in real disposable income. Moreover, the enthusiasm now evident in business investment is likely to be damped by higher borrowing costs and expectations of lower final sales.

Inflation, as measured by the GNP fixed-weight price index is projected to run at a 4-1/2 percent rate later this year and in early 1989, as compared with about 3-1/2 to 3-3/4 percent in recent quarters. Price increases will be boosted by the effects of tighter resource utilization, which to date have left their mark primarily at the crude and intermediate level, as well as continuing pressure from rising prices of non-oil imports. Labor costs also are expected to accelerate, with the underlying trend in hourly compensation moving up to 4-1/2 percent by late 1988. In contrast, energy prices add little to inflation, overall, in this projection, despite a slight upward adjustment in crude oil prices early next year.

The reduced pace of economic expansion next year is expected to limit the step-up in labor costs as well as product market pressures on prices. Moreover, the rise in non-oil import prices is projected to moderate. As a result, inflation is anticipated to move a bit lower over the course of 1989, averaging a 4 percent rate in the second half of the year.

Details of the staff projection are shown in the accompanying tables.

May 11, 1988

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STAFF GNP PROJECTIONS

Percent changes, annual rate

| | | Nominal GNP | | Real GNP | | GNP fixed-weighted price index | | GNP deflator | | Unemployment rate (percent) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 3/23/88 | 5/11/88 | 3/23/88 | 5/11/88 | 3/23/88 | 5/11/88 | 3/23/88 | 5/11/88 | 3/23/88 | 5/11/88 |
| **Annual changes:** | | | | | | | | | | | |
| 1986 | <1> | 5.6 | 5.6 | 2.9 | 2.9 | 2.7 | 2.7 | 2.6 | 2.6 | 7.0 | 7.0 |
| 1987 | <1> | 6.0 | 6.0 | 2.9 | 2.9 | 3.4 | 3.4 | 3.0 | 3.0 | 6.2 | 6.2 |
| 1988 | | 6.5 | 6.5 | 3.2 | 3.2 | 3.9 | 3.9 | 3.2 | 3.1 | 5.7 | 5.6 |
| 1989 | | 6.5 | 6.2 | 2.5 | 2.2 | 4.3 | 4.3 | 3.9 | 3.9 | 5.7 | 5.8 |
| **Quarterly changes:** | | | | | | | | | | | |
| 1987 | Q1 <1> | 8.6 | 8.6 | 4.4 | 4.4 | 4.5 | 4.5 | 4.2 | 4.2 | 6.6 | 6.6 |
| | Q2 <1> | 6.3 | 6.3 | 2.5 | 2.5 | 4.1 | 4.1 | 3.5 | 3.5 | 6.3 | 6.3 |
| | Q3 <1> | 7.3 | 7.3 | 4.3 | 4.3 | 3.4 | 3.4 | 2.8 | 2.8 | 6.0 | 6.0 |
| | Q4 <1> | 7.3 | 7.6 | 4.5 | 4.8 | 3.7 | 3.6 | 2.7 | 2.7 | 5.9 | 5.9 |
| 1988 | Q1 <1> | 6.1 | 4.7 | 2.7 | 2.3 | 4.2 | 3.7 | 3.4 | 2.4 | 5.7 | 5.7 |
| | Q2 | 5.7 | 7.1 | 2.5 | 3.5 | 3.6 | 4.1 | 3.1 | 3.6 | 5.7 | 5.5 |
| | Q3 | 6.5 | 6.7 | 2.6 | 2.4 | 4.2 | 4.5 | 3.8 | 4.1 | 5.7 | 5.6 |
| | Q4 | 6.7 | 6.3 | 2.8 | 2.3 | 4.3 | 4.4 | 3.8 | 4.0 | 5.7 | 5.6 |
| 1989 | Q1 | 6.7 | 6.2 | 2.6 | 1.9 | 4.6 | 4.6 | 4.0 | 4.2 | 5.6 | 5.7 |
| | Q2 | 6.6 | 5.8 | 2.5 | 1.9 | 4.5 | 4.2 | 4.1 | 3.9 | 5.6 | 5.8 |
| | Q3 | 6.2 | 5.8 | 2.3 | 2.0 | 4.3 | 4.0 | 3.9 | 3.7 | 5.7 | 5.8 |
| | Q4 | 6.3 | 5.6 | 2.3 | 1.9 | 4.4 | 3.9 | 3.9 | 3.6 | 5.7 | 5.9 |
| **Two-quarter changes: <2>** | | | | | | | | | | | |
| 1987 | Q2 <1> | 7.5 | 7.5 | 3.4 | 3.4 | 4.4 | 4.4 | 3.9 | 3.9 | -.5 | -.5 |
| | Q4 <1> | 7.3 | 7.4 | 4.4 | 4.6 | 3.6 | 3.6 | 2.8 | 2.8 | -.4 | -.4 |
| 1988 | Q2 | 5.9 | 5.9 | 2.6 | 2.9 | 3.9 | 3.9 | 3.3 | 3.0 | -.2 | -.4 |
| | Q4 | 6.6 | 6.5 | 2.7 | 2.3 | 4.2 | 4.4 | 3.8 | 4.1 | .0 | .1 |
| 1989 | Q2 | 6.7 | 6.0 | 2.5 | 1.9 | 4.5 | 4.4 | 4.0 | 4.0 | -.1 | .2 |
| | Q4 | 6.2 | 5.7 | 2.3 | 2.0 | 4.3 | 3.9 | 3.9 | 3.6 | .1 | .1 |
| **Four-quarter changes: <3>** | | | | | | | | | | | |
| 1986 | Q4 <1> | 4.5 | 4.5 | 2.2 | 2.2 | 2.3 | 2.3 | 2.2 | 2.2 | -.3 | -.3 |
| 1987 | Q4 <1> | 7.4 | 7.4 | 3.9 | 4.0 | 4.0 | 4.0 | 3.3 | 3.3 | -.9 | -.9 |
| 1988 | Q4 | 6.2 | 6.2 | 2.7 | 2.6 | 4.1 | 4.1 | 3.5 | 3.5 | -.2 | -.3 |
| 1989 | Q4 | 6.4 | 5.8 | 2.4 | 1.9 | 4.4 | 4.1 | 4.0 | 3.8 | .0 | .3 |

<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
(Seasonally adjusted; annual rate)

| | Units | 1987 Q3 | 1987 Q4 | Projection 1988 Q1 | 1988 Q2 | 1988 Q3 | 1988 Q4 | 1989 Q1 | 1989 Q2 | 1989 Q3 | 1989 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **EXPENDITURES** | | | | | | | | | | | |
| Nominal GNP | Billions of $ | 4524.0 | 4607.4 | 4660.9 | 4741.9 | 4819.2 | 4893.6 | 4967.4 | 5038.2 | 5109.6 | 5179.2 |
| Real GNP | Billions of 82$ | 3835.9 | 3880.8 | 3902.6 | 3936.2 | 3959.9 | 3982.1 | 4001.1 | 4019.7 | 4040.1 | 4059.4 |
| Nominal GNP | Percent change | 7.3 | 7.6 | 4.7 | 7.1 | 6.7 | 6.3 | 6.2 | 5.8 | 5.8 | 5.6 |
| Real GNP | | 4.3 | 4.8 | 2.3 | 3.5 | 2.4 | 2.3 | 1.9 | 1.9 | 2.0 | 1.9 |
| Gross domestic product | | 4.8 | 4.4 | 2.5 | 3.5 | 2.3 | 2.3 | 1.9 | 1.9 | 2.1 | 1.9 |
| Gross domestic purchases | | 4.8 | 4.3 | 1.8 | 1.9 | 1.6 | 1.0 | .6 | .7 | 1.0 | .9 |
| Final sales | | 6.0 | .9 | 2.6 | 4.1 | 3.1 | 2.9 | 2.5 | 2.1 | 2.2 | 2.1 |
| Private dom. final purchases | | 7.3 | -1.4 | 5.3 | 2.2 | 3.1 | 1.4 | .8 | .8 | 1.2 | 1.0 |
| Personal consumption expend. | | 5.4 | -2.5 | 3.8 | 2.3 | 2.7 | 1.6 | 1.0 | .9 | 1.1 | 1.0 |
| Durables | | 24.3 | -20.3 | 12.7 | -3.2 | 1.8 | .8 | .3 | -.1 | .1 | .2 |
| Nondurables | | -1.5 | -.5 | -.2 | 2.4 | 1.9 | 1.3 | .3 | .2 | .6 | .4 |
| Services | | 5.0 | 2.4 | 3.9 | 4.1 | 3.5 | 2.0 | 1.7 | 1.7 | 1.7 | 1.7 |
| Business fixed investment | | 25.8 | 1.6 | 21.0 | .6 | 8.2 | 2.6 | 2.6 | 1.9 | 2.2 | 1.9 |
| Producers' durable equipment | | 26.3 | -.9 | 32.5 | .1 | 10.6 | 3.0 | 3.3 | 2.4 | 2.8 | 2.3 |
| Nonresidential structures | | 24.6 | 8.4 | -5.1 | 1.6 | 1.8 | 1.4 | .7 | .5 | .4 | .6 |
| Residential structures | | -6.5 | 7.4 | -9.4 | 3.6 | -3.9 | -4.6 | -5.6 | -3.5 | -.8 | -.7 |
| Exports | | 23.7 | 15.9 | 10.2 | 16.8 | 15.0 | 15.3 | 16.0 | 15.9 | 14.3 | 13.1 |
| Imports | | 22.4 | 9.9 | 5.2 | 2.6 | 6.7 | 4.1 | 4.6 | 5.8 | 5.5 | 4.8 |
| Government purchases | | 2.6 | 9.2 | -10.0 | 3.5 | -1.1 | 2.5 | 2.3 | 1.2 | 1.1 | 1.1 |
| Federal | | 4.5 | 14.1 | -23.3 | 5.6 | -5.1 | 3.1 | 2.2 | -.6 | -.9 | -1.0 |
| Defense | | 7.5 | -.9 | -8.5 | -10.3 | -7.9 | 3.7 | 2.6 | -.8 | -.9 | -1.3 |
| State and local | | 1.2 | 5.5 | 1.5 | 2.1 | 2.0 | 2.1 | 2.4 | 2.5 | 2.6 | 2.6 |
| Change in business inventories | Billions of 82$ | 24.6 | 60.5 | 57.9 | 53.2 | 46.7 | 41.1 | 36.1 | 34.5 | 32.8 | 30.8 |
| Nonfarm | Billions of 82$ | 12.1 | 51.5 | 38.3 | 43.5 | 34.6 | 29.6 | 25.4 | 24.5 | 23.3 | 21.9 |
| Net exports | Billions of 82$ | -138.4 | -135.8 | -132.2 | -117.6 | -110.2 | -98.2 | -85.6 | -74.1 | -63.6 | -53.1 |
| **OYMENT AND PRODUCTION** | | | | | | | | | | | |
| rm payroll employment | Millions | 102.3 | 103.3 | 104.3 | 105.0 | 105.4 | 105.7 | 106.0 | 106.3 | 106.7 | 107.0 |
| loyment rate | Percent* | 6.0 | 5.9 | 5.7 | 5.5 | 5.6 | 5.6 | 5.7 | 5.8 | 5.8 | 5.9 |
| Industrial production index | Percent change | 8.8 | 7.0 | 3.8 | 4.5 | 3.6 | 2.4 | 2.6 | 2.7 | 3.0 | 3.0 |
| Capacity utilization rate-mfg. | Percent* | 81.4 | 82.3 | 82.6 | 83.0 | 83.1 | 82.9 | 82.8 | 82.8 | 82.7 | 82.7 |
| Housing Starts | Millions | 1.62 | 1.53 | 1.48 | 1.51 | 1.45 | 1.40 | 1.39 | 1.38 | 1.38 | 1.38 |
| Auto sales | Millions | 11.42 | 10.02 | 10.79 | 10.15 | 10.05 | 10.02 | 10.00 | 9.95 | 9.90 | 9.85 |
| Domestic | Millions | 7.84 | 6.63 | 7.64 | 7.01 | 7.02 | 7.00 | 7.00 | 6.95 | 6.90 | 6.85 |
| Foreign | Millions | 3.58 | 3.38 | 3.15 | 3.14 | 3.03 | 3.02 | 3.00 | 3.00 | 3.00 | 3.00 |
| **INCOME AND SAVING** | | | | | | | | | | | |
| Nominal personal income | Percent change | 5.8 | 10.3 | 4.5 | 7.1 | 5.8 | 8.0 | 7.5 | 5.3 | 5.4 | 6.3 |
| Real disposable income | Percent change | 4.5 | 6.0 | 3.2 | 1.7 | 1.9 | 2.5 | 2.4 | -.1 | .8 | 1.3 |
| Personal saving rate | Percent* | 2.8 | 4.8 | 4.6 | 4.5 | 4.3 | 4.5 | 4.8 | 4.6 | 4.5 | 4.5 |
| Corp. profits with IVA & CCAdj | Percent change | 26.7 | -2.4 | -9.8 | 9.5 | 9.7 | -3.2 | 2.0 | 5.1 | 3.7 | 7.1 |
| Profit share of GNP | Percent* | 7.0 | 6.8 | 6.5 | 6.6 | 6.6 | 6.5 | 6.4 | 6.4 | 6.4 | 6.4 |
| Federal govt. surplus/deficit | Billions of $ | -135.8 | -160.2 | -140.1 | -139.4 | -140.1 | -149.2 | -157.2 | -143.9 | -135.1 | -134.6 |
| State and local govt. surplus | | 46.5 | 37.9 | 41.1 | 47.2 | 52.9 | 56.9 | 60.3 | 61.4 | 61.8 | 62.1 |
| Exc. social insurance funds | | -5.6 | -15.5 | -13.9 | -8.5 | -3.5 | -.2 | 2.5 | 2.9 | 2.6 | 2.2 |
| **PRICES AND COSTS** | | | | | | | | | | | |
| GNP implicit deflator | Percent change | 2.8 | 2.7 | 2.4 | 3.6 | 4.1 | 4.0 | 4.2 | 3.9 | 3.7 | 3.6 |
| GNP fixed-weight price index | | 3.4 | 3.6 | 3.7 | 4.1 | 4.5 | 4.4 | 4.6 | 4.2 | 4.0 | 3.9 |
| Cons. & fixed invest. prices | | 3.9 | 3.3 | 2.8 | 4.5 | 5.0 | 4.6 | 4.7 | 4.5 | 4.3 | 4.2 |
| CPI | | 3.6 | 3.9 | 3.2 | 4.8 | 5.0 | 4.9 | 4.6 | 4.7 | 4.5 | 4.6 |
| Exc. food and energy | | 3.6 | 4.2 | 4.4 | 5.3 | 4.9 | 5.1 | 5.1 | 5.0 | 4.8 | 4.7 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | 4.2 | -1.0 | .9 | 1.0 | .7 | .9 | .7 | .8 | .7 | .9 |
| Compensation per hour | | 3.6 | 3.5 | 3.4 | 3.8 | 4.1 | 4.4 | 4.7 | 4.5 | 4.5 | 4.4 |
| Unit labor costs | | -.6 | 4.5 | 2.4 | 2.8 | 3.4 | 3.5 | 4.0 | 3.7 | 3.8 | 3.5 |

at an annual rate.

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May 11, 1988

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

| | Units | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | Projection 1988 | 1989 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EXPENDITURES** | | | | | | | | | | |
| Nominal GNP | Billions of $ | 3052.6 | 3166.0 | 3405.7 | 3772.2 | 4010.3 | 4235.0 | 4488.5 | 4778.9 | 5073.6 |
| Real GNP | Billions of 82% | 3248.8 | 3166.0 | 3279.1 | 3501.4 | 3607.5 | 3713.3 | 3821.0 | 3945.2 | 4030.1 |
| Real GNP | Percent change* | .6 | -1.9 | 6.5 | 5.1 | 3.3 | 2.2 | 4.0 | 2.6 | 1.9 |
| Gross domestic product | | .3 | -1.6 | 6.6 | 5.3 | 3.5 | 2.6 | 4.1 | 2.6 | 2.0 |
| Gross domestic purchases | | .8 | -.8 | 8.4 | 6.4 | 4.1 | 2.7 | 3.4 | 1.6 | .8 |
| Final sales | | .1 | .3 | 3.7 | 4.7 | 4.6 | 2.6 | 2.0 | 3.2 | 2.2 |
| Private dom. final purchases | | -.3 | .8 | 7.7 | 5.6 | 4.6 | 3.2 | 1.3 | 3.0 | 1.0 |
| Personal consumption expend. | | .2 | 2.9 | 5.4 | 4.1 | 4.5 | 4.1 | 1.0 | 2.6 | 1.0 |
| Durables | | -3.3 | 9.0 | 14.7 | 10.8 | 6.6 | 12.4 | -3.6 | 2.9 | .1 |
| Nondurables | | .5 | 1.8 | 4.4 | 2.3 | 2.9 | 2.9 | -.6 | 1.4 | .4 |
| Services | | .9 | 2.3 | 3.9 | 3.5 | 5.0 | 2.4 | 3.7 | 3.4 | 1.7 |
| Business fixed investment | | 5.6 | -11.3 | 10.8 | 13.8 | 4.7 | -4.7 | 5.1 | 7.8 | 2.1 |
| Producers' durable equipment | | 2.2 | -12.5 | 20.9 | 14.9 | 7.0 | .2 | 5.4 | 10.9 | 2.7 |
| Nonresidential structures | | 11.7 | -9.1 | -4.8 | 11.8 | .1 | -15.4 | 4.2 | -.2 | .5 |
| Residential structures | | -22.4 | 4.9 | 38.1 | 6.1 | 6.0 | 12.5 | -2.6 | -3.7 | -2.7 |
| Exports | | 2.4 | -13.8 | 5.8 | 5.9 | -2.7 | 5.9 | 16.8 | 14.3 | 14.8 |
| Imports | | 4.9 | -5.9 | 23.8 | 17.4 | 5.2 | 8.9 | 9.1 | 4.6 | 5.2 |
| Government purchases | | 2.9 | 3.8 | -2.7 | 7.9 | 8.7 | 2.4 | 2.2 | -1.4 | 1.4 |
| Federal | | 9.5 | 8.2 | -8.1 | 13.0 | 14.9 | -.2 | .9 | -5.7 | -.1 |
| Defense | | 7.6 | 8.8 | 5.1 | 6.5 | 7.0 | 4.8 | 5.9 | -5.9 | -.1 |
| State and local | | -1.3 | .6 | 1.5 | 4.4 | 4.0 | 4.6 | 3.3 | 1.9 | 2.5 |
| Change in business inventories | Billions of 82$ | 23.9 | -24.5 | -6.4 | 62.3 | 7.4 | 13.8 | 42.9 | 49.7 | 33.5 |
| Nonfarm | Billions of 82$ | 19.0 | -23.1 | -.1 | 57.8 | 12.0 | 15.4 | 32.5 | 36.5 | 23.8 |
| Net exports | Billions of 82$ | 49.4 | 26.3 | -19.9 | -84.0 | -108.2 | -145.8 | -135.5 | -114.5 | -69.1 |
| Nominal GNP | Percent change* | 9.3 | 3.1 | 10.4 | 8.6 | 6.6 | 4.5 | 7.4 | 6.2 | 5.8 |
| **OYMENT AND PRODUCTION** | | | | | | | | | | |
| arm payroll employment | Millions | 91.2 | 89.6 | 90.2 | 94.5 | 97.5 | 99.6 | 102.1 | 105.1 | 106.5 |
| Unemployment rate | Percent | 7.6 | 9.7 | 9.6 | 7.5 | 7.2 | 7.0 | 6.2 | 5.6 | 5.8 |
| Industrial production index | Percent change* | -1.0 | -7.7 | 14.3 | 6.6 | 1.7 | 1.0 | 5.8 | 3.6 | 2.8 |
| Capacity utilization rate-mfg. | Percent | 78.2 | 70.3 | 73.9 | 80.5 | 80.1 | 79.7 | 81.0 | 82.9 | 82.8 |
| Housing Starts | Millions | 1.10 | 1.06 | 1.71 | 1.77 | 1.74 | 1.81 | 1.63 | 1.46 | 1.38 |
| Auto sales | Millions | 8.56 | 8.00 | 9.18 | 10.43 | 11.09 | 11.52 | 10.34 | 10.25 | 9.93 |
| Domestic | Millions | 6.24 | 5.77 | 6.77 | 7.97 | 8.24 | 8.28 | 7.14 | 7.17 | 6.93 |
| Foreign | Millions | 2.32 | 2.23 | 2.41 | 2.46 | 2.84 | 3.25 | 3.21 | 3.09 | 3.00 |
| **INCOME AND SAVING** | | | | | | | | | | |
| Nominal personal income | Percent change* | 9.2 | 5.3 | 7.8 | 8.4 | 6.8 | 5.5 | 7.3 | 6.3 | 6.1 |
| Real disposable income | Percent change* | .7 | 1.0 | 5.1 | 4.3 | 2.8 | 3.6 | 2.1 | 2.3 | 1.1 |
| Personal saving rate | Percent | 7.5 | 6.8 | 5.4 | 6.1 | 4.5 | 4.3 | 3.7 | 4.5 | 4.6 |
| Corp. profits with IVA & CCAdj | Percent change* | 2.3 | -19.1 | 70.1 | 7.4 | 4.1 | 1.2 | 11.3 | 1.2 | 4.4 |
| Profit share of GNP | Percent | 6.2 | 4.7 | 6.3 | 7.1 | 6.9 | 6.7 | 6.8 | 6.6 | 6.4 |
| Federal govt. surplus/deficit | Billions of $ | -63.8 | -145.9 | -176.0 | -169.6 | -196.0 | -204.7 | -151.4 | -142.2 | -142.7 |
| State and local govt. surplus | | 34.1 | 35.1 | 47.5 | 64.6 | 63.1 | 56.8 | 44.0 | 49.5 | 61.4 |
| Exc. social insurance funds | | 4.1 | -1.7 | 4.4 | 19.8 | 16.0 | 7.4 | -7.7 | -6.6 | 2.6 |
| **PRICES AND COSTS** | | | | | | | | | | |
| GNP implicit deflator | Percent change* | 8.7 | 5.2 | 3.6 | 3.4 | 3.1 | 2.2 | 3.3 | 3.5 | 3.8 |
| GNP fixed-weight price index | | 8.5 | 5.0 | 3.9 | 3.7 | 3.6 | 2.3 | 4.0 | 4.1 | 4.1 |
| Cons. & fixed invest. prices | | 8.2 | 4.4 | 3.3 | 3.3 | 3.5 | 2.0 | 4.3 | 4.2 | 4.4 |
| CPI | | 9.6 | 4.4 | 3.2 | 4.1 | 3.5 | 1.3 | 4.4 | 4.5 | 4.6 |
| Exc. food and energy | | 10.2 | 5.2 | 4.2 | 4.8 | 4.3 | 3.9 | 4.3 | 5.0 | 4.9 |
| Nonfarm business sector | | | | | | | | | | |
| Output per hour | | -.6 | 1.0 | 3.6 | 1.5 | 1.0 | 1.5 | 1.3 | .9 | .8 |
| ensation per hour | | 8.3 | 7.3 | 3.3 | 4.2 | 4.8 | 3.4 | 2.8 | 3.9 | 4.5 |
| t labor costs | | 9.0 | 6.2 | -.3 | 2.6 | 3.7 | 1.9 | 1.5 | 3.0 | 3.7 |

ercent changes are from fourth quarter to fourth quarter.

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CLASS II FOMC

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# GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

| | 1987 | | 1988 (Projection) | | | | 1989 (Projection) | | | | 1986 | 1987 | 1988 (Projection) | 1989 (Projection) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | (fourth quarter to fourth quarter, net change) | | | |
| Real GNP | 40.6 | 44.9 | 21.8 | 33.6 | 23.7 | 22.2 | 19.0 | 18.6 | 20.4 | 19.3 | 80.6 | 149.3 | 101.3 | 77.3 |
| Gross domestic product | 44.5 | 41.6 | 23.5 | 33.6 | 21.9 | 22.3 | 18.9 | 18.6 | 20.4 | 19.4 | 92.7 | 150.2 | 101.3 | 77.3 |
| Gross domestic purchases | 46.3 | 42.3 | 18.2 | 19.0 | 16.3 | 10.2 | 6.4 | 7.2 | 9.9 | 8.8 | 103.1 | 133.3 | 63.7 | 32.2 |
| Final sales | 55.1 | 8.9 | 24.4 | 38.4 | 30.2 | 27.7 | 24.0 | 20.3 | 22.1 | 21.2 | 93.3 | 74.5 | 120.7 | 87.6 |
| Private dom. final purchases | 55.8 | -10.9 | 41.4 | 17.2 | 24.8 | 11.0 | 6.9 | 6.5 | 9.4 | 8.6 | 97.7 | 41.4 | 94.4 | 31.4 |
| Personal consumption expend. | 33.2 | -16.1 | 23.6 | 14.7 | 17.0 | 10.1 | 6.4 | 5.8 | 7.0 | 6.5 | 97.3 | 24.1 | 65.3 | 25.7 |
| Durables | 21.5 | -22.4 | 11.7 | -3.2 | 1.8 | .8 | .3 | -.1 | .1 | .2 | 43.9 | -14.5 | 11.1 | .5 |
| Nondurables | -3.3 | -1.1 | -.4 | 5.2 | 4.2 | 2.9 | .6 | .4 | 1.4 | .8 | 24.6 | -5.7 | 12.0 | 3.3 |
| Services | 15.0 | 7.5 | 12.1 | 12.7 | 11.0 | 6.4 | 5.4 | 5.5 | 5.5 | 5.5 | 28.6 | 44.5 | [illegible] | 21.9 |
| Business fixed investment | 25.9 | 1.8 | 22.7 | .7 | 9.8 | 3.2 | 3.2 | 2.4 | 2.7 | 2.4 | -22.0 | 22.4 | 36.3 | 10.7 |
| Producers' durable equipment | 19.1 | -.8 | 24.5 | .1 | 9.2 | 2.7 | 3.0 | 2.2 | 2.6 | 2.2 | .6 | 17.2 | 36.5 | 10.0 |
| Nonresidential structures | 6.8 | 2.6 | -1.7 | .5 | .6 | .4 | .2 | .2 | .1 | .2 | -22.6 | 5.2 | -.2 | .7 |
| Residential structures | -3.3 | 3.5 | -4.8 | 1.7 | -1.9 | -2.2 | -2.7 | -1.7 | -.4 | -.3 | 22.5 | -5.2 | -7.3 | -5.1 |
| Change in business inventories | -14.4 | 35.9 | -2.6 | -4.7 | -6.5 | -5.5 | -5.0 | -1.6 | -1.7 | -1.9 | -12.8 | 74.9 | -19.4 | -10.3 |
| Nonfarm | -10.6 | 39.4 | -13.2 | 5.2 | -8.9 | -4.9 | -4.2 | -.9 | -1.2 | -1.3 | -14.4 | 49.2 | -21.9 | -7.7 |
| Farm | -3.8 | -3.5 | 10.6 | -9.9 | 2.4 | -.6 | -.8 | -.7 | -.5 | -.6 | 1.6 | 25.6 | 2.5 | -2.6 |
| Net exports | -5.7 | 2.6 | 3.6 | 14.6 | 7.4 | 12.0 | 12.6 | 11.5 | 10.5 | 10.5 | -22.5 | 16.0 | 37.6 | 45.1 |
| Exports | 22.6 | 16.4 | 11.1 | 18.4 | 17.2 | 18.1 | 19.6 | 20.2 | 19.0 | 18.1 | 21.8 | 65.2 | 64.8 | 77.0 |
| Imports | 28.4 | 13.7 | 7.5 | 3.8 | 9.8 | 6.1 | 7.0 | 8.8 | 8.5 | 7.6 | 44.3 | 49.2 | 27.2 | 31.9 |
| Government purchases | 5.0 | 17.2 | -20.6 | 6.6 | -2.1 | 4.8 | 4.5 | 2.3 | 2.2 | 2.2 | 18.1 | 17.1 | -11.3 | 11.2 |
| Federal | 3.7 | 11.3 | -22.3 | 4.4 | -4.3 | 2.5 | 1.8 | -.5 | -.7 | -.8 | -.7 | 3.0 | -19.7 | -.2 |
| Defense | 4.8 | -.6 | -5.9 | -7.0 | -5.2 | 2.3 | 1.6 | -.5 | -.6 | -.8 | 11.6 | 15.0 | -15.8 | -.3 |
| Nondefense | -1.2 | 12.1 | -16.5 | 11.4 | .9 | .2 | .2 | .0 | -.1 | .0 | -12.3 | -11.9 | -4.0 | .1 |
| State and local | 1.3 | 5.9 | 1.6 | 2.3 | 2.2 | 2.3 | 2.7 | 2.8 | 2.9 | 3.0 | 18.7 | 14.2 | 8.4 | 11.4 |

## FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

| | Fiscal Year 1987* | FY1988e Admin[1] | FY1988e FRB Staff | FY1989e Admin[1] | FY1989e FRB Staff | CY 1987* | CY1988e FRB Staff | 1987 IV* | 1988 I* | FRB Staff Estimates 1988 II | 1988 III | 1988 IV | 1989 I | 1989 II | 1989 III |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Not seasonally adjusted | | | | | | | |
| Budget receipts[2] | 854 | 909 | 905 | 965 | 967 | 869 | 913 | 205 | 207 | 267 | 225 | 213 | 231 | 278 | 245 |
| Budget outlays[2] | 1005 | 1056 | 1065 | 1094 | 1132 | 1034 | 1058 | 287 | 244 | 267 | 267 | 280 | 285 | 287 | 280 |
| Surplus/deficit(-) to be financed[2] | -150 | -147 | -160 | -130 | -165 | -165 | -145 | -82 | -37 | 0 | -42 | -67 | -54 | -9 | -35 |
| Means of financing: | | | | | | | | | | | | | | | |
| Borrowing from public | 152 | 127 | 154 | 127 | 157 | 142 | 152 | 61 | 43 | 12 | 39 | 58 | 41 | 29 | 29 |
| Cash balance decrease | -5 | 16 | 3 | 0 | -2 | 9 | 2 | 14 | 0 | -7 | -4 | 13 | 5 | -15 | -5 |
| Other[3] | 4 | 3 | 3 | 3 | 10 | 16 | -9 | 7 | -5 | -5 | 6 | -5 | 8 | -5 | 11 |
| Cash operating balance, end of period | 36 | 20 | 33 | 20 | 35 | 22 | 20 | 22 | 23 | 30 | 33 | 20 | 15 | 30 | 35 |
| Memo: Sponsored agency borrowing[4] | 20 | n.a. | 47 | n.a. | 32 | 35 | 32 | 20 | 7 | 11 | 9 | 5 | 5 | 10 | 12 |
| NIPA Federal Sector | | | | | | | | Seasonally adjusted annual rates | | | | | | | |
| Receipts | 894 | 974 | 960 | 1029 | 1026 | 916 | 975 | 938 | 952 | 975 | 977 | 994 | 1018 | 1038 | 1052 |
| Expenditures | 1053 | 1098 | 1105 | 1146 | 1172 | 1067 | 1117 | 1098 | 1092 | 1115 | 1117 | 1144 | 1175 | 1182 | 1188 |
| Purchases | 374 | 375 | 383 | 396 | 393 | 379 | 382 | 389 | 377 | 384 | 381 | 387 | 394 | 396 | 397 |
| Defense | 290 | 289 | 295 | 295 | 298 | 295 | 293 | 300 | 298 | 293 | 289 | 293 | 299 | 300 | 301 |
| Nondefense | 84 | 86 | 88 | 101 | 95 | 84 | 89 | 89 | 79 | 91 | 93 | 94 | 95 | 95 | 96 |
| All other expend. | 679 | 723 | 723 | 750 | 779 | 688 | 734 | 709 | 715 | 731 | 736 | 757 | 781 | 786 | 791 |
| Surplus/deficit(-) | -159 | -124 | -145 | -117 | -146 | -151 | -142 | -160 | -140 | -140 | -140 | -149 | -157 | -144 | -135 |
| High-employment surplus/deficit(-) evaluated at 6 percent unemp. | -141 | n.a. | -150 | n.a. | -151 | -141 | -149 | -161 | -142 | -147 | -148 | -157 | -163 | -147 | -137 |

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

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

1. Budget of the United States Government, Fiscal Year 1989 (February 1988). The Congressional Budget Office baseline estimates released March 1988 indicated receipts of $898 and $954 billion, outlays of $1059 and $1131 billion, and deficits of $161 and $177 billion in FY1988 and FY1989, respectively.
2. Includes social security receipts and outlays, which are classified as off-budget under current law.
3. Checks issued less checks paid, accrued items, and other transactions.
4. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation (excluding participation certificates), the Federal National Mortgage Association (excluding mortgage-backed securities), Farm Credit Banks, the Student Loan Marketing Association, and the Financing Corporation. The Administration's definition of borrowing by these agencies is somewhat broader.

## Recent Developments

Interest rates have climbed since the March FOMC against a backdrop of strong economic indicators, increasing concern about a possible resurgence of inflation, and perceptions of a further tightening of monetary policy. Federal funds and other short-term rates generally are 3/8 to 5/8 percentage point higher than in March, and most long-term rates have climbed by comparable amounts.

Growth in M1 and M2 in April picked up to 11 and 10 percent annual rates, respectively, evidently in response to a need for balances to make larger-than-normal tax payments. While transaction deposits showed particular strength, this was partly offset by weakness in other liquid instruments included in the broader aggregate. Growth in small time deposits, however, was in the 13 to 14 percent range at both commercial banks and thrifts, reflecting the comparatively prompt adjustment of rates on these accounts to changes in market yields. M3 increased at only a 6 percent rate in April, as a runoff of large time deposits at commercial banks more than offset strong gains at thrift institutions. Both M2 and M3 stood in the upper portions of their annual target cones as of April.

Bank credit accelerated to an 11-1/2 percent rate during April. Growth in banks' total loans about doubled--to around 12 percent--while acquisitions of securities slowed a bit from the March pace. Business loans were up especially sharply, recording the biggest advance in more than a year.

Borrowing by nonfinancial corporations generally has been strong so far this year, owing to a combination of a slowdown of internally generated funds relative to capital outlays and to heavy merger financing. In the first quarter, bond issuance was the most important source of funds, but April saw some shift back toward shorter-term borrowing. While share prices in equity markets are little changed since the last FOMC, gross equity issuance by nonfinancial companies has remained subdued, averaging less than $1 billion per month so far this year.

The federal budget is projected to be in approximate balance this quarter, reflecting the seasonal upsurge of tax payments. Treasury net borrowing (n.s.a.) is expected to be around $10 billion, and is more than accounted for by marketable coupon securities. The government's cash balance likely will rise to around $30 billion by quarter-end. Credit demands by sponsored agencies are rising somewhat this quarter, mostly reflecting needs of the housing-related agencies, and including additional borrowing by the Financing Corporation (FICO) in support of the FSLIC. While down a bit compared with April, the spread between long-term FICO and Treasury securities still is nearly 100 basis points, probably reflecting market expectations that FICO's borrowing authority will have to be raised to deal with the severe problems of the S&L industry.

Municipal bond markets faltered only slightly after the Supreme Court's April 20 decision affirming the potential taxability of state and local issues; most observers concluded that Congress would be unlikely to take such action in the near future. Rates have changed little over the intermeeting period, as gross issuance of long-term tax-exempt securities was relatively light in April.

Home mortgage rates rose further during April. Fixed-rate conventional loan quotes have moved up more than 30 basis points, but ARM rates have increased considerably less, widening their initial rate advantage to about 270 basis points. Responding to an earlier narrowing of these spreads, the ARM share of mortgage closings fell during the early months of the year--to about 48 percent in April--but the latest widening may presage a reversal of this tendency. Issuance of mortgage-backed securities has been well maintained in recent months, albeit below the 1987 pace; while ARMs have accounted for only a small part of pass-through securities, that share appears to be slowly rising.

Consumer installment credit rose at an 8-1/2 percent annual rate in March, driven mainly by a 14-1/2 percent advance in automobile credit which was broadly spread among lender groups. Revolving credit likewise advanced strongly. Consumer loans at banks decelerated a little in April, but growth was nonetheless higher than early in the year.

<u>Outlook</u>

As noted in the previous section, the staff is projecting that interest rates will rise appreciably further in coming months. While the anticipated path is a smooth one, reflecting in part a gradual tightening of money market conditions as the System seeks to contain growth in aggregate demand, there clearly is some possibility of more abrupt rate movements. The markets have manifested a notable sensitivity to inflation prospects, and they could react strongly to any adverse news on that front.

Trends in credit flows over the balance of 1988 are anticipated to be similar in many respects to those that have prevailed for a while now. Apart from seasonal oscillations, the federal borrowing requirement is gradually diminishing, and state and local borrowing is unlikely to pick up in an environment of rising interest rates. Business borrowing is projected to diminish only a bit over the balance of the year; the substitution of debt for equity in connection with mergers and other restructurings may edge off some from the recent pace, but the staff projection is for a sustained large gap between capital spending and internal funds. The interest-rate outlook, in turn, suggests that companies' short-term borrowing may be well maintained over the balance of the year, while long-term funding may taper off somewhat.

Owing to the expected substantial rise in loan rates, household mortgage debt probably will decelerate some between now and early next year. Although the yield curve is projected to flatten somewhat over this span, mortgage demands likely will shift further toward adjustable-rate loans. Consumer credit growth probably will diminish slightly as the year progresses.

Growth in total domestic nonfinancial sector debt is forecast to run a little over 9 percent in 1988 and then to drop off around a percentage point in 1989. Higher interest rates should damp household credit demands, especially in the mortgage market, but also to a degree in the consumer installment sector. Business borrowing may diminish during 1989 as the less hospitable financial environment cuts into merger and other restructuring activity. Rising rates will add to business interest payments, and the corporate financing gap may even expand somewhat over the course of 1989 as internal funds flatten out and capital spending continues to rise slowly. State and local borrowing likely will be little changed next year, but the combination of greater interest costs and weaker economic growth will increase the Treasury's borrowing requirement.

Recent developments

Since the March FOMC meeting, the trade-weighted foreign exchange value of the dollar against the other G-10 currencies has appreciated about 1/4 percent. The dollar rose about 3/4 percent against the mark, but was down 1 percent against the pound and slightly less against the yen. Early in the intermeeting period, perceptions by market participants of tighter monetary policy in the United States contributed to some strengthening of the dollar. Release in mid-April of disappointing trade data for February prompted a sharp decline in the dollar . The dollar subsequently recovered as market participants began to anticipate firmer U.S. monetary conditions.

Both short- and long-term interest rates rose about 1/2 percentage point in the United States during the intermeeting period, more than in most foreign countries. Short-term interest rates were little changed in Japan while long-term rates rose slightly, on balance, since end-March. In Germany, short-term rates firmed 20 basis points, and rates for longer maturities increased about 50 basis points. Interest rates in Canada rose about 30 basis points. In contrast, short-term interest rates fell in the United Kingdom as early in the intermeeting period the Bank of England again lowered its money market dealing rate 1/2 percentage point to curb upward pressure on the pound.

. The Desk purchased $500 million in mid-April following release of the February trade figures.

Indicators of economic activity in the major industrial countries during the first months of 1988 show continued strength in Japan, and, on balance, in Europe as well. Industrial production increased very strongly in Japan in the first quarter and also rose on average in Germany, despite a sharp decline in the preliminary estimate for March. Price inflation remains low in most of the major foreign industrial countries. January data suggest some narrowing of German trade and current account surpluses while in Japan both surpluses increased slightly during the first quarter from their fourth-quarter levels.

Completion of an agreement between Brazil and creditor banks is being held up by the need to resolve a few outstanding issues. In late March, the Mexican government announced an extension through May of the freeze on the peso-dollar exchange rate, public sector prices, and minimum wages as part of its efforts to restrain prices and wages; as a result, the consumer price index rose only 3.1 percent in April, the smallest monthly increase since June 1985. Cote d'Ivoire has reached an innovative agreement with banks on a rescheduling, which may penalize non-participating banks.

The U.S. merchandise trade balance in February registered a significantly larger deficit than in January, both on a not seasonally adjusted CIF basis and on a seasonally adjusted balance of payments basis. The larger deficit resulted primarily from an increase in the value of non-oil imports that was only partly offset by the growth in non-agricultural exports. The January and February average deficit of about $155 billion (s.a.a.r.) shows some improvement from the $160 billion rate recorded for the fourth quarter of 1987.

Foreign official reserve assets in the United States increased during the first quarter at a slightly faster monthly average rate than in the fourth quarter, reflecting shifts in dollar assets from the Euromarkets as well as exchange market intervention. This increase was more than accounted for by net official foreign purchases of U.S. Treasury securities, largely in the form of bonds and notes. Net private foreign purchases of U.S. Treasury securities were also very large in the first quarter, particularly in February. Foreign net purchases of U.S. corporate stocks remained virtually zero in the quarter. Foreign net purchases of U.S. corporate bonds rose sharply in March, but the first-quarter rate remained at about the depressed rate of the fourth quarter of last year. Net purchases by U.S. residents of foreign securities increased sharply in the first quarter; most of the increase consisted of bonds, although net purchases of stocks in Japan were also substantial.

Outlook. The staff continues to project a moderate decline in the value of the dollar over the forecast horizon, although in the light of the altered assumptions about U.S. monetary policy at a somewhat slower pace than previously. Recent strength of demand in the industrial economies is likely to moderate slightly as in some countries policy authorities act to restrain expansion from becoming excessive. As a result, the U.S. trade deficit is projected to improve more than $40 billion during

1988 and 1989, with more than half of the improvement taking place next year. For the fourth quarter of this year, the current account balance is expected to be only slightly less than that recorded during the final quarter of 1987 (when there was an unusually large amount, $25 billion (a.r.), of net investment receipts in the form of capital gains largely resulting from the dollar's depreciation). However, by the end of 1989, we expect further improvement of about $25 billion in the current account balance, as the deficit falls to about $130 billion in the fourth quarter of 1989. More substantial improvement over the forecast horizon is expected in real net exports as import prices are forecast to rise considerably faster than export prices.

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## Outlook for U.S. Net Exports and Related Items
### (Billions of Dollars, Seasonally Adjusted Annual Rates)

| | ANNUAL | | | 1987 | | 1988 | | | | 1989 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1987- | 1988-P | 1989-P | Q3- | Q4- | Q1- | Q2-P | Q3-P | Q4-P | Q1-P | Q2-P | Q3-P | Q4-P |
| 1. GNP Exports and Imports 1/ | | | | | | | | | | | | | |
| Current $, Net | -119.6 | -107.8 | -80.2 | -123.7 | -124.3 | -115.4 | -108.9 | -106.9 | -100.0 | -91.6 | -83.2 | -76.2 | -69.7 |
| Exports of G+S | 427.8 | 506.4 | 602.2 | 439.2 | 458.1 | 470.6 | 494.7 | 518.6 | 541.5 | 566.9 | 591.9 | 614.2 | 635.8 |
| Imports of G+S | 547.4 | 614.2 | 682.4 | 562.9 | 582.4 | 586.0 | 603.5 | 625.6 | 641.6 | 658.7 | 675.0 | 690.5 | 705.6 |
| Constant 82 $, Net | -135.5 | -114.5 | -69.1 | -138.4 | -135.8 | -132.2 | -117.6 | -110.2 | -98.2 | -85.6 | -74.1 | -63.6 | -53.1 |
| Exports of G+S | 425.7 | 491.5 | 567.1 | 437.1 | 453.5 | 464.6 | 483.0 | 500.2 | 518.3 | 537.9 | 558.2 | 577.2 | 595.2 |
| Imports of G+S | 561.3 | 606.1 | 636.2 | 575.6 | 589.3 | 596.8 | 600.6 | 610.4 | 616.5 | 623.5 | 632.3 | 640.8 | 648.3 |
| 2. U.S. Merchandise Trade Balance 2/ | -159.2 | -146.9 | -126.4 | -161.4 | -160.7 | -151.1 P | -146.1 | -147.7 | -142.6 | -136.1 | -128.8 | -123.0 | -117.5 |
| Exports | 250.8 | 312.7 | 372.9 | 260.4 | 276.2 | 290.5 P | 306.3 | 319.5 | 334.6 | 350.4 | 365.5 | 380.2 | 395.7 |
| Agricultural | 29.5 | 36.0 | 39.5 | 33.3 | 30.9 | 35.7 P | 37.0 | 35.0 | 36.3 | 38.1 | 39.3 | 39.8 | 40.8 |
| Non-Agricultural | 221.3 | 276.7 | 333.4 | 227.2 | 245.3 | 254.8 P | 269.3 | 284.5 | 298.2 | 312.3 | 326.2 | 340.4 | 354.9 |
| Imports | 410.0 | 459.6 | 499.3 | 421.9 | 436.9 | 441.6 P | 452.4 | 467.2 | 477.1 | 486.5 | 494.3 | 503.2 | 513.3 |
| Petroleum and Products | 42.3 | 44.3 | 49.7 | 50.4 | 44.4 | 40.5 P | 42.9 | 46.7 | 47.1 | 47.9 | 49.1 | 50.3 | 51.5 |
| Non-Petroleum | 367.7 | 415.3 | 449.6 | 371.4 | 392.6 | 401.2 P | 409.5 | 420.5 | 430.0 | 438.6 | 445.1 | 452.8 | 461.7 |
| 3. U.S. Current Account Balance | -160.7 | -158.2 | -139.0 | -173.8 | -156.0 | -161.6 P | -159.1 | -157.9 | -154.2 | -148.2 | -141.2 | -135.9 | -130.9 |
| Of Which: Net Investment Income | 14.5 | 6.7 | 1.9 | 1.2 | 28.4 | 9.0 P | 5.1 | 6.9 | 5.8 | 4.0 | 2.6 | 1.1 | -0.2 |
| 4. Foreign Outlook 3/ | | | | | | | | | | | | | |
| Real GNP--Ten Industrial 4/ | 2.8 | 2.7 | 1.8 | 5.1 | 3.1 | 2.6 | 1.9 | 1.7 | 1.7 | 1.8 | 1.9 | 1.9 | 1.9 |
| Real GNP--NonOPEC LDC 5/ | 4.2 | 3.6 | 4.0 | 3.7 | 3.5 | 3.3 | 3.5 | 3.8 | 4.1 | 4.3 | 4.2 | 4.0 | 3.8 |
| Consumer Prices--Ten Ind. 4/ | 2.1 | 2.3 | 2.8 | 1.7 | 2.4 | 1.5 | 3.1 | 2.3 | 3.4 | 2.3 | 3.0 | 2.5 | 3.4 |

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; prices are not seasonally adjusted.
5/ Weighted by share in NonOPEC LDC GNP.
P/ Projected