Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,[1] and then making the scanned versions text-searchable.[2] Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

---

[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

Strictly Confidential (FR) Class II FOMC

June 28, 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

Incoming data indicate that economic activity has continued to expand at a relatively slow pace in the second quarter. Business investment has increased substantially, but consumer spending and housing activity have been quite weak. Price increases remained sizable through May, in part reflecting pressures in the energy and food areas; prices for other goods and services, on balance, have continued to rise at about the same pace as that in 1988.

Growth in employment has slowed noticeably in recent months. The increase in nonfarm payrolls since February has averaged only about 160,000 per month, compared with an average monthly rise of about 275,000 over the preceding year. Manufacturing employment has fallen in the past two months, with small declines reported in many industries; gains in the service-producing sector also have slowed. The deceleration in employment appears to be coming from a falloff in hiring, as data on initial claims for unemployment insurance through mid-June point to no more than a slight pickup in layoffs. The civilian unemployment rate, at 5.2 percent in May, has shown little net change over the past few months.

The monthly pattern in industrial production has been erratic this year, in part because of fluctuations in assemblies of motor vehicles. On balance, output has grown at an annual rate of about 2 percent. Production of business equipment has remained strong in recent months, with sizable gains in most categories. However, output of nonauto consumer goods and of construction supplies has softened. Production of materials picked up a little in the spring, after a weak first quarter. Capacity utilization has slipped in the primary processing industries this year; the sharp deceleration in prices of materials (other than food and energy) in the past two months also seems indicative of some easing of demand, probably associated in part with the rise in the exchange value of the dollar.

The sluggishness in consumer spending that emerged earlier this year extended into the second quarter. Sales of domestic automobiles have averaged only about 7-1/4 million units at an annual rate since April, making a further enhancement of incentive programs later this summer almost inevitable. Meanwhile, outlays have been flat or down in real terms for a broad range of other goods. The slowing in consumption has occurred despite strong gains over the past several quarters in real disposable income, and the personal saving rate has risen noticeably this year.

Total housing starts slipped to 1.31 million units in May. The overall May figure was held down in part by another very low reading on multifamily building. In the single-family sector, starts varied around 1 million units from March to May--a period in which mortgage rates were at peak levels; home sales also have declined this year. Since mid-May, rates have fallen significantly (especially on fixed-rate loans)--a development that should support activity in coming months.

Business investment has been robust to date, with considerable strength in equipment spending. Shipments of nondefense capital goods in April and May averaged about 3 percent above the first-quarter level, with solid gains for most broad categories. But the lackluster performance of new orders (excluding aircraft) in the past few months points to some deceleration in these outlays. Spending for nonresidential structures has been virtually flat in recent quarters, and broad indicators of future building activity have continued to trend down.

Manufacturers and wholesalers appear to be adjusting relatively rapidly to the slowing in final demand, and there are few signs of significant inventory imbalances in these sectors. At the retail level, however, dealer stocks of automobiles (both domestic and foreign) remain high. Inventories at other retail establishments also may be a bit above desired levels.

Inflation has remained rapid in recent months, after surging in the first quarter. The consumer price index rose more than 1/2 percent in both April and May, and producer prices rose nearly 1 percent last month. As in earlier months, the broad indexes have been boosted lately by large increases in food and energy prices attributable to supply influences that are likely to be transitory. Elsewhere, there has been little if any acceleration, in part because of the damping effect of the strong dollar on import prices. Excluding food and energy, the CPI rose 1/2 percent in May and has been up at a 4-3/4 percent annual rate over the past five months, about the same as over 1988 as a whole. Recent information on wages is limited to average hourly earnings, which remained in the 3-3/4 to 4 percent range that has been evident since mid-1988.

Outlook

The staff projection has been reshaped somewhat by the growing evidence in the incoming data of an economic slowdown and by recent developments in financial markets. Information received since the last Greenbook suggests that real GNP probably increased between 1-1/2 and 2 percent at an annual rate in the second quarter, after the first quarter's 1.9 percent drought-adjusted advance.[1] In financial markets, interest rates (especially long-term rates) have been lower than previously anticipated, and the dollar has been stronger on exchange markets. The higher dollar is expected to damp output growth and inflation significantly in coming quarters.

In light of these developments, the staff has lowered its assessment of the level of interest rates that will be necessary to restrain demand enough to bring inflation down. Short-term rates, rather than rising moderately over the remainder of this year, now are expected to remain around current levels, possibly edging off in 1990 as inflationary pressures begin to ease. Bond rates are projected to fluctuate near recent levels. The dollar is expected to depreciate moderately over the forecast period but to remain on a higher path than previous forecasts indicated.

If the dollar were to remain strong, the effects on output and inflation would be larger than have been built into the staff forecast. In that case, domestic interest rates might be reduced further if monetary policy were to tilt toward shoring up real activity rather than maximizing possible gains on the price side. Conversely, if the dollar were to drop significantly more sharply than is now projected, higher interest rates might be needed to contain inflation.

Given the path for interest rates in the staff projection, monetary velocity likely will be lower than anticipated in May. Nonetheless, M2 growth this year still is projected to be only in the lower portion of the

1. Although these numbers are lower than those indicated in the May Greenbook, they are in line with those noted in the staff report at the last FOMC meeting in light of data that became available immediately after Greenbook publication.

FOMC's 3 to 7 percent target range; M3 growth is expected to be in the middle part of its target range. In 1990, the projected growth rates of both M2 and M3 pick up to the neighborhood of 6 to 7 percent.

The staff's fiscal assumptions are essentially the same as in the May Greenbook. The deficit estimates remain around $150 billion for FY1989 and $110 billion for FY1990, as reductions in the projections of interest outlays about offset the revenue loss stemming from a lower projected path for nominal income. Overall, fiscal policy is expected to be moderately restrictive over the forecast period, in part because of the sustained downtrend in defense spending and the modest deficit reduction provided for in the Congressional Budget Resolution.

The staff projection calls for small increases in real GNP over the next several quarters, with growth at an annual rate of around 1-1/2 percent into the latter part of 1990. The external sector makes no further contribution to GNP growth over that period, as real export gains drop well below the pace of recent quarters. This development, along with efforts by businesses to keep inventories under control in the face of slackening growth in final sales, puts a damper on manufacturing activity in the near term.

Overall demand is buoyed by the recent drop in interest rates, but that effect is small and takes time to build. Although housing activity is expected to recover soon from recent low levels, starts rise only moderately through 1990, partly because of demographic trends less favorable than those prevailing over the past decade. In addition, consumer spending is projected to remain sluggish, given the prospect of relatively meager gains in employment and real income. And in this environment of sluggish demand, falling utilization rates, and weak cash flow, business investment is forecast to decelerate.

Economic activity is projected to pick up a bit in late 1990. Most notably, the assumed decline in the dollar begins to induce some improvement in real net exports. Nonetheless, GNP growth remains below its long-run potential, and the unemployment rate edges above 6 percent.

The staff has lowered the inflation projection. The improved outlook for prices reflects, in part, the slower-than-anticipated pace of real activity in the near term and thus the emergence, earlier than previously projected, of slack in labor and product markets. In addition, increases in import prices are expected to be much smaller as a result of the recent strengthening of the dollar. However, the favorable effects of the dollar on domestic inflation are not likely to persist once the dollar begins to fall and, with a lag, boosts import prices.

PRICE AND COMPENSATION PROJECTION
(Percent change, Q4 to Q4)

	1988	1989	1990
Consumer price index	4.3	4.9	4.6
Excluding food and energy	4.6	4.7	5.0
Nonpetroleum import prices	7.4	2.1	5.1
Compensation per hour (Employment cost index)	4.9	5.1	5.7

The outlook for food and energy prices in the second half of the year is about the same as it was in the May Greenbook. The rise in consumer food prices is projected to slow from more than 6 percent at an annual rate in the first half to about 3-1/2 percent in the second, assuming normal weather conditions for the remainder of the current growing season. Energy prices are expected to decline somewhat as lower crude costs are passed through to the retail level; the timing is difficult to pinpoint, however, because of the offsetting effects associated with the tighter summertime environmental standards for gasoline that took effect at the beginning of June.

Underlying inflation, as measured by the CPI excluding food and energy, now is expected to level off at about 5 percent late this year, only a little above the pace of recent quarters. In part, this stability reflects the offsetting movements in import prices and labor costs. Import prices now are expected to restrain domestic inflation in the near term, but they accelerate next year as a consequence of the projected decline in the dollar. In contrast, the anticipated tightness in labor markets should exert continuing upward pressure on compensation into early next year. Moreover, employers' costs will be boosted in January by the scheduled increase in social security taxes and an assumed hike in the minimum wage, which together add 0.4 percentage point to the compensation increase for 1990 as a whole; the bulk of these added labor costs is likely to be passed through into prices in the first half of the year. However, as some slack develops in labor markets, the growth of hourly compensation begins to edge lower in the second half.

For reference, the economic projections of the FOMC in February and those of the staff in February and June are shown below.

ECONOMIC PROJECTIONS FOR 1989

	FOMC Central Tendency February	Staff Feb.	Staff June
Percent change, Q4 to Q4			
Nominal GNP	6-1/2 to 7-1/2	7.1	6.4
Real GNP	2-1/2 to 3	3.0	2.2
CPI	4-1/2 to 5	4.9	4.9
Average level, Q4, percent			
Unemployment rate	5-1/4 to 5-1/2	5.5	5.6

June 28, 1989

ONFIDENTIAL - FR
LASS II FOMC

STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
	5/10/89	6/28/89	5/10/89	6/28/89	5/10/89	6/28/89	5/10/89	6/28/89	5/10/89	6/28/89
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>	7.5	7.5	3.9	3.9	4.2	4.2	3.4	3.4	5.5	5.5
1989	7.8	7.2	3.1	2.6	4.8	4.7	4.6	4.5	5.3	5.4
1990	5.9	5.7	1.3	1.4	4.6	4.4	4.5	4.2	5.8	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	2.5	2.5	5.3	5.3	4.7	4.7	5.5	5.5
Q4 <1>	7.6	7.6	2.4	2.4	4.2	4.2	5.3	5.3	5.3	5.3
1989 Q1 <1>	9.7	8.2	5.5	4.4	5.0	4.6	3.9	3.6	5.2	5.2
Q2	7.3	7.4	2.3	1.7	5.2	5.6	4.8	5.4	5.3	5.3
Q3	6.2	5.1	2.0	1.5	4.3	3.8	4.1	3.5	5.3	5.4
Q4	5.6	5.1	1.6	1.3	4.1	3.9	3.9	3.8	5.4	5.6
Q1	6.4	5.8	1.2	1.2	5.1	4.8	5.1	4.6	5.5	5.8
Q2	5.2	5.7	.6	1.4	4.6	4.4	4.5	4.3	5.7	5.9
Q3	5.5	6.0	1.0	1.7	4.6	4.3	4.5	4.2	5.9	6.0
Q4	5.9	6.3	1.6	2.0	4.4	4.1	4.3	4.2	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>	7.4	7.4	2.4	2.4	4.8	4.8	5.0	5.0	-.2	-.2
1989 Q2	8.5	7.8	3.9	3.1	5.2	5.1	4.4	4.5	.0	.0
Q4	5.9	5.1	1.8	1.4	4.2	3.9	4.0	3.6	.1	.3
1990 Q2	5.8	5.8	.9	1.3	4.9	4.6	4.8	4.4	.3	.3
Q4	5.7	6.1	1.3	1.9	4.5	4.2	4.4	4.2	.4	.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>	7.2	7.2	2.8	2.8	4.5	4.5	4.3	4.3	-.6	-.6
1989 Q4	7.2	6.4	2.8	2.2	4.7	4.5	4.2	4.1	.1	.3
1990 Q4	5.8	6.0	1.1	1.6	4.7	4.4	4.6	4.3	.7	.5

<1> Actual.
<2> Percent change from two quarters earlier.
<3> Percent change from four quarters earlier.

June 28, 1989

CONFIDENTIAL - FR
CLASS II FOMC

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

	Units	1982	1983	1984	1985	1986	1987	1988	Projection 1989	Projection 1990
EXPENDITURES										
Nominal GNP	Billions of $	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4864.3	5216.3	5514.5
Real GNP	Billions of 82$	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3996.1	4101.5	4160.1
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	2.0	5.0	2.8	2.2	1.6
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.1	2.9	2.3	1.5
Gross domestic purchases		-.8	8.4	6.4	4.3	2.4	4.4	2.2	1.8	1.4
Final sales		.3	3.7	4.7	4.6	2.5	3.0	3.9	2.2	1.6
Private dom. final purchases		.8	7.7	5.6	4.6	2.8	2.4	3.9	1.9	1.6
Personal consumption expend.		2.9	5.4	4.1	4.6	4.2	1.8	3.7	1.6	1.4
Durables		9.0	14.7	10.8	7.0	11.5	-2.4	7.5	1.0	.5
Nondurables		1.8	4.4	2.3	3.3	3.1	.6	1.9	-.4	.9
Services		2.3	3.9	3.5	5.0	2.7	4.2	3.9	3.1	2.1
Business fixed investment		-11.3	10.8	13.8	3.7	-7.3	8.8	5.7	5.7	2.0
Producers' durable equipment		-12.5	20.9	14.9	4.6	-2.4	9.6	10.0	7.8	3.1
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.4	6.7	-5.0	-.6	-1.7
Residential structures		4.9	38.1	6.1	5.8	11.3	-3.5	2.0	-3.3	2.4
Exports		-13.8	5.8	5.9	-2.4	5.6	18.4	13.7	8.3	6.4
Imports		-5.9	23.8	17.4	4.5	7.6	10.4	7.2	4.7	4.5
Government purchases		3.8	-2.7	7.9	8.6	2.9	2.3	.4	1.2	.8
Federal		8.2	-8.1	13.0	13.3	.0	2.1	-3.5	.0	-.9
Defense		8.8	5.1	6.5	7.1	4.8	6.0	-2.1	-4.9	-2.8
State and local		.6	1.5	4.4	4.9	5.3	2.5	3.4	2.1	2.0
Change in business inventories	Billions of 82$	-24.5	-6.4	62.3	9.1	15.4	34.4	42.5	36.9	29.5
Nonfarm	Billions of 82$	-23.1	-.1	57.8	13.4	17.9	36.9	40.0	25.7	21.0
Net exports	Billions of 82$	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-100.2	-89.6	-88.9
Nominal GNP	Percent change*	3.1	10.4	8.6	6.6	4.8	8.3	7.2	6.4	6.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.2	105.6	108.3	109.3
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	1.7	1.8
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.1	83.6	83.8	82.3
Housing Starts	Millions	1.06	1.71	1.77	1.74	1.81	1.63	1.50	1.42	1.44
Auto sales	Millions	8.01	9.23	10.38	11.06	11.47	10.26	10.69	10.05	9.58
Domestic	Millions	5.78	6.82	7.92	8.22	8.22	7.06	7.55	7.14	6.86
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.91	2.73
INCOME AND SAVING										
Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.9	8.5	7.0	7.8	6.3
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.4	3.0	3.6	2.2	1.3
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.0	3.2	4.2	5.0	5.0
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	.9	7.6	7.8	-8.8	-6.1
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	7.0	6.9	6.8	6.1	5.3
Federal govt. surplus/deficit	Billions of $	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-142.3	-130.9	-110.5
State and local govt. surplus		35.1	47.5	64.6	65.1	61.2	52.9	55.2	58.1	61.6
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.0	-9.2	-13.3	-15.7	-15.5
PRICES AND COSTS										
GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.8	3.1	4.3	4.1	4.3
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.5	4.4
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.7	4.5
CPI		4.4	3.2	4.2	3.5	1.3	4.4	4.3	4.9	4.6
Exc. food and energy		5.2	4.2	5.0	4.3	3.9	4.2	4.6	4.7	5.0
Nonfarm business sector										
Output per hour		1.0	3.6	1.5	1.5	1.2	1.9	1.0	-.1	.9
Compensation per hour		7.3	3.3	4.2	4.5	4.2	4.1	4.7	5.2	5.6
Unit labor costs		6.2	-.3	2.6	2.9	3.0	2.1	3.6	5.3	4.7

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

June 28, 1989

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

	Units	1988 Q3	1988 Q4	1989 Q1	1989 Q2 (Projection)	1989 Q3 (Projection)	1989 Q4 (Projection)	1990 Q1 (Projection)	1990 Q2 (Projection)	1990 Q3 (Projection)	1990 Q4 (Projection)
EXPENDITURES											
Nominal GNP	Billions of $	4909.0	4999.7	5099.0	5190.3	5255.2	5320.5	5396.3	5472.3	5552.1	5637.5
Real GNP	Billions of 82$	4009.4	4033.4	4077.5	4094.9	4110.3	4123.2	4135.1	4149.8	4167.1	4188.1
Nominal GNP	Percent change	7.3	7.6	8.2	7.4	5.1	5.1	5.8	5.7	6.0	6.3
Real GNP		2.5	2.4	4.4	1.7	1.5	1.3	1.2	1.4	1.7	2.0
Gross domestic product		2.0	2.3	4.5	1.6	1.8	1.4	1.1	1.4	1.7	2.0
Gross domestic purchases		2.5	3.5	2.4	2.0	1.7	1.2	1.1	1.4	1.5	1.6
Final sales		2.0	3.5	3.8	1.0	2.1	1.8	1.6	1.3	1.6	1.9
Private dom. final purchases		3.9	2.9	1.9	1.5	2.4	1.9	1.7	1.4	1.6	1.7
Personal consumption expend.		3.9	3.5	1.3	1.4	2.2	1.3	1.6	1.3	1.3	1.5
Durables		-.2	6.1	-4.0	8.4	2.1	-2.1	1.3	-.8	.1	1.5
Nondurables		5.0	1.3	1.8	-5.9	1.0	1.7	1.1	.9	.9	.9
Services		4.5	4.2	2.8	4.5	3.1	2.2	2.2	2.2	2.0	2.0
Business fixed investment		4.0	-2.9	7.6	8.9	3.8	2.6	2.2	1.8	1.9	1.9
Producers' durable equipment		4.6	-3.5	9.9	13.2	4.6	4.0	3.5	3.0	3.0	3.0
Nonresidential structures		2.6	-1.0	1.3	-3.0	1.2	-1.7	-1.8	-2.0	-1.6	-1.5
Residential structures		4.3	10.9	-4.6	-15.2	.8	7.4	.5	1.5	4.7	2.7
Exports		14.5	6.5	15.0	9.7	4.4	4.4	5.2	5.8	6.2	8.5
Imports		13.1	13.5	-.5	10.7	5.2	3.8	4.2	4.8	4.2	4.8
Government purchases		-5.2	11.9	1.4	.9	1.6	1.1	1.1	.8	.5	.8
Federal		-13.2	20.7	.4	-1.0	.7	.0	-.1	-1.0	-1.6	-1.0
Defense		-10.5	9.9	-8.7	-3.4	-2.2	-5.3	-2.9	-2.7	-3.1	-2.6
State and local		1.1	6.0	2.1	2.3	2.2	2.0	2.0	2.0	2.0	2.0
nge in business inventories	Billions of 82$	39.5	29.1	35.5	42.5	37.2	32.3	27.6	29.0	30.0	31.4
onfarm	Billions of 82$	40.4	37.6	26.2	29.9	24.8	21.7	18.7	20.6	21.7	22.9
exports	Billions of 82$	-93.9	-105.4	-85.9	-89.4	-91.6	-91.6	-91.1	-90.8	-89.0	-84.9
LOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	106.0	106.8	107.7	108.2	108.6	108.7	108.9	109.2	109.5	109.7
Unemployment rate	Percent*	5.5	5.3	5.2	5.3	5.4	5.6	5.8	5.9	6.0	6.1
Industrial production index	Percent change	7.1	4.6	2.0	2.4	1.2	1.2	.8	1.4	2.4	2.7
Capacity utilization rate-mfg.	Percent*	84.0	84.4	84.3	84.0	83.6	83.2	82.7	82.3	82.1	82.0
Housing Starts	Millions	1.47	1.56	1.52	1.34	1.40	1.42	1.42	1.44	1.45	1.45
Auto sales	Millions	10.32	11.00	9.72	10.32	10.40	9.76	9.82	9.60	9.45	9.45
Domestic	Millions	7.20	7.89	6.89	7.32	7.48	6.87	6.95	6.87	6.80	6.80
Foreign	Millions	3.12	3.11	2.82	3.00	2.92	2.89	2.87	2.73	2.65	2.65
INCOME AND SAVING											
Nominal personal income	Percent change	7.3	8.7	13.6	6.7	5.8	5.5	6.8	6.0	5.8	6.6
Real disposable income	Percent change	5.6	4.1	6.1	-1.4	3.0	1.1	2.7	.7	.6	1.4
Personal saving rate	Percent*	4.2	4.3	5.4	4.8	5.0	4.9	5.1	5.0	4.9	4.9
Corp. profits with IVA & CCAdj	Percent change	4.4	13.9	-22.9	8.4	-8.6	-9.4	-18.5	-4.6	-.2	.4
Profit share of GNP	Percent*	6.7	6.8	6.3	6.3	6.1	5.8	5.5	5.3	5.3	5.2
Federal govt. surplus/deficit	Billions of $	-123.5	-157.5	-139.5	-121.8	-133.1	-129.1	-125.0	-117.1	-103.4	-96.3
State and local govt. surplus		56.0	52.6	55.2	59.2	58.8	59.0	58.4	60.0	62.3	65.7
Exc. social insurance funds		-13.3	-18.2	-17.2	-14.2	-15.5	-16.1	-17.5	-16.7	-15.2	-12.6
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.7	5.3	3.6	5.4	3.5	3.8	4.6	4.3	4.2	4.2
GNP fixed-weight price index		5.3	4.2	4.6	5.6	3.8	3.9	4.8	4.4	4.3	4.1
Cons. & fixed invest. prices		4.5	4.4	5.0	6.1	3.9	3.8	4.3	4.6	4.5	4.4
		4.5	4.4	5.4	6.6	4.0	3.8	4.5	4.8	4.7	4.6
xc. food and energy		4.0	4.9	5.2	4.3	4.6	5.0	5.1	5.1	5.0	4.9
nfarm business sector											
Output per hour		2.0	1.0	-1.1	-.6	.8	.7	.6	.6	.9	1.4
Compensation per hour		5.7	5.2	5.4	4.8	5.3	5.4	6.9	5.3	5.2	5.1
Unit labor costs		3.7	4.1	6.6	5.4	4.5	4.7	6.3	4.7	4.3	3.6

* Not at an annual rate.

CONFIDENTIAL - FR
CLASS II FOMC

June 28, 1989

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

	1988		1989				1990				1987	1988	1989	1990
			Projection								(fourth quarter to fourth quarter, net change)		Projection	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	24.2	24.0	44.1	17.4	15.4	12.9	11.9	14.7	17.3	21.0	188.3	110.4	89.8	65.0
Gross domestic product	20.0	22.6	44.3	16.2	18.3	13.7	11.1	14.3	17.3	20.5	188.3	113.3	92.6	63.3
Gross domestic purchases	25.5	35.5	24.6	20.9	17.6	12.9	11.5	14.4	15.5	16.9	171.9	89.8	76.0	58.2
Final sales	20.0	34.5	37.6	10.4	20.7	17.8	16.6	13.3	16.3	19.6	110.7	148.5	86.5	65.9
Private dom. final purchases	31.6	24.0	15.4	12.1	19.8	15.5	14.0	11.4	13.4	14.0	76.2	125.0	62.8	52.8
Personal consumption expend.	24.8	22.4	8.7	9.2	14.7	8.8	10.9	8.4	8.7	10.2	45.5	94.5	41.3	38.1
Durables	-.2	6.1	-4.2	8.4	2.2	-2.2	1.3	-.8	.1	1.6	-9.7	28.9	4.1	2.3
Nondurables	10.9	2.9	4.1	-13.7	2.2	3.9	2.4	1.9	1.9	2.0	5.2	16.9	-3.5	8.2
Services	14.1	13.3	8.9	14.5	10.2	7.2	7.2	7.2	6.6	6.6	50.0	48.6	40.8	27.7
Business fixed investment	4.8	-3.6	9.1	10.8	4.8	3.3	2.8	2.3	2.5	2.5	37.5	26.6	28.0	10.1
Producers' durable equipment	4.1	-3.3	8.7	11.8	4.4	3.8	3.4	2.9	3.0	3.0	29.2	33.2	28.7	12.3
Nonresidential structures	.8	-.3	.4	-.9	.4	-.5	-.6	-.6	-.5	-.5	8.3	-6.6	-.7	-2.2
Residential structures	2.0	5.0	-2.3	-7.9	.4	3.4	.2	.7	2.2	1.3	-7.0	3.9	-6.4	4.5
Change in business inventories	4.2	-10.4	6.4	7.0	-5.3	-4.9	-4.7	1.4	1.0	1.4	77.6	-38.0	3.2	-.9
Nonfarm	10.3	-2.8	-11.4	3.7	-5.1	-3.1	-3.0	1.9	1.1	1.2	67.0	-30.6	-15.9	1.2
Farm	-6.1	-7.7	17.7	3.4	-.2	-1.8	-1.7	-.5	-.1	.2	10.6	-7.4	19.1	-2.1
Net exports	-1.3	-11.5	19.5	-3.5	-2.2	-.1	.5	.3	1.8	4.1	16.4	20.6	13.8	6.7
Exports	17.1	8.1	18.6	12.7	6.0	6.0	7.2	8.1	8.8	12.1	71.4	62.9	43.3	36.2
Imports	18.4	19.5	-.8	16.1	8.2	6.0	6.7	7.8	7.0	8.0	55.0	42.2	29.6	29.5
Government purchases	-10.3	22.0	2.7	1.8	3.1	2.3	2.2	1.5	1.1	1.5	18.1	2.9	9.9	6.3
Federal	-11.5	15.4	.3	-.8	.6	.0	-.1	-.9	-1.3	-.9	7.2	-12.2	.1	-3.2
Defense	-7.2	6.1	-5.9	-2.2	-1.4	-3.4	-1.8	-1.7	-1.9	-1.6	15.1	-5.7	-12.9	-7.0
Nondefense	-4.2	9.2	6.2	1.5	2.0	3.4	1.7	.8	.6	.7	-7.9	-6.6	13.1	3.8
State and local	1.2	6.6	2.4	2.6	2.5	2.3	2.3	2.4	2.4	2.4	10.9	15.1	9.8	9.5

FEDERAL ACCOUNTS
(Billions . dollars)

	Fiscal Year 1988a	FY1989p Admin[1]	FY1989p CBO[2]	FY1989p FRB Staff	FY1990p Admin[1]	FY1990p CBO[2]	FY1990p FRB Staff	1988 IVa	1989 Ia	FRB Staff Projection 1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
BUDGET								Not seasonally adjusted								
Budget receipts[3]	909	979	983	992	1066	1069	1072	222	220	307	244	229	251	327	265	251
Budget outlays[3]	1064	1143	1142	1140	1157	1215	1181	289	280	286	284	298	297	298	289	303
Surplus/deficit(-) to be financed[3]	-155	-164	-159	-148	-91	-146	-109	-68	-61	21	-40	-68	-45	29	-24	-52
(On-budget)	-194	-220	-215	-200	-162	-214	-177	-73	-77	2	-52	-78	-65	6	-40	-65
(Off-budget)	39	56	56	52	69	68	68	6	16	18	12	9	20	23	15	13
Means of financing:																
Borrowing	162	n.a.	n.a.	119	n.a.	n.a.	102	54	38	8	19	56	31	1	14	42
Cash decrease	-8	n.a.	n.a.	10	n.a.	n.a.	0	11	19	-30	10	17	3	-25	5	17
Other[4]	1	n.a.	n.a.	19	n.a.	n.a.	7	3	4	1	11	-4	11	-5	5	-7
Cash operating balance, end of period	44	n.a.	n.a.	35	n.a.	n.a.	35	34	15	44	35	18	15	40	35	18
NIPA FEDERAL SECTOR								Seasonally adjusted annual rates								
Receipts	964	n.a.	1037	1043	n.a.	1133	1123	992	1041	1070	1071	1084	1116	1135	1156	1177
Expenditures	1107	n.a.	1177	1181	n.a.	1255	1241	1149	1181	1192	1204	1213	1241	1252	1259	1274
Purchases	380	n.a.	395	400	n.a.	416	413	396	398	402	405	406	414	416	417	418
Defense	298	n.a.	302	301	n.a.	311	301	302	300	301	301	298	302	302	301	301
Nondefense	82	n.a.	93	100	n.a.	105	112	94	98	102	104	108	112	114	115	117
Other expend.	727	n.a.	782	781	n.a.	839	828	753	783	789	799	808	827	836	843	856
Surplus/deficit	-143	n.a.	-140	-138	n.a.	-122	-119	-158	-140	-122	-133	-129	-125	-117	-103	-96
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-151	n.a.	n.a.	-154	n.a.	n.a.	-117	-170	-160	-140	-147	-137	-126	-113	-95	-84
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.1	n.a.	n.a.	-.7	.7	-.2	-.4	.1	-.2	-.2	-.2	-.3	-.2
Fiscal impetus measure (FI), percent	.3 *	n.a.	n.a.	-4 *	n.a.	n.a.	-7 *	1.7	-2.1	-.9	-.5	-3	-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 Administration figures are from President Bush's proposals in Building a Better America (February 9, 1989), with a minor revision from the Budget Director's testimony. The Congressional Budget Resolution for FY1990 projects receipts of $1066 billion, outlays of $1165 billion, and a deficit of $99 billion for that year.
2. The CBO figures are baseline budget estimates from An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990 (February 1989).
3. Budget receipts, outlays, and surplus/deficit include 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. Other means of financing are 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

Market interest rates have declined appreciably further since the May FOMC meeting in response to signals of economic softness and associated perceptions of actual and expected easing in monetary policy. Federal funds have been trading around 9-1/2 percent since early June after several weeks in the range of 9-3/4 to 9-7/8 percent. Short-term market rates have declined 10 to 30 basis points over the intermeeting period, and in early June the prime rate was lowered by 1/2 percentage point to 11 percent. Declines in rates generally were steeper at the long end of the market as most such yields are down 30 to 75 basis points. Major stock price indexes have gained 3 percent or more to reach new postcrash highs.

The monetary aggregates contracted during May, owing mainly to sizable drawdowns of liquid balances to pay an unusually large volume of nonwithheld taxes that cleared in late April and early May. M2 dropped at a 3-1/4 percent annual rate in May, as M1 contracted at a 15 percent rate while the nontransactions component of M2 was essentially flat. Sharp declines in MMDAs and savings deposits largely offset strength in small time deposits. M3 fell at about a 1 percent rate during the month. Growth in the aggregates appears to have picked up in June, not only because depositors had begun to rebuild their depleted balances but also because the declines in market rates have reduced the opportunity cost of holding liquid M2 balances.

Following four consecutive months of sizable runoffs, total deposits at thrift institutions increased at a 6 percent annual rate in April. Deposit inflows leveled off in May in the context of the overall weakness in the aggregates but picked up again in the first few weeks of June. The turnaround was most pronounced among the retail deposit components. Beginning in April, thrifts began pricing their retail accounts more competitively. For example, the spread between rates offered by thrifts and banks on six-month retail certificates, which had averaged an unusually narrow 30 basis points in the first quarter, widened to 40 basis points in April and appears to have widened further in May and June.

Net borrowing by nonfinancial firms picked up noticeably in May from a subdued pace in April, and limited indications are that this strength carried into June. Businesses continued to expand sharply their commercial paper obligations in May, and growth in their borrowing from banks climbed to better than a 10 percent annual rate, apparently with relatively little financing of merger-related transactions. Corporate bond issuance was strong in May, boosted early in the month by the permanent financing related to the RJR-Nabisco buyout and throughout the month by falling interest rates. Indications are that borrowing in the bond market continued strong in June. Corporations have been using a variety of strategies to pare costs of borrowing, including greater issuance of convertible bonds, which has been facilitated by the run-up in stock prices this spring, and issuance of bonds with put options to enhance their appeal to investors concerned about event risk.

Financing needs of the federal government were sharply reduced during the second quarter by a larger-than-seasonal surplus associated with the receipts from nonwithheld taxes. Marketable borrowing dropped to about $5 billion while the Treasury raised its cash balance by $30 billion during the quarter. Among federally sponsored agencies, borrowing by the Federal Home Loan Banks fell off sharply in April from the swollen first-quarter pace, in keeping with a greatly reduced volume of advances to FSLIC-insured thrifts. Still, the Home Loan Banks were accounting for the bulk of agency borrowings during the quarter.

In the state and local sector, issuance of long-term securities was light in May but jumped in June, both for new capital and for refunding. Declining municipal yields spurred refunding offerings, but the larger supply of securities has in turn limited the drop in yields. As a result, the ratio of tax-exempt to taxable yields has climbed back to 0.89, after reaching a five-year low of 0.84 in May.

Although data on borrowing by households are generally scant beyond April, it appears that the growth of home mortgage and consumer debt in the second quarter remained near the moderate pace of the first quarter. Growth in home mortgage debt has apparently not changed much from the reduced first-quarter pace, a situation consistent with the recent weakness in home sales and construction. Real estate lending by commercial banks was holding at about the first-quarter rate through May, but both mortgage closings and new commitments at thrifts were off sharply in April. Consumer installment credit opened the quarter on a weaker note by growing at just under a 5 percent annual rate in April after five quarters at a fairly stable 8-1/2 percent pace; early readings for May suggest that installment credit expanded at around the April pace.

Outlook

As noted in the previous section, the staff economic forecast does not anticipate any major change in interest rates in coming months. To the extent that rates do move, some further easing of short-term yields seems the more likely prospect. Given the dramatic decline that already has occurred in bond rates in response to a strong dollar and anticipation of a soft economy and slowing inflation, a movement to still lower long-term yields seems less likely.

Business borrowing apparently picked up on balance during the second quarter and is expected to remain substantial in coming quarters. A widening financing gap associated with a projected downswing in corporate profits and rising nominal capital outlays will help to sustain business demands for credit. Moreover, the calendar of proposed mergers and acquisitions is building, which should add to business credit demands during the second half. Business borrowing next year is expected to ebb a little from this year's average pace, partly on the assumption that net equity retirements will be somewhat less sizable than 1989's huge volume. Greater investor concerns about lower-quality debt, which are likely to arise during a period of sluggish economic activity, may inhibit such restructuring activity.

Credit demands by households are expected to be comparatively moderate over the projection period. Recent weakness in home sales and construction imply relatively slow mortgage debt growth in the near term, but the drop in mortgage rates should cause some firming of housing activity and related credit demands. Borrowing in the form of consumer credit is expected to slow gradually over the next several quarters in light of the relatively weak consumption spending that is projected.

The staff's forecast for the federal deficit implies that the credit demands of the Treasury over the forecast period should remain well below levels of the past few years. Federal debt is expected to expand a bit less than 6 percent this year and about 4 percent in 1990. This projection assumes that the financing of the thrift rescue will be handled through a new off-budget agency (REFCORP), as provided in the Senate bill; the House-passed bill would require direct Treasury financing. Finally, net borrowing by state and local governments is expected to taper off over the course of the projection period, with refunding issues accounting for a somewhat smaller proportion than in the past two years.

All told, growth in domestic nonfinancial sector debt is projected to slow by about 1 percentage point in 1989 to an 8 percent rate. The growth of this aggregate is expected to moderate further next year, to about 7-1/2 percent.

Recent developments

The dollar was surprisingly strong in foreign exchange markets during the intermeeting period. The dollar recorded significant gains against most major foreign currencies early in the period, eventually reaching a 2-1/2-year high against the mark and a 1-1/2-year high against the yen in mid-June after rising about 5 percent against both currencies. Since then, the dollar has fallen back and given up most of those gains. On balance, the weighted-average foreign-exchange value of the dollar in terms of the other G-10 currencies has risen about 2 percent since the May FOMC meeting. The announcement of U.S. trade deficits in March and April that were smaller than expected may have given some support to the dollar, and expectations of capital gains in the U.S. bond market as well as political events in China and Japan also contributed to buying pressure early in the period. However, the dollar's fluctuations seem to have occurred largely in the absence of significant new economic developments or indications of a reassessment of fundamentals by market participants.

. The Desk has sold about $9 billion in total since the May FOMC meeting, nearly two-thirds of which were for yen and the rest of which was for marks.

The dollar's move upward and its reversal occurred as differentials between dollar-denominated interest rates and foreign-currency-denominated interest rates continued to narrow. U.S. short-term interest rates have fallen about 25 basis points on balance since the previous FOMC meeting, while foreign interest rates on average have edged upward. In the United Kingdom and Switzerland, key official interest rates rose during the period. On May 31, the Bank of Japan raised its discount rate by three quarters of a percentage point -- the first change in its discount rate since February 1987. The increase was widely anticipated in the market; since then, Japanese short-term interest rates have moved up about 15 basis points.

Data for the major foreign industrial countries suggest that real economic growth and inflation have been strong in recent months. In the first quarter, Japan recorded robust real GNP growth of more than 9 percent (s.a.a.r.), led by nearly than 10 percent growth in domestic demand stimulated in part by the prospect of new taxes in April on consumption. First-quarter growth in Germany reached 12 percent (s.a.a.r.) after a weak fourth-quarter performance, as favorable weather conditions fostered unusually strong construction activity. Real activity in Canada and France also rebounded from sluggish fourth-quarter rates, but expansion slowed in the United Kingdom in the first quarter as the previous sharp tightening of monetary policy began to bite.

Measures of inflation in Japan, Germany, France, Canada, and the United Kingdom have moved up in recent months despite earlier efforts to contain price pressures with tighter monetary conditions. Higher consumer prices reflect in part the effects of recent oil-price increases, new indirect taxes in some countries, and weakness in some currencies against the dollar.

The economic crisis in Argentina continued as the monthly rate of inflation accelerated to nearly 80 percent in May following the presidential election. The economic and financial environment calmed somewhat as it became clear that power will be transferred to President-elect Menem on July 8, but conditions became volatile again when Menem disclosed the low level of Argentine foreign exchange reserves. Brazil reintroduced indexed government debt and daily devaluations of the cruzado amid further deterioration of financial conditions. Mexico continued to negotiate with banks for a package of new loans and the reduction of debt and debt service. The Mexican government has extended its anti-inflation social pact to March 1990.

Quarterly data show that the U.S. trade deficit (balance of payments basis) narrowed by $17.5 billion (s.a.a.r.) in the first quarter to $110.5 billion, the smallest deficit since the first quarter of 1985. First-quarter data show that exports continued their strong fourth-quarter performance. Increases occurred largely in exports of agricultural products, industrial supplies, and consumer goods. By geographic region, exports to Western Europe, Canada, and Japan accounted for most of the first-quarter increase. The value of total U.S. imports rose marginally in the first quarter largely because of higher prices for imported oil. Non-oil imports fell slightly with declines concentrated in consumer goods, automotive products and industrial supplies.

The U.S. current account deficit widened by $8 billion in the first quarter to $122.7 billion (s.a.a.r.). This increase is more than accounted for by a large swing in capital gains on direct investment that reflects the impact of dollar appreciation during the quarter. When these capital gains are excluded, the current account shows an improvement of $22 billion from the fourth quarter.

In April, the nominal U.S. merchandise trade deficit narrowed to $8.3 billion after a revised deficit of $9.5 billion in March. Exports strengthened by about 1 percent in April, as increases in industrial supplies and machinery more than offset a decline in agricultural exports. Imports fell 3 percent as reductions in imports of automotive products, machinery, and food more than offset an increase in oil imports. Prices for total imports, as measured by the BLS index, increased 0.9 percent in April and 0.7 percent in May with most of the price rises accounted for by higher oil prices. Export prices increased 0.4 percent in May as agricultural prices rose sharply.

Net purchases of private U.S. securities by foreign residents continued strong in April as declining U.S. interest rates and a firming dollar made prospects for capital gains and currency-translation gains on dollar-denominated bonds attractive. Net foreign purchases of U.S. corporate and government agency bonds through April reached $12-1/2 billion, a rate of purchases well above the pace of last year. Net foreign purchases of U.S. equities totaled only $100 million through

April, about the same rate as last year but below the pace of 1987. Private foreign net purchases of Treasury securities through April amounted to $7 billion, also about the same rate of purchases as last year. In April, foreign net purchases of Treasury bonds were more than offset by sales of bills. Net capital inflows through banking offices were negligible in April.

Foreign official reserve assets in the United States increased $5-1/2 billion in April. About one-half of this increase was accounted for by official inflows from foreign G-10 countries. Partial data from the Federal Reserve Bank of New York indicate that foreign official reserves in the United States declined almost $4 billion in May, reflecting large intervention sales of dollars.

Outlook

The staff outlook for U.S. external balances incorporates the recent strength of the dollar and a projected moderate decline of the dollar against other G-10 currencies in the second half of this year. Concern abroad about inflation is expected to cause foreign interest rates to continue to edge up relative to U.S. rates. The dollar is expected to continue to decline at a moderate pace in 1990, as U.S. interest rates ease relative to foreign interest rates. Throughout the forecast period, the dollar is projected to be about 3 to 5 percent above the path assumed in the forecast for the May Greenbook. Recognizing both the dollar's recent strength and the prospects that external adjustment will stall and reverse, the staff's forecast has an even wider band of uncertainty than usual.

The staff now estimates that the U.S. oil import price in the second quarter will average $18.80 per barrel, about $0.65 higher than had been projected previously. Oil prices are forecast to decline to $17.25 per barrel by 1989-Q4 and to level out at $17.00 per barrel by the end of next year, as world oil production is expected to average somewhat above recent levels over the projection period.

Forecasts for activity and inflation in some key foreign industrial countries have been raised somewhat since the May Greenbook, but the pace of inflation and activity in the foreign industrial countries still is expected to slow from current rates during the second half of this year and still more in 1990. Transitory effects on inflation rates from higher oil prices and the introduction of new indirect taxes in many countries should exert a smaller influence in the second half of this year than in the first half, and the effects of continued monetary tightness in most countries are expected to become more apparent during the forecast period. Growth in the developing countries is expected to slow this year, particularly in several key Latin American countries, but to recover by the end of 1990.

The U.S. merchandise trade deficit is projected to narrow by about $8 billion in 1989 but to return to approximately last year's level in 1990. The projected trade balance next year of $127 billion represents a slight deterioration from what had been projected in the previous Greenbook and reflects mainly the effect of the somewhat higher path for the dollar assumed in the current forecast. The U.S. current account is projected to be about unchanged this year and widen slightly next year to about $131 billion. This represents a narrowing of about $5 billion compared with the 1990 current account deficit made in the May Greenbook. In the current forecast, a somewhat weaker merchandise trade position is more than offset by a positive adjustment in the services account because of data revisions and redefinitions that have been applied back to 1981.

Strictly C ntial (FR)
Class II F

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

	ANNUAL			1988		1989				1990			
	1988-	1989-P	1990-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	-94.6	-87.4	-91.3	-80.0	-96.1	-79.3	-87.1	-91.5	-91.9	-90.6	-91.4	-92.4	-90.7
Exports of G+S	519.8	592.5	633.6	536.1	548.0	573.8	593.0	598.6	604.6	614.6	626.1	638.7	655.3
Imports of G+S	614.3	680.0	725.0	616.0	644.0	653.2	680.2	690.1	696.6	705.3	717.6	731.1	746.1
Constant 82 $, Net	-100.2	-89.6	-88.9	-93.9	-105.4	-85.9	-89.4	-91.6	-91.6	-91.1	-90.8	-89.0	-84.9
Exports of G+S	504.8	554.7	586.1	514.0	522.1	540.7	553.4	559.4	565.4	572.6	580.7	589.5	601.6
Imports of G+S	605.0	644.3	675.0	607.9	627.4	626.6	642.7	650.9	657.0	663.7	671.4	678.4	686.5
2. Merchandise Trade Balance 2/	-127.2	-119.1	-126.7	-121.4	-128.1	-110.5	-121.0	-122.5	-122.4	-123.5	-126.4	-128.3	-128.4
Exports	319.3	361.4	382.3	322.4	334.9	354.0	361.4	363.6	366.4	371.3	377.3	384.9	395.6
Agricultural	38.1	41.6	42.0	39.7	39.2	43.5	42.7	40.6	39.7	40.5	41.5	42.3	43.7
Non-Agricultural	281.1	319.7	340.3	282.7	295.8	310.5	318.8	323.0	326.7	330.9	335.8	342.6	351.9
Imports	446.5	480.5	508.9	443.8	463.0	464.5	482.4	486.1	488.8	494.8	503.7	513.3	524.0
Petroleum and Products	39.3	50.6	51.9	39.1	36.9	43.3	55.3	53.4	50.2	50.2	51.5	52.2	53.6
Non-Petroleum	407.2	429.9	457.1	404.7	426.1	421.2	427.1	432.8	438.6	444.6	452.2	461.0	470.4
3. Other Current Account Transactions													
Capital Gains and Losses 3/	-1.0	-5.8	1.5	-11.4	15.8	-14.6	-8.1	-2.7	2.1	1.5	1.5	1.5	1.5
Other D.I. Income, Net	32.5	32.7	35.1	33.6	34.3	34.1	33.4	31.4	31.8	33.8	34.9	35.3	36.3
Portfolio Income, Net	-29.3	-35.7	-45.8	-32.6	-32.2	-33.5	-32.9	-36.5	-39.9	-42.5	-44.8	-46.9	-49.0
Other Current Account, Net	-1.6	1.9	5.1	2.4	-4.6	1.8	2.3	3.0	0.5	4.4	5.7	6.4	4.2
4. U.S. Current Account Balance													
Including Capital G/L	-126.5	-126.1	-130.7	-129.4	-114.7	-122.7	-126.3	-127.3	-128.0	-126.3	-129.1	-132.1	-135.4
Excluding Capital G/L	-125.5	-120.2	-132.3	-118.0	-130.5	-108.1	-118.2	-124.6	-130.1	-127.9	-130.6	-133.6	-137.0
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.9	2.9	2.6	4.5	2.4	5.2	0.9	2.2	2.8	2.7	2.7	2.7	2.7
Real GNP--NonOPEC LDC 6/	3.8	3.5	3.7	3.7	3.6	3.5	3.4	3.3	3.3	3.3	3.8	4.4	5.0
Consumer Prices--Ten Ind. 5/	2.6	4.0	3.5	2.6	3.8	4.2	5.8	3.0	3.2	3.1	4.6	2.5	3.0

1/ National Income and Product Account data.
2/ International accounts basis.
3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.
4/ Percent change, annual rates.
5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.
6/ Weighted by share in NonOPEC LDC GNP.
P/ Projected