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February 1, 1989

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

Real GNP (exclusive of drought losses) is estimated to have increased at an annual rate of 3 percent in the fourth quarter, a pace broadly consistent with the gains in production worker hours and industrial output. Business fixed investment and net exports both appear to have declined in real terms, but residential investment and government purchases spurted and consumption rose appreciably. Increases in wages and total compensation continued to trend upward in the fourth quarter. Although broad measures of prices, excluding food and energy, did not worsen last quarter, they showed larger increases for the year as a whole than in 1987.

Nonfarm payroll employment rose more than 300,000 per month, on average, in the fourth quarter, in line with the pace over the first three quarters. Job gains were widespread, with both the service- and goods-producing sectors posting solid advances last quarter. An increase in the length of the average workweek, in conjunction with continued growth in employment, boosted production worker hours 3-1/2 percent at an annual rate. In the household survey, employment continued to outstrip growth in the labor force, and the unemployment rate for the fourth quarter declined 1/4 percentage point to 5-1/4 percent.

Total industrial production rose 0.3 percent in December, bringing the fourth-quarter increase to 4-1/4 percent at an annual rate. Motor vehicle assemblies were up sharply last quarter. Production of other consumer goods, construction supplies, metals, and chemicals also registered strong gains, while production of business equipment, especially computers, slowed and energy materials reversed a third quarter surge. Although information for January is limited, available data show increases in output of steel and petroleum products and a decline in automobile assemblies.

In the auto industry, assemblies of domestic cars surged to an annual rate of 8-1/4 million units in December, but sales also were strong, influenced by the scheduled expiration of incentives and a bunching of fleet purchases. However, sales dropped sharply in the first 20 days of January, and with inventories rather heavy, an expansion of incentive programs and a further decline in production from the 7-3/4 million unit January schedule seems probable.

Excluding motor vehicles, real consumer outlays advanced at a 3-1/2 percent annual rate last quarter. Spending on household durables was especially strong, and service consumption maintained the rapid pace observed over the past two years. Real disposable income rose at a 4-3/4 percent annual rate, reflecting hefty gains in employment and a sharp rise in interest income. As a result, the personal saving rate moved up to 4.6 percent, compared with an average of 4.1 percent in the preceding three quarters and 3.2 percent in 1987.

Housing activity turned up sharply in the fourth quarter. Real residential investment is estimated to have risen at nearly a 13 percent annual rate. Single-family housing starts moved up appreciably and existing home sales also increased last quarter, perhaps spurred by the easing of mortgage rates in September and October. However, mortgage rates have risen, on net, over the past two months. Multifamily starts have remained relatively flat in recent months.

Business fixed investment is estimated to have declined somewhat in the fourth quarter. Softness in shipments was fairly widespread among various types of equipment, but the weakness in office and computer equipment was most pronounced. Although new orders placed with domestic equipment manufacturers have been lackluster of late, backlogs in many of these industries should support moderate gains in shipments in coming months. Once account is taken of the newly available data on construction put-in-place, nonresidential construction activity appears to have been flat in the fourth quarter and data on new commitments provide little indication of any improvement. The Commerce Department's survey of plant and equipment spending plans, taken in October and November, showed 6 percent growth in nominal outlays planned for 1989.

Overall, nonfarm inventory investment has roughly matched increases in sales. At the retail level, inventory-sales ratios at general merchandise and apparel stores in November were well below the burdensome levels of last winter and spring. In the manufacturing sector in October and November, the bulk of inventory accumulation occurred in the primary metals, machinery, aircraft, and chemicals industries, where demand has been strong.

Inflation in consumer prices slowed to 0.3 percent in November and December, reflecting more favorable developments in food, energy, and apparel prices. Upward pressures on retail food prices associated with the drought abated late last year. Although reports of considerable dryness in parts of the country have heightened concerns about prospective crops, futures prices for raw agricultural commodities currently point to a continuation of relatively moderate increases in consumer food prices this year. In contrast, energy prices, which had been virtually flat for the year as a whole, may be coming under new pressures, as spot and posted prices for crude oil have risen further, on net, since mid-December. Prices for goods and services, other than food and energy, rose about 4-1/2 percent at an annual rate in the fourth quarter, near the pace observed over 1988 as a whole; prices of these goods and services accelerated by 1/2 percentage point last year, similar to the pickup registered in 1987.

The increase in price inflation last year was still more pronounced at the producer level. The producer price index for finished goods, excluding food and energy, accelerated to a 4-1/4 percent rate of increase in 1988, breaking out of the 2 to 2-3/4 percent range of the preceding three years. Price increases for intermediate materials (other than food and energy)--7 percent at an annual rate in the past five quarters--likely were a contributing factor, along with higher labor costs; price increases at the intermediate stage of production have been greatest in the metals, chemicals, and paper industries, where capacity utilization has been high.

As resource utilization rates moved up further in 1988, most broad measures of labor costs increased more rapidly than in the preceding year. For the year as a whole, hourly compensation, as measured by the employment cost index (ECI), increased nearly 5 percent, about 1-1/2 percentage points above the pace in 1987. Sharp increases in benefits paced the rise in the ECI during the first half of the year, but wages and salaries showed clearer signs of acceleration in the second half.

Outlook

Current- quarter growth of real GNP, excluding drought losses, is likely to ebb from the fourth quarter pace, as auto production slows. Further ahead, however, the expansion of aggregate demand appears unlikely to moderate sufficiently to restore a downward trend in inflation, without some additional policy restraint. Consequently, our forecast continues to incorporate a rise in interest rates over the next year, followed by some easing as pressures on productive resources diminish.

Growth of M2 is expected to be in the lower portion of the FOMC's tentative 3 to 7 percent range for 1989. Some acceleration is expected during 1990, in light of the anticipated peaking of interest rates. Growth of M3 is projected to exceed that of M2 in both years, but most noticeably in 1989 when rising interest rates temporarily damp core deposit growth relative to bank credit expansion, especially as businesses shift to short-term sources.

Although rising real U.S. interest rates should work to buoy the foreign exchange value of the dollar, the still large current account deficit likely will continue to exert downward pressure. On balance, the staff is projecting that the dollar will decline moderately over the next two years.

The fiscal policy assumptions used in the current projection are little changed from the December Greenbook. Technical revisions, including allowance for the high rate of FSLIC activity at the end of last year, have raised the staff estimate of the total budget deficit slightly in the current fiscal year to $159 billion; the FY1990 deficit is now forecast to be $127 billion, assuming as before $27 billion of deficit-reducing actions.[1] This amount of deficit reduction is a bit more than OMB budget

1. This deficit incorporates $6 billion of net outlays by FSLIC, necessarily an arbitrary figure, which is between the estimates of OMB and CBO. It should be noted that the treatment of the FSLIC problem will involve financial transactions that do not affect the budget on a national income accounts basis.

estimates now indicate is required in order to avoid sequestration under Gramm-Rudman; however, if economic developments unfold as the staff expects between now and the time of OMB's August sequester report, a deficit cut of about this magnitude may prove necessary to avoid exceeding the $110 billion G-R-H trigger (the FY1990 target plus $10 billion). Coupled with the decline expected in real defense purchases, these deficit-reducing actions suggest noticeable fiscal policy restraint on aggregate demand.

In the current quarter, growth of real GNP, excluding drought effects, now appears likely to be about 2-1/2 percent. (Drought effects, of course, will swing from being substantially negative to making a large positive contribution to GNP growth, as the BEA's assumption of a normal crop year gets incorporated into the seasonally adjusted estimates of quarterly farm output.) The decline in auto production is expected to shave about 3/4 percentage point from GNP growth this quarter; the decline in assemblies will show up about evenly in lower auto sales and a reduced pace of stockbuilding. Consumer spending outside of autos is projected to increase fairly strongly, given recent sizable gains in income and wealth. (The saving rate, however, is likely to increase, reflecting both drought-relief payments and the annual cost-of-living increase in social security benefits.) Growth in activity also will be supported by some recovery in real net exports and business investment. In addition to the uptrend in order backlogs for many types of equipment, some pickup in orders seems likely in the next few months; this would be consistent with anecdotal evidence, as well as indications from the plant and equipment survey. On the other hand, homebuilding is expected to be damped by less favorable mortgage conditions.[2]

REAL GNP AND THE DROUGHT

(Percent change, annual rate)

	1988				1989			1990	
	Q1	Q2	Q3	Q4	Q1	Q2	H2	H1	H2
	---- actual -----				----- projected ------				
Real GNP	3.4	3.0	2.5	2.0	5.0	2.8	2.2	.8	1.5
Real GNP, excluding effects of the drought	3.4	3.9	3.0	3.1	2.4	2.6	2.0	.8	1.5

Beyond the current quarter, a continuing updrift in interest rates is expected to result in a gradual decline in residential construction activity well into 1990. Gains in real net exports are likely to be smaller over coming months than the average in 1988, given the relatively flat path of the dollar over last year or so. The negative effects of rising interest rates, including those on asset values, also are likely to damp consumer spending. And, with less impetus to production from these sources, employment and income growth will tend to slow. In this environment, business fixed capital spending may fall somewhat short of current plans, even though those plans do not seem to be founded on an especially strong business outlook. Thus, excluding drought effects, real output growth over the four quarters of 1989 is expected to slow to about 2-1/4 percent from

2. Warmer than normal weather over much of the country in January may have caused some shifting forward of construction activity, but the extent of its effect overall on first-quarter home building is problematic. The staff has not built a significant net effect into its forecast.

nearly 3-1/2 percent last year. The unemployment rate is projected to begin edging up in the second half of the year, as growth falls below the 2-1/2 percent staff estimate of long-run potential.

In 1990, the greater fiscal restraint that seems likely and the continuing influence of financial tightening are expected to slow further consumer outlays (especially durables), homebuilding, and business fixed investment. With the dollar projected to have depreciated somewhat, however, export growth is forecast to continue to support production, and the combination of the lower dollar and slower income growth should restrain imports. By late 1990, a slight easing in financial markets also may permit homebuilding to begin to firm. Nevertheless, the rate of growth of real output over the year is projected to slow to about 1 percent, a pace that could be associated with a transitory decline in output for a quarter or two in the event of external shocks or erratic spending patterns in a few sectors. This weak growth is projected to result in a further rise in the unemployment rate to just above 6 percent by the end of the period, and capacity pressures in manufacturing should have eased.

The staff's forecast of inflation has been raised a touch since the last Greenbook, because of incoming information on oil prices and labor costs. Oil prices have risen faster than the staff had anticipated, in part a response to temporary production interruptions; the fundamentals in the petroleum market still are assumed, as in the December Greenbook, to support a price of $15 per barrel for imported oil by the end of this year and in 1990. Consumer energy prices are projected to rise considerably in the first half of this year, but only slowly over the remainder of the forecast. The outlook for food prices is little changed from that in the December

Greenbook. After rising faster than overall inflation in 1988 in response to the drought, food prices now are projected to increase at a rate of about 3-3/4 percent this year and next, a bit less than the broad inflation measures.

With labor markets remaining tight over the year, compensation per hour is expected to accelerate a little further in 1987. In the first quarter of 1990, an increase in social security payroll taxes will boost labor costs about 1 percent at an annual rate. Subsequently, however, as a higher unemployment rate relieves pressures in labor markets, growth in compensation is projected to begin to recede.[3] Inflation, as measured by the broad price indexes should stabilize, setting the stage for a deceleration in 1991, if some slack is maintained in labor and product markets.

STAFF INFLATION PROJECTION
(Percent change, annual rate)

	1988	1989		1990	
	H2	H1	H2	H1	H2
GNP fixed-weight price index	4.8	4.5	4.4	4.9	4.5
Consumer price index	4.5	4.8	4.9	5.2	5.1
Excl. food and energy	4.3	5.0	5.5	5.7	5.6
Compensation per hour	5.5	5.3	5.4	6.0	5.3

3. The projection does not incorporate an increase in the minimum wage, but if increases were to be incorporated of about the size proposed by some members of Congress last year, the rate of inflation would be raised by about 0.2 percentage point.

Obviously, considerable uncertainty surrounds this inflation forecast. On the one hand, wage and price performance has continued to be somewhat more favorable than might have been expected on the basis of historical patterns, suggesting that changes in the competitive environment or in other factors may be tempering behavior. Another interpretation of the events of the past year is that, as the unemployment rate dropped below 6 percent, a marked acceleration in labor costs was set off. The risk is that, once started, this process may proceed with even greater force than is anticipated in the staff projection.

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February 1, 1989

STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
	12/7/88	2/1/89	12/7/88	2/1/89	12/7/88	2/1/89	12/7/88	2/1/89	12/7/88	2/1/89
Annual changes:										
1987 <1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2
1988 <1>	7.4	7.4	3.9	3.8	4.1	4.2	3.4	3.4	5.5	5.5
1989	7.4	7.5	3.3	3.0	4.5	4.5	4.0	4.3	5.4	5.4
1990	5.7	5.8	1.5	1.5	4.4	4.7	4.2	4.3	5.9	5.9
Quarterly changes:										
1988 Q1 <1>	5.4	5.4	3.4	3.4	3.5	3.5	1.7	1.7	5.7	5.7
Q2 <1>	8.7	8.7	3.0	3.0	5.0	5.0	5.5	5.5	5.5	5.5
Q3 <1>	7.3	7.3	2.6	2.5	5.1	5.3	4.7	4.7	5.5	5.5
Q4 <1>	7.0	6.8	2.2	2.0	4.3	4.0	4.6	4.7	5.3	5.3
1989 Q1	8.8	8.9	5.8	5.0	4.3	4.3	2.9	3.9	5.3	5.3
Q2	7.0	7.3	2.7	2.8	4.3	4.6	4.1	4.4	5.3	5.3
Q3	6.2	6.1	2.4	2.4	4.2	4.3	3.7	3.7	5.4	5.4
4	5.9	6.0	2.0	2.0	4.2	4.5	3.8	4.0	5.5	5.5
19 1	5.9	5.7	.9	.9	4.9	5.2	4.9	4.8	5.7	5.7
2	4.7	5.1	.8	.8	4.4	4.6	3.9	4.3	5.9	5.9
Q3	5.6	5.7	1.3	1.3	4.3	4.5	4.2	4.3	6.0	6.0
Q4	5.7	5.9	1.4	1.6	4.3	4.5	4.2	4.3	6.1	6.1
Two-quarter changes: <2>										
1988 Q2 <1>	7.0	7.0	3.2	3.2	4.2	4.2	3.6	3.6	-.4	-.4
Q4 <1>	7.1	7.0	2.4	2.2	4.8	4.8	4.7	4.7	-.2	-.2
1989 Q2	7.9	8.1	4.2	3.9	4.3	4.5	3.5	4.1	.0	.0
Q4	6.1	6.1	2.2	2.2	4.2	4.4	3.8	3.8	.2	.2
1990 Q2	5.3	5.4	.9	.8	4.6	4.9	4.4	4.5	.4	.4
Q4	5.6	5.8	1.3	1.5	4.3	4.5	4.2	4.3	.2	.2
Four-quarter changes: <3>										
1987 Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988 Q4 <1>	7.1	7.0	2.8	2.7	4.5	4.5	4.1	4.1	-.6	-.6
1989 Q4	7.0	7.1	3.2	3.0	4.3	4.4	3.6	4.0	.2	.2
1990 Q4	5.5	5.6	1.1	1.1	4.5	4.7	4.3	4.4	.6	.6

<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)

February 1, 1989

		1988		Projection 1989				1990			
	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	4909.0	4989.9	5097.9	5188.3	5266.3	5343.7	5418.0	5485.9	5562.6	5643.2
Real GNP	Billions of 82$	4009.4	4029.2	4078.8	4106.6	4130.7	4150.9	4160.1	4167.9	4181.6	4198.0
Nominal GNP	Percent change	7.3	6.8	8.9	7.3	6.1	6.0	5.7	5.1	5.7	5.9
Real GNP		2.5	2.0	5.0	2.8	2.4	2.0	.9	.8	1.3	1.6
Gross domestic product		2.0	2.1	5.2	2.6	2.3	2.0	.9	.7	1.3	1.6
Gross domestic purchases		2.5	2.6	4.4	2.4	1.7	1.2	.0	.0	.3	.6
Final sales		2.0	3.1	3.2	3.1	3.0	2.3	1.6	1.2	1.6	1.7
Private dom. final purchases		3.9	2.4	3.3	3.0	2.3	1.7	.8	.4	.5	.8
Personal consumption expend.		3.9	2.8	3.5	3.0	2.2	1.6	.8	.5	.6	.9
Durables		-.2	2.1	5.5	3.9	.5	-.5	-2.9	-2.1	-1.8	.0
Nondurables		5.0	1.9	2.6	2.1	1.8	1.3	1.0	.5	.5	.5
Services		4.5	3.7	3.6	3.3	3.1	2.4	1.8	1.4	1.4	1.4
Business fixed investment		4.0	-3.7	2.5	5.4	4.2	3.4	2.4	1.0	.8	.2
Producers' durable equipment		4.6	-3.0	3.7	7.5	6.0	5.0	4.0	3.0	3.0	2.5
Nonresidential structures		2.6	-5.6	-.7	-.7	-1.2	-1.3	-2.7	-5.1	-6.1	-7.1
Residential structures		4.3	12.7	2.1	-3.1	-1.2	-1.4	-3.1	-3.7	-.9	1.4
Exports		14.5	2.8	13.2	12.3	11.4	10.8	9.2	8.8	9.0	7.5
Imports		13.1	7.0	7.7	8.3	5.3	4.6	2.4	3.0	1.5	.9
Government purchases		-5.2	9.3	.1	1.6	2.1	1.3	.5	.6	.7	.7
Federal		-13.2	17.0	-2.7	.8	2.2	.2	-1.6	-1.6	-1.4	-1.2
Defense		-10.5	4.9	-5.1	-1.9	-1.2	-5.4	-3.0	-2.9	-3.0	-2.9
State and local		1.1	4.1	2.1	2.1	2.0	2.1	2.1	2.1	2.1	2.0
Change in business inventories	Billions of 82$	39.5	29.2	46.9	44.2	38.3	34.7	27.2	23.0	20.3	18.7
Nonfarm	Billions of 82$	40.4	36.6	37.2	35.4	31.4	30.4	24.3	20.7	18.3	17.2
Net exports	Billions of 82$	-93.9	-100.7	-95.9	-92.9	-86.3	-78.9	-69.9	-62.2	-51.7	-41.9
'ENT AND PRODUCTION											
payroll employment	Millions	106.5	107.3	108.0	108.5	108.9	109.2	109.4	109.5	109.8	110.0
Un ioyment rate	Percent*	5.5	5.3	5.3	5.3	5.4	5.5	5.7	5.9	6.0	6.1
Industrial production index	Percent change	7.1	4.2	3.7	3.1	2.4	2.2	.6	.6	1.6	2.5
Capacity utilization rate-mfg.	Percent*	84.0	84.4	84.4	84.4	84.2	83.9	83.4	82.8	82.5	82.4
Housing Starts	Millions	1.47	1.54	1.50	1.47	1.46	1.43	1.41	1.39	1.39	1.39
Auto sales	Millions	10.53	10.53	10.07	10.31	10.22	10.05	9.75	9.52	9.32	9.32
Domestic	Millions	7.41	7.42	7.04	7.31	7.22	7.10	6.85	6.70	6.55	6.55
Foreign	Millions	3.12	3.11	3.03	3.00	3.00	2.95	2.90	2.82	2.77	2.77
INCOME AND SAVING											
Nominal personal income	Percent change	7.3	9.2	10.0	6.4	6.1	7.3	7.5	6.3	6.2	6.5
Real disposable income	Percent change	5.6	4.7	5.2	.7	1.1	1.7	2.0	.5	.5	.8
Personal saving rate	Percent*	4.2	4.6	5.0	4.4	4.2	4.2	4.5	4.4	4.4	4.4
Corp. profits with IVA & CCAdj	Percent change	4.4	1.8	7.0	12.7	-1.7	-11.0	-26.5	-15.4	-10.0	-6.5
Profit share of GNP	Percent*	6.7	6.6	6.6	6.7	6.6	6.3	5.7	5.4	5.2	5.1
Federal govt. surplus/deficit	Billions of $	-123.5	-152.1	-152.1	-141.2	-137.2	-138.8	-131.1	-128.8	-119.7	-117.1
State and local govt. surplus		56.0	49.7	59.8	64.4	66.8	68.4	68.0	68.1	68.6	71.1
Exc. social insurance funds		-13.3	-21.2	-12.1	-8.4	-6.9	-6.1	-7.3	-8.0	-8.3	-6.6
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.7	4.7	3.9	4.4	3.7	4.0	4.8	4.3	4.3	4.3
GNP fixed-weight price index		5.3	4.0	4.3	4.6	4.3	4.5	5.2	4.6	4.5	4.5
Cons. & fixed invest. prices		4.5	4.2	4.1	4.7	4.5	4.8	4.9	5.0	4.9	4.9
CPI		4.8	4.1	4.7	4.9	4.7	5.1	5.1	5.2	5.1	5.1
Exc. food and energy		4.0	4.6	4.8	5.2	5.3	5.6	5.7	5.7	5.6	5.6
Nonfarm business sector											
Output per hour		1.9	.2	.7	.8	.8	.8	.6	.6	1.0	1.2
Compensation per hour		5.6	5.4	5.3	5.2	5.3	5.4	6.5	5.4	5.3	5.3
Unit labor costs		3.7	5.2	4.6	4.4	4.5	4.6	5.9	4.8	4.3	4.1

* : an annual rate.

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February 1, 1989

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

	Units	1982	1983	1984	1985	1986	1987	1988	Projection 1989	1990
EXPENDITURES										
Nominal GNP	Billions of $	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4861.8	5224.0	5527.4
Real GNP	Billions of 82$	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3995.0	4116.8	4176.9
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	2.0	5.0	2.7	3.0	1.1
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.1	2.9	3.0	1.1
Gross domestic purchases		-.8	8.4	6.4	4.3	2.4	4.4	2.0	2.4	.2
Final sales		.3	3.7	4.7	4.6	2.5	3.0	3.7	2.9	1.5
Private dom. final purchases		.8	7.7	5.6	4.6	2.8	2.4	3.8	2.6	.6
Personal consumption expend.		2.9	5.4	4.1	4.6	4.2	1.8	3.6	2.6	.7
Durables		9.0	14.7	10.8	7.0	11.5	-2.4	6.4	2.3	-1.7
Nondurables		1.8	4.4	2.3	3.3	3.1	.6	2.0	1.9	.6
Services		2.3	3.9	3.5	5.0	2.7	4.2	3.8	3.1	1.5
Business fixed investment		-11.3	10.8	13.8	3.7	-7.3	8.8	5.5	3.9	1.1
Producers' durable equipment		-12.5	20.9	14.9	4.6	-2.4	9.6	10.1	5.5	3.1
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.4	6.7	-6.1	-1.0	-5.3
Residential structures		4.9	38.1	6.1	5.8	11.3	-3.5	2.4	-.9	-1.6
Exports		-13.8	5.8	5.9	-2.4	5.6	18.4	12.7	11.9	8.6
Imports		-5.9	23.8	17.4	4.5	7.6	10.4	5.7	6.5	1.9
Government purchases		3.8	-2.7	7.9	8.6	2.9	2.3	-.2	1.2	.6
Federal		8.2	-8.1	13.0	13.3	.0	2.1	-4.3	.1	-1.4
Defense		8.8	5.1	6.5	7.1	4.8	6.0	-3.2	-3.4	-3.0
State and local		.6	1.5	4.4	4.9	5.3	2.5	2.9	2.1	2.1
Change in business inventories	Billions of 82$	-24.5	-6.4	62.3	9.1	15.4	34.4	42.5	41.0	22.3
Nonfarm	Billions of 82$	-23.1	-.1	57.8	13.4	17.9	36.9	39.7	33.6	20.1
N xports	Billions of 82$	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-99.1	-88.5	-56.4
l GNP	Percent change*	3.1	10.4	8.6	6.6	4.8	8.3	7.0	7.1	5.6
AND PRODUCTION										
Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.3	106.0	108.6	109.7
Unemployment rate	Percent	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.4	5.9
Industrial production index	Percent change*	-7.7	14.3	6.6	1.7	1.0	5.8	5.0	2.8	1.3
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.0	83.6	84.2	82.8
Housing Starts	Millions	1.06	1.71	1.77	1.74	1.81	1.63	1.49	1.46	1.40
Auto sales	Millions	8.00	9.18	10.43	11.09	11.52	10.34	10.66	10.16	9.48
Domestic	Millions	5.77	6.77	7.97	8.24	8.28	7.14	7.51	7.17	6.66
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.99	2.81
INCOME AND SAVING										
Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.9	8.5	7.1	7.4	6.6
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.4	3.0	3.8	2.2	.9
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.0	3.2	4.2	4.4	4.4
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	.9	7.6	4.9	1.3	-14.9
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.5	5.4
Federal govt. surplus/deficit	Billions of $	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-141.9	-142.3	-124.2
State and local govt. surplus		35.1	47.5	64.6	65.1	61.2	52.9	53.9	64.8	69.0
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.0	-9.2	-14.5	-8.4	-7.5
PRICES AND COSTS										
GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.8	3.1	4.1	4.0	4.4
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.4	4.7
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.0	4.5	4.9
CPI		4.4	3.2	4.1	3.5	1.3	4.4	4.3	4.9	5.1
Exc. food and energy		5.2	4.2	4.8	4.3	3.9	4.3	4.5	5.2	5.7
N m business sector										
it per hour		1.0	3.6	1.5	1.5	1.2	1.9	.8	.8	.8
ensation per hour		7.3	3.3	4.2	4.5	4.2	4.1	4.7	5.3	5.6
Unit labor costs		6.2	-.3	2.6	2.9	3.0	2.1	4.0	4.5	4.7

* Percent changes are from fourth quarter to fourth quarter.

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CLASS II FOMC

February 1, 1989

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

	1988		Projection 1989				Projection 1990				1987	1988	Projection 1989	Projection 1990
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	24.2	19.8	49.6	27.8	24.2	20.2	9.1	7.8	13.8	16.4	188.3	106.2	121.8	47.1
Gross domestic product	20.0	21.0	50.9	26.3	23.5	20.8	9.3	7.4	13.1	16.8	188.3	111.7	121.5	46.5
Gross domestic purchases	25.5	26.6	44.8	24.8	17.5	12.9	.2	.1	3.2	6.6	171.9	80.9	100.0	10.0
Final sales	20.0	30.1	31.9	30.5	30.1	23.8	16.6	12.0	16.5	18.0	110.7	144.1	116.2	63.1
Private dom. final purchases	31.6	19.5	27.0	24.4	19.3	13.9	6.6	3.1	4.6	6.8	76.2	120.5	84.6	21.1
Personal consumption expend.	24.8	18.1	23.0	19.4	14.7	10.3	5.2	3.6	3.9	5.9	45.5	90.2	67.4	18.6
Durables	-.2	2.1	5.5	4.0	.5	-.6	-3.1	-2.2	-1.9	.0	-9.7	24.9	9.4	-7.3
Nondurables	10.9	4.2	5.8	4.8	4.1	3.0	2.3	1.2	1.2	1.2	5.2	18.2	17.7	5.8
Services	14.1	11.8	11.6	10.7	10.1	7.9	6.0	4.7	4.7	4.7	50.0	47.1	40.3	20.1
Business fixed investment	4.8	-4.6	3.1	6.5	5.1	4.3	3.0	1.3	1.1	.3	37.5	25.6	19.0	5.6
Producers' durable equipment	4.1	-2.8	3.3	6.7	5.5	4.7	3.8	2.9	2.9	2.5	29.2	33.7	20.3	12.1
Nonresidential structures	.8	-1.8	-.2	-.2	-.4	-.4	-.8	-1.6	-1.9	-2.2	8.3	-8.1	-1.2	-6.5
Residential structures	2.0	5.8	1.0	-1.5	-.6	-.7	-1.6	-1.8	-.4	.7	-7.0	4.7	-1.8	-3.1
Change in business inventories	4.2	-10.3	17.7	-2.7	-5.9	-3.6	-7.5	-4.2	-2.7	-1.6	77.6	-37.9	5.5	-16.0
Nonfarm	10.3	-3.8	.6	-1.8	-4.0	-1.0	-6.1	-3.6	-2.4	-1.1	67.0	-31.6	-6.2	-13.2
Farm	-6.1	-6.6	17.1	-.9	-1.9	-2.6	-1.4	-.6	-.3	-.5	10.6	-6.3	11.7	-2.8
Net exports	-1.3	-6.8	4.8	3.0	6.7	7.4	9.0	7.7	10.5	9.8	16.4	25.3	21.8	37.0
Exports	17.1	3.6	16.3	15.7	15.1	14.7	12.8	12.6	13.1	11.3	71.4	58.4	61.8	49.8
Imports	18.4	10.4	11.6	12.7	8.4	7.3	3.9	4.9	2.6	1.5	55.0	33.1	40.0	12.8
Government purchases	-10.3	17.4	.1	3.1	4.1	2.5	1.0	1.2	1.4	1.3	18.1	-1.7	9.9	4.9
Federal	-11.5	12.8	-2.3	.7	1.8	.1	-1.4	-1.3	-1.1	-1.0	7.2	-14.8	.4	-4.8
Defense	-7.2	3.1	-3.4	-1.2	-.8	-3.5	-1.9	-1.8	-1.9	-1.8	15.1	-8.7	-8.9	-7.4
Nondefense	-4.2	9.8	1.0	1.9	2.6	3.6	.5	.5	.8	.8	-7.9	-6.0	9.2	2.6
State and local	1.2	4.6	2.4	2.4	2.3	2.4	2.4	2.5	2.5	2.3	10.9	13.1	9.5	9.7

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1988a	FY1989p Admin[1]	FY1989p CBO[2]	FY1989p FRB Staff	FY1990p Admin[1]	FY1990p CBO[2]	FY1990p FRB Staff	FRB Staff Projection 1988 IVa	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
BUDGET								Not seasonally adjusted								
Budget receipts[3]	909	976	983	979	1059	1069	1068	222	224	285	249	236	253	313	265	254
Budget outlays[3]	1064	1137	1138	1139	1152	1209	1195	289	286	284	279	303	299	301	292	307
Surplus/deficit(-) to be financed[3]	-155	-161	-144	-159	-93	-136	-127	-68	-62	1	-30	-66	-46	12	-26	-53
(On-budget)	-194	-218	-211	-209	-161	-209	-192	-73	-77	-17	-42	-74	-64	-10	-43	-67
(Off-budget)	39	56	56	49	69	68	65	6	15	18	11	8	18	22	17	13
Means of financing:																
Borrowing	162	144	140	139	91	141	121	54	32	28	26	46	35	16	23	39
Cash decrease	-8	14	n.a.	4	0	n.a.	0	11	25	-24	-7	22	3	-20	-5	22
Other[4]	1	3	n.a.	16	2	n.a.	6	3	6	-5	12	-2	8	-8	8	-8
Cash operating balance, end of period	44	30	n.a.	40	30	n.a.	40	34	9	33	40	18	15	35	40	18
NIPA FEDERAL SECTOR								Seasonally adjusted annual rates								
Receipts	964	1029	1037	1030	1133	1133	1117	991	1020	1045	1062	1079	1113	1128	1146	1166
Expenditures	1107	1174	1177	1175	1213	1255	1246	1143	1172	1187	1199	1217	1244	1257	1266	1283
Purchases	380	398	395	397	413	416	409	393	394	398	401	403	410	411	412	413
Defense	298	298	302	301	305	311	303	298	300	301	303	300	305	304	304	304
Nondefense	82	100	93	96	108	105	106	95	94	97	99	102	105	107	108	109
Other expend.	727	776	782	779	800	839	837	750	778	789	798	815	834	846	854	871
Surplus/deficit	-143	-145	-140	-146	-77	-122	-130	-152	-152	-141	-137	-139	-131	-129	-120	-117
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-151	n.a.	n.a.	-164	n.a.	n.a.	-137	-163	-172	-162	-158	-157	-142	-132	-116	-109
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.3	n.a.	n.a.	-.5	.6	.2	-.2	-.1	0	-.3	-.2	-.3	-.1
Fiscal impetus measure (FI), percent	.1 *	n.a.	n.a.	-4.1 *	n.a.	n.a.	-6.9 *	.9	-2	-.4	-.4	-2.9	-3.8	-.5	-.5	-.4

a--actual p--projection *--calendar year n.a.--not available

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

1. The Budget of the United States Government, Fiscal Year 1990 (January 1989). Budget estimates include policy proposals.
2. Baseline budget estimates from The Economic and Budget Outlook: Fiscal Years 1990-1994 (January 1989).
3. Includes social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law.
4. Checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Recent Developments

System tightening of bank reserve positions has boosted the federal funds rate about 1/2 percentage point since the mid-December FOMC meeting. These policy actions had been largely anticipated in the market, and rates on most Treasury bills were little changed. Rates on one-month CDs and commercial paper, which in December had incorporated a premium in anticipation of a year-end spike in overnight rates, have since fallen by 1/4 percentage point or more. Interest rates on most long-term instruments have declined 10 to 40 basis points since the December meeting, accompanying the generally firmer tone to the dollar and, more recently, responding to the Chairman's remarks on restraining inflation. Gains in major stock indexes have ranged from 8 to 10 percent since the last FOMC meeting.

Growth in the monetary aggregates slowed in January mostly because of a sharp contraction in transactions accounts. M2 and M3 expanded at annual rates of 1 and 3 percent, respectively, well below the pace of the fourth quarter.[1] Rising opportunity costs of demand deposits and other checkable deposits contributed to weakness in these components. Other retail accounts again grew only sluggishly; runoffs at thrift institutions likely reflected less aggressive pricing of such accounts at those institutions as well as recent adverse publicity.

Debt of the domestic nonfinancial sectors grew more slowly late in the fourth quarter but appears to have picked up in January. Business borrowing

1. Estimates of money growth incorporating the annual benchmark and seasonal factor revisions will appear in the Bluebook.

in recent months has been largely confined to short-term credit, as corporate bond issuance has been depressed by investor concern about "event risk." Since the last FOMC meeting, only four firms have issued investment-grade bonds; new offerings of junk bonds also have slowed. Bank loans to business were surprisingly weak in the fourth quarter and especially in December. Commercial paper issuance by nonfinancial firms, by contrast, surged in December and remained strong in January; merger-related borrowings contributed to the pickup. Business lending by banks accelerated sharply in January, to an 18 percent annual rate, mostly for purposes unrelated to mergers. Even with the January increase in business borrowing, the total volume in recent months seems modest given the needs from the substantial financing gap of corporations and the record pace of equity retirements.

Borrowing by the Treasury in this quarter is expected to decline in response to a seasonal falloff in the federal deficit and some drawdown of the Treasury's cash balance. The reduction in marketable borrowing will be concentrated in the weekly bill sector, and a slowdown in SLGS issuance should reduce nonmarketable borrowing. Among the federally sponsored credit agencies, most of the recent borrowing has been by the Federal Home Loan Banks, largely to finance advances to member institutions. Thrifts have relied heavily upon FHLB advances to offset weak deposit growth. Despite the FHLBs' heavy borrowing, spreads on their issues relative to Treasury securities have narrowed in recent months, reportedly owing to light issuance by other agencies and to the slowdown in corporate offerings.

Issuance of long-term municipal securities was boosted in December by increased offerings to raise new capital, especially for transportation and education projects. The strong pace of long-term issuance continued into

January; lower interest rates spurred offerings of refunding bonds as well as those for new capital.

In the household sector, home mortgage borrowing remained substantial in the fourth quarter, as total home sales were robust through year-end. The initial rate advantage on one-year ARMs relative to fixed-rate mortgages stayed above 200 basis points despite the nearly flat Treasury yield curve. Lenders have continued to offer sizable initial rate discounts on ARMs; about 60 percent of the ARMs originated in early December carried initial discounts, which averaged in excess of 200 basis points. This aggressive discounting has kept the ARM share of all conventional mortgage originations near 60 percent in recent months.

Consumer credit growth in the fourth quarter, at about a 7 percent annual rate, stayed in the generally moderate range of the past two years. Continuing the recent pattern, revolving credit growth was the strongest component. Indicators of credit quality in the household sector paint a mixed picture. Delinquency rates of most types of consumer loans are not high by historical standards, but personal bankruptcy filings continued to rise in the third quarter.

Outlook

As explained in the Domestic Nonfinancial section, the staff anticipates that continuing pressure on domestic resources will require further tightening by the System if inflation is to be restrained. Increases in long-term yields are likely to be smaller than those in short-term rates, to the extent that market participants perceive that the Federal Reserve is "staying ahead of the curve" and adequately damping prospective aggregate demand. In light of the staff's forecast that the economy will slow noticeably by early 1990, interest rates are projected to turn downward, especially at the short end of the maturity spectrum.

The near-term outlook for total borrowing by the nonfinancial sectors is clouded by uncertainty about the timing of business financing. Credit requirements implied by recent and prospective share retirements are formidable, and the financing gap of corporations is expected to be much wider than it was most of last year. Long-term borrowing by business is expected to recover, as stronger bond covenants are adopted for investment grade debt; junk bond issuance will pick up more promptly as some large impending deals are completed. As the year progresses and into 1990, total business borrowing probably will decline only a little; the pace of corporate restructurings and accompanying borrowing should moderate, but the softer profit outlook will lead to a wider financing gap.

Federal borrowing is projected to decline over the next two years, in line with the anticipated deficit. Borrowing by state and local governments should be little changed this year or next from the level of 1988; most of the financing will be applied to investment in solid-waste disposal, roads, bridges, and other infrastructure. Financial assets accumulated by these governments in recent years may be drawn upon to meet some of these needs.

The growth in household debt is expected to ease gradually over the projection horizon. The forecasted declines in single-family housing starts and turnover of existing homes will restrain mortgage borrowing despite rising house prices and continued borrowing against home equity. Consumer borrowing should remain moderate relative to the rates earlier in the expansion when consumer spending, especially for durable goods, was growing rapidly.

For the nonfinancial domestic sectors overall, debt this year is expected to grow about 8-1/2 percent on an end-of-year basis, just slightly below last year's rate, and to drift further down to about 7 percent in 1990.

Recent developments

The weighted-average foreign exchange value of the dollar in terms of other G-10 currencies has risen about 6-1/4 percent since the FOMC meeting on December 14, nearly reversing its decline in October and November. The dollar rose almost steadily from early December in response to perceptions of a relative tightening of monetary policy in the United States, despite the release of U.S. trade data for October and for November, which showed larger-than-expected deficits,

. The dollar has appreciated 8 percent against the mark and 6-1/4 percent against the yen since the last FOMC.

The federal funds rate rose about 1/2 percentage point from mid-December to a level a bit over 9 percent. Call money rates in Germany, after some year-end volatility, appear to have settled about 75 basis points higher while in Japan call money rates fell about 30 basis points since the December FOMC. In contrast, the nominal yield on long-term U.S. Treasury securities fell during the intermeeting period while the average of German long-term bond yields rose nearly 30 basis points and the yield on the Japanese bellwether bond rose slightly more. Official interest rates were raised in several major European countries. Since the last FOMC, the Bundesbank has increased the Lombard rate a total of 1 percentage point, to 6 percent, and the discount rate 1/2 percentage point, to 4 percent. Official rates were raised 1 percentage point or more by other European central banks, as well.

. The Desk sold nearly $2 billion dollars against marks, with the proceeds split evenly between the Treasury and System accounts.

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The pace of economic activity abroad showed signs of slowing in the fourth quarter, after a relatively strong third quarter. In Germany, provisional fourth-quarter data indicate that real GDP grew only weakly, while in Japan, the United Kingdom, Canada, and France, industrial production and other indicators suggest some slowing in the pace of economic activity. Signs of inflation in the major foreign industrial countries are mixed. In Germany, the United Kingdom, and Italy recent price acceleration has raised concerns. In Japan, consumer prices in January were 1.6 percent above the level 12 months earlier, about the rate of inflation recorded in the fourth quarter.

During the fourth quarter, developments among the major industrial countries in external balances have indicated a pause, if not a reversal, in the process of external adjustment. In Japan and Germany, trade and current account surpluses increased in November, although Japan's trade surplus narrowed in December.

In December, the Mexican government announced economic policy guidelines for the first seven months of 1989. Measures included the resumption on January 1 of daily peso devaluations at a rate averaging 1 peso per day and imposition of a 10 percent tariff on many imports previously entering duty-free or with a 5 percent tariff. Following the inauguration of President Salinas on December 1, foreign exchange market pressures on the Mexican peso have eased.

On January 16, the Brazilian government announced a new economic plan aimed at achieving greater price stability. The "Summer Plan" calls for a 17 percent devaluation, freezing of selected prices, elimination of the mechanism indexing wages to past inflation, restraint on government spending, reduction in the public sector work force, and the creation of a new cruzado (equal to 1,000 of the old cruzado). Last week the Brazilian Congress approved parts of the new program.

Episodes of military unrest in Argentina in December and January add to the climate of uncertainty associated with upcoming presidential elections in May 1989. In Venezuela, outgoing President Lusinchi announced a three-month suspension of payments of principal on public debt to commercial banks, effective January 17.

The seasonally adjusted U.S. merchandise trade deficit in November was $11.0 billion on a customs basis, following an $8.8 billion deficit in October. Sharply higher imports, particularly consumer goods and capital goods, and slightly reduced exports account for the widening in the deficit. For October and November combined, the merchandise trade deficit is estimated to have been $123 billion at a seasonally adjusted annual rate (balance-of-payments basis), slightly greater than the $116 billion third-quarter rate. While the value of exports increased marginally from the third-quarter average, the value of non-oil imports in October/November rose sharply. An unchanged volume of oil imports combined with somewhat lower oil prices to reduce the value of oil imports. Since the OPEC accord in mid-November, spot oil prices have risen dramatically.

Prices of non-oil imports (n.s.a.), as reported by the Bureau of Labor Statistics, rose 10 percent at an annual rate on average in the fourth quarter, more than reversing a small decline in the third quarter. Prices of exports fell slightly on average during the fourth quarter, largely because of a decline in prices of agricultural exports. For the year as a whole, the increase in non-oil import prices was 6.9 percent while that of export prices was 6.3 percent, with prices of agricultural products again a major factor.

Private net purchases of U.S. Treasury securities by foreigners rose strongly in November, to $8 billion, as the spread between U.S. and foreign interest rates widened considerably during that month. Foreign private net purchases of U.S. corporate bonds also picked up in October and remained strong in November. Foreign private net purchases of corporate stocks, however, were again negligible in October and November. Foreign official reserve assets in the United States rose significantly in October and remained large in November,

. U.S.

residents sold foreign securities, net, in November. Net purchases of over $3-1/2 billion had been recorded in October, the first sizable monthly figure since the first half of 1988.

Outlook

The staff forecast continues to incorporate a moderate decline in the exchange value of dollar in terms of the other G-10 currencies over the forecast horizon. As the dollar declines from its current value, it is not expected to reach the levels anticipated in the previous Greenbook until the fourth quarter of 1990. As a result, the dollar is stronger on average over most of the forecast period.

The staff assumptions about oil prices are for somewhat higher prices in the first half of this year, reflecting tightness in oil markets around year-end and some success by OPEC in sustaining production cutbacks. The U.S. import price for oil is expected to be just below $15 per barrel throughout the first half of 1989, to reach $15 per barrel near mid-year, and to remain at that level through 1990.

Economic activity in the major foreign industrial countries is expected to slow from the strong pace of 1988, as rates of investment decline to more sustainable levels and actions to tighten monetary conditions have an impact. However, somewhat stronger activity currently than was previously expected, particularly in Japan, has contributed to a slight upward revision in the staff projection for the average rate of output growth abroad over the forecast horizon. Inflation rates abroad are expected to rise somewhat this year in response to the introduction of higher indirect taxes in several foreign industrial countries and to the higher oil prices. In 1990, inflation will slow as the impact on price levels of the higher indirect taxes becomes complete.

Available data through November now suggest that the U.S. merchandise trade deficit averaged about $125 billion (a.r.) in the fourth quarter of 1988. The staff projection for the trade deficit calls for only slight improvement in the deficit this year and somewhat more next year, with the deficit reaching about $90 billion in the fourth quarter of 1990. The strength of activity in the rest of the world is expected to contribute to strong growth in the volume of U.S. exports, although the pace will decline slightly from the rapid 1988 figure in response to the relatively flat path of the dollar in 1988 and the stronger value assumed for the dollar over the forecast horizon. Growth in the volume of U.S. non-oil imports is expected nearly to halt at the end of this year, and the resulting improvement in the trade balance in 1990 is associated with slower U.S. economic growth for that year and the expected depreciation of the dollar.

The staff projects that net investment income payments will rise somewhat more rapidly than receipts this year and next. As a result, net investment income is expected to deteriorate, and the current account is forecast to improve by less than the merchandise trade balance. By the fourth quarter of 1990, the current account deficit is projected to decline to about $100 billion at an annual rate, compared with nearly $125 billion in the third quarter of 1988.

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

	ANNUAL			1988		1989				1990			
	1988-P	1989-P	1990-P	Q3-	Q4-	Q1-P	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-93.2	-85.6	-57.5	-80.0	-90.3	-92.3	-88.0	-83.8	-78.2	-69.5	-62.7	-53.2	-44.6
Exports of G+S	518.7	599.4	680.6	536.1	543.8	566.3	589.4	610.5	631.4	651.6	671.3	691.0	708.3
Imports of G+S	611.9	685.0	738.1	616.0	634.1	658.6	677.5	694.3	709.6	721.1	734.0	744.3	752.9
Constant 82 $, Net	-99.0	-88.5	-56.4	-93.9	-100.7	-95.9	-92.9	-86.3	-78.9	-69.9	-62.2	-51.7	-41.9
Exports of G+S	503.7	556.9	611.0	514.0	517.6	533.9	549.7	564.7	579.4	592.2	604.8	617.9	629.2
Imports of G+S	602.7	645.5	667.5	607.9	618.3	629.9	642.6	651.0	658.3	662.2	667.1	669.6	671.1
2. U.S. Merchandise Trade Balance 2/	-125.0	-122.3	-98.4	-114.1	-124.4 P	-126.0	-124.4	-122.0	-116.8	-109.1	-101.9	-95.0	-87.6
Exports	320.0	361.9	409.1	329.2	331.2 P	345.2	357.0	366.8	378.6	391.1	402.7	414.6	427.9
Agricultural	38.5	43.7	50.7	41.6	37.8 P	41.6	43.4	43.9	46.0	48.7	50.4	51.3	52.5
Non-Agricultural	281.5	318.2	358.3	287.6	293.4 P	303.7	313.6	323.0	332.6	342.4	352.3	363.2	375.4
Imports	445.0	484.2	507.5	443.4	455.7 P	471.2	481.4	488.8	495.4	500.2	504.6	509.6	515.5
Petroleum and Products	39.1	42.4	43.9	39.5	36.2 P	40.9	42.7	42.9	43.1	43.3	43.7	44.0	44.5
Non-Petroleum	405.8	441.8	463.6	403.9	419.4 P	430.3	438.7	445.9	452.2	456.9	460.9	465.5	471.0
3. U.S. Current Account Balance	-133.4	-131.2	-110.1	-123.6	-127.1 P	-138.2	-129.9	-128.3	-128.4	-119.6	-112.7	-105.7	-102.2
Of Which: Net Investment Income	1.2	-1.5	-8.5	-1.3	9.1 P	-4.4	1.6	0.0	-3.2	-6.0	-7.8	-9.0	-11.4
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	3.8	3.0	2.4	5.0	3.3 P	2.9	2.8	2.3	2.1	2.5	2.6	2.7	2.7
Real GNP--NonOPEC LDC 5/	3.4	3.7	3.9	3.5	3.6 P	3.7	3.7	3.7	3.7	3.7	3.9	4.2	4.5
Consumer Prices--Ten Ind. 4/	2.6	3.4	3.1	2.5	3.8 P	2.9	4.5	3.1	3.0	2.7	4.0	2.4	2.8

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