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May 16, 1984

SUMMARY AND OUTLOOK

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent developments. The economic expansion regained momentum in April, after slowing in March. Employment and industrial production registered strong advances in April, and retail sales rebounded from a March decline. Housing starts also recovered somewhat in April, after falling sharply in March. The incoming price and wage data suggest that inflation has held at about the same pace as in 1983.

Industrial production rose nearly 1-1/2 percent in April, after an increase of only 1/2 percent in March. Gains in output were widespread across both the consumer and business sectors. So far this year, factory output has increased at an annual rate of about 14 percent, not much below the pace during 1983. The sustained upswing in industrial production during the current expansion has raised capacity utilization in manufacturing 13-1/2 percentage points from its cyclical low; the rate for April, at 82.3 percent, was about the same as the average for the 1967-82 period.

Payroll employment rose 400,000 in April, one of the largest monthly advances of the current business expansion. Increases in hiring, though widespread, were particularly strong in the service sector and in construction, which had been affected by bad weather in March. In manufacturing, employment was up an additional 100,000 in April, and the factory workweek rose to its highest level in almost two decades. The continued expansion in job opportunities this year has begun to attract a stronger inflow of jobseekers to the labor force; over the past two months, the labor force grew at about the same pace as employment, and the civilian unemployment rate remained at 7.8 percent.

After moderating in February and March, growth in consumer spending strengthened again in April. Sales of domestic and foreign autos--10.3 million units at an annual rate--were up 4 percent from March and nearly equal to the first-quarter average. In addition, retail sales excluding autos and nonconsumption items rose 2 percent in April, more than reversing the declines of the two preceding months. Strong income gains continue to undergird the growth in spending, and indexes of consumer sentiment remain near their highs for the current business expansion.

Business investment spending has slowed from its earlier extraordinary pace, but still is expanding quite rapidly. In real terms, fixed investment spending rose at about a 12 percent annual rate in the first quarter; gains in equipment spending were much smaller than in the second half of 1983, but outlays for structures strengthened. Recent data on capital goods orders point to further strong advances in equipment spending in coming months.

After a sharp weather-related drop in March, housing starts rebounded in April, returning to the first-quarter average. However, the issuance of new building permits remained somewhat lower than earlier in the year. New home sales have been essentially flat since the start of the year, and the inventory of unsold new homes rose moderately during the first quarter.

Inventory accumulation accelerated considerably in the first quarter of 1984, as there were large increases in stocks in both the manufacturing and trade sectors. However, this rebuilding follows several months in which inventory accumulation lagged considerably behind sales, and inventory-sales ratios at the end of March still were quite low, particularly in manufacturing.

The downtrend in wage inflation appears to have leveled off. The year-to-year rise in the employment cost index has been holding at about the 5 percent mark since mid-1983, with increases in white-collar pay running ahead of the wage gains of blue-collar workers. The hourly earnings index, which covers production and nonsupervisory workers, increased at close to a 4 percent annual rate during the first four months of 1984, about the same pace as for 1983 as a whole.

Price inflation also is holding fairly steady, with most broad measures of price change rising at between a 4 and 5 percent annual rate so far this year. A sharp acceleration in consumer food prices early in the year apparently reflected transitory influences that already were being reversed by the end of the first quarter. Excluding food, price increases have continued to be relatively moderate in most sectors. Measures of industrial commodity prices continued to rise rapidly into early 1984, but have leveled off or declined in recent weeks.

Outlook. Real GNP grew at an annual rate of 8-1/4 percent in the first quarter, and the staff expects a relatively strong advance in the second quarter--5 percent at an annual rate. For the two quarters combined, growth in real GNP for the first half of 1984 would be slightly above the pace experienced during the first year of the recovery.

The projection of GNP growth for the second quarter has been revised down 1 percentage point since the last Greenbook, but this downward revision reflects accounting considerations associated with a model change over in the auto sector, rather than with any fundamental change in the economic

outlook.¹ Given the substantial plant closings in the second quarter due to model change over, a sustained high level of auto sales is expected to result in a sharp drawdown of auto stocks by late spring; consequently, inventory change in the nonfarm business sector is expected to exert a drag on GNP growth in the second quarter, in contrast to its substantial contribution to growth in the first quarter.

All major components of domestic final demand are expected to provide impetus for further GNP growth in the second quarter. With retail sales up sharply in April, consumer spending appears likely to record another solid advance, and business investment spending is expected to continue rising at its rapid first-quarter pace. Government outlays also are likely to rise substantially in the second quarter; the liquidation of CCC stocks (which reduces federal outlays) is likely to be much smaller than in the first quarter, and a further sizable increase is anticipated in other government expenditures. Real net exports, which declined sharply over the first five quarters of the expansion, are expected to be little changed in the current quarter, as import growth slows markedly from its unsustainable first-quarter pace. Prices, as measured by the fixed-weighted price index for gross domestic business product, are expected to rise at an annual rate of 4-1/4 percent in the current quarter, about the same as in the first quarter.

1. At the time that the March Greenbook was prepared, we were uncertain of the extent to which the Commerce Department would view the model changeover as a seasonal phenomenon that, in 1984, is occurring earlier than usual. At present, however, BEA does not intend to alter its seasonal factors; this treatment of the auto changeover has the effect of reducing real GNP growth in the second quarter and raising it in the first and third quarters.

The staff's assumptions regarding fiscal and monetary policy are virtually unchanged from the last Greenbook. M1 and M2 are assumed to grow this year at rates around, or slightly above, the midpoints of the FOMC target ranges and then slow a little in 1985. Market rates of interest are not expected to change much from their recent higher levels. The federal deficit, on a unified basis, is expected to total about \$177 billion in fiscal 1984 and \$190 billion in fiscal 1985. Deficit-reduction measures are not expected to have a significant impact on the deficit for fiscal 1984; however, the 1985 assumptions allow for spending and revenue measures that reduce the deficit in that year by about \$20 billion.

The staff expects the economy to grow strongly into the third quarter of 1984 and then settle into a slower pattern of growth that is characteristic of maturing business expansions. Following the typical cyclical pattern, autos, inventories, and housing are expected to make little or no contribution to GNP growth in coming quarters, after accounting for about two-thirds of total output growth over the first five quarters of the expansion. Gains in business capital spending, however, are likely to remain quite strong, and government outlays (excluding the CCC) are expected to keep advancing. In addition, export demand is projected to gradually strengthen in coming quarters, based on our expectations that economic growth will pick up a little in foreign economies and that the dollar will depreciate from its current high level; the depreciation of the dollar, along with slower growth of the U.S. economy, should also moderate the rise in imports. Total GNP in real terms is projected to rise at a 4 percent rate during the second half of 1984 and a bit under 3 percent during 1985. Employment is expected to increase by an additional 3-3/4

million over the next six quarters, and the unemployment rate is projected to fall to 6-3/4 percent in the fourth quarter of 1985.

The staff continues to anticipate a moderate acceleration of price inflation beginning in the second half of 1984 and extending through 1985, mainly reflecting the general tightening of labor and product markets and the assumed depreciation of the U.S. dollar. Food prices still appear likely to rise faster than overall prices during 1984 as a whole, but are projected to rise about in line with the general rate of inflation in 1985. Overall, the fixed-weighted price index for gross business product is expected to rise slightly more than 4-3/4 percent during 1984 and about 5-3/4 percent during 1985.

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

STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
				Total		Excluding food and energy				
3/21/84	5/16/84	3/21/84	5/16/84	3/21/84	5/16/84	3/21/84	5/16/84	3/21/84	5/16/84	
Annual changes:										
1982 <1>	4.0	4.0	-1.9	-1.9	6.0	6.0	6.9	6.9	9.7	9.7
1983 <1>	7.7	7.7	3.4	3.4	4.2	4.2	5.1	5.1	9.6	9.6
1984	10.8	10.6	6.3	6.3	4.7	4.4	4.8	4.5	7.2	7.5
1985	8.7	8.6	3.3	3.3	5.5	5.4	5.7	5.5	6.6	7.0
Quarterly changes:										
1983 Q1 <1>	8.2	8.2	2.6	2.6	3.6	3.6	6.7	6.7	10.4	10.4
Q2 <1>	13.3	13.3	9.7	9.7	4.1	4.1	3.5	3.5	10.1	10.1
Q3 <1>	11.5	11.5	7.6	7.6	4.7	4.7	5.6	5.6	9.4	9.4
Q4 <1>	9.1	9.1	5.0	5.0	4.1	4.1	4.4	4.4	8.5	8.5
1984 Q1 <1>	13.1	12.8	8.0	8.3	4.8	4.1	4.6	3.8	7.8	7.9
Q2	10.3	9.5	6.0	5.0	4.8	4.3	4.9	4.5	7.2	7.6
Q3	8.9	9.8	4.0	4.9	5.1	5.0	5.0	4.9	6.9	7.3
Q4	8.4	8.0	3.1	3.1	5.3	5.2	5.3	5.1	6.8	7.2
1985 Q1	8.7	8.3	3.1	2.7	5.4	5.4	5.7	5.5	6.7	7.1
Q2	8.1	8.3	2.7	2.9	5.6	5.5	5.9	5.8	6.6	7.0
Q3	8.8	8.7	2.9	2.9	5.9	5.8	6.2	6.1	6.5	6.9
Q4	8.9	8.8	2.8	2.8	6.1	6.0	6.4	6.4	6.5	6.8
Two-quarter changes: <2>										
1983 Q2 <1>	10.7	10.7	6.1	6.1	3.9	3.9	5.1	5.1	-0.5	-0.5
Q4 <1>	10.3	10.3	6.3	6.3	4.4	4.4	5.0	5.0	-1.6	-1.6
1984 Q2	11.7	11.1	7.0	6.6	4.8	4.2	4.7	4.2	-1.3	-0.9
Q4	8.6	8.9	3.6	4.0	5.2	5.1	5.2	5.0	-0.4	-0.4
1985 Q2	8.4	8.3	2.9	2.8	5.5	5.5	5.8	5.7	-0.2	-0.2
Q4	8.8	8.8	2.9	2.8	6.0	5.9	6.3	6.3	-0.1	-0.2
Four-quarter changes: <3>										
1982 Q4 <1>	2.6	2.6	-1.7	-1.7	4.7	4.7	5.4	5.4	2.4	2.4
1983 Q4 <1>	10.5	10.5	6.2	6.2	4.2	4.2	5.1	5.1	-2.1	-2.1
1984 Q4	10.2	10.0	5.3	5.3	5.0	4.7	5.0	4.6	-1.7	-1.3
1985 Q4	8.6	8.5	2.9	2.8	5.8	5.7	6.1	6.0	-0.3	-0.4

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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

	1982				1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3021.4	3070.2	3090.7	3109.6	3171.5	3272.0	3362.2	3436.2
Final sales	3047.1	3081.4	3095.6	3165.9	3210.9	3286.6	3353.7	3416.6
Private	2417.3	2449.8	2439.9	2486.2	2533.5	2603.2	2655.4	2717.6
Domestic final purchases	2387.4	2416.5	2439.0	2480.6	2516.5	2611.7	2673.7	2743.7
Personal consumption expenditures	1938.9	1972.8	2008.8	2046.9	2073.0	2147.0	2181.1	2230.9
Goods	989.1	997.6	1010.0	1025.1	1035.6	1077.3	1097.6	1123.6
Services	949.7	975.2	998.9	1021.8	1037.4	1069.7	1083.5	1107.3
Gross private domestic investment	422.9	432.5	425.3	377.4	404.1	450.1	501.1	532.5
Residential structures	87.3	91.0	87.9	96.8	111.3	128.4	141.5	138.8
Business fixed investment	361.3	352.7	342.3	337.0	332.1	336.3	351.0	374.0
Change in business inventories	-25.7	-11.2	-4.9	-56.4	-39.4	-14.5	8.5	19.6
Nonfarm	-27.6	-8.8	-2.3	-53.7	-39.0	-10.3	18.4	-19.7
Net exports of goods and services <1>	29.9	33.3	.9	5.6	17.0	-8.5	-18.3	-26.1
Exports	358.4	364.5	346.0	321.6	326.9	327.1	341.1	346.5
Imports	328.5	331.2	345.0	316.1	309.9	335.6	359.4	372.6
Gov't. purchases of goods and services	629.8	631.6	655.7	679.7	677.4	683.4	698.3	699.0
Federal <2>	249.7	244.1	261.7	279.2	273.5	273.7	278.1	274.1
State and local	380.0	387.5	394.0	400.5	404.0	409.7	420.2	424.9
Gross national product in constant (1972) dollars	1485.8	1489.3	1485.7	1480.7	1490.1	1525.1	1553.4	1572.5
Personal income	2528.1	2563.2	2591.3	2632.0	2657.7	2713.6	2761.9	2835.2
Wage and salary disbursements	1542.8	1563.8	1579.8	1586.0	1610.7	1648.4	1681.9	1717.3
Disposable personal income	2127.9	2159.0	2191.5	2227.8	2255.9	2301.0	2361.7	2423.9
Saving rate (percent)	6.1	5.9	5.6	5.4	5.4	4.0	4.9	5.2
Corporate profits with I.V.A. and C.C. Adj.	162.0	166.8	168.5	161.9	181.8	218.2	248.4	268.2
Corporate profits before tax	173.2	178.8	177.3	167.5	169.7	203.3	229.1	228.2
Federal government surplus or deficit (-) (N.I.A. basis)	-108.5	-113.2	-158.3	-208.2	-183.3	-166.1	-187.3	-189.9
High employment surplus or deficit (-) <3>	-38.1	-32.7	-64.9	-99.7	-72.3	-65.1	-101.7	-110.9
State and local government surplus or deficit(-) (N.I.A. basis)	28.8	32.0	31.3	32.9	40.4	51.7	55.5	58.1
Excluding social insurance funds	-3.5	-8	-2.1	-1.2	5.5	16.1	18.9	20.8
Civilian labor force (millions)	109.4	110.2	110.5	110.8	110.7	111.3	112.1	112.0
Unemployment rate (percent)	8.8	9.4	10.0	10.6	10.4	10.1	9.4	8.5
Nonfarm payroll employment (millions)	90.3	89.9	89.3	88.8	88.8	89.5	90.3	91.3
Manufacturing	19.4	19.1	18.7	18.3	18.3	18.5	18.8	19.2
Industrial production (1967=100)	141.7	139.4	138.2	135.2	138.5	144.5	151.8	155.5
Capacity utilization: all manufacturing (percent)	72.9	71.6	71.1	69.0	70.7	73.9	77.4	78.9
Materials (percent)	73.0	70.7	69.4	67.2	70.1	73.5	77.5	79.6
Housing starts, private (million units, A.R.)	.88	.96	1.12	1.27	1.64	1.69	1.78	1.70
New auto sales (millions, A.R.)	8.12	7.53	7.78	8.57	8.46	9.10	9.22	9.94
Domestic models	5.90	5.53	5.56	6.08	6.06	6.81	6.92	7.29
Foreign models	2.22	1.99	2.22	2.49	2.40	2.28	2.31	2.65

<1> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

<3> Estimates in table are evaluated at a 6.0 percent high employment unemployment rate.

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

	1982				1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	-5.5	1.0	-1.0	-1.3	2.6	9.7	7.6	5.0
Final sales	-1.3	-.8	-1.5	4.5	.6	6.8	5.1	3.7
Private	-1.6	.1	-4.0	3.0	3.0	8.8	5.3	5.5
Domestic final purchases	.0	.8	-.9	3.4	3.9	11.9	5.7	8.5
Personal consumption expenditures	2.4	3.1	.9	3.6	2.9	10.0	2.2	6.5
Goods	2.0	1.5	-.1	5.1	4.4	13.5	3.7	9.0
Services	2.9	4.7	2.1	1.9	1.4	6.4	.6	3.7
Gross private domestic investment	-34.1	3.4	-5.8	-34.6	28.6	49.8	45.1	27.6
Residential structures	-28.5	17.9	-13.0	53.2	57.3	79.5	35.9	-6.9
Business fixed investment	-5.9	-14.3	-8.8	-6.6	-1.5	7.9	18.7	27.2
Gov't. purchases of goods and services	-.2	-5.0	9.4	10.6	-8.8	-1.1	4.4	-3.9
Federal	.2	-14.0	26.3	28.3	-18.0	-2.8	4.6	-8.4
National defense	-1.3	13.0	14.0	5.1	6.5	7.4	.0	7.8
State and local	-.5	1.3	-.4	-.1	-1.8	.0	4.3	-.8
Disposable personal income	-3.4	1.9	-.3	2.6	2.9	3.5	6.5	8.0
<u>Current Dollars</u>								
Gross national product	-1.4	6.6	2.7	2.5	8.2	13.3	11.5	9.1
Final sales	3.9	4.6	1.9	9.4	5.8	9.8	8.4	7.7
Private	3.8	5.5	-1.6	7.8	7.8	11.5	8.3	9.7
Domestic final purchases	3.7	5.0	3.8	7.0	5.9	16.0	9.8	10.9
Personal consumption expenditures	7.5	7.2	7.5	7.8	5.2	15.1	6.5	9.4
Goods	4.4	3.5	5.1	6.1	4.2	17.1	7.8	9.8
Services	10.8	11.2	10.1	9.5	6.3	13.0	5.3	9.1
Gross private domestic investment	-37.8	9.5	-6.5	-38.0	31.5	53.9	53.6	27.5
Residential structures	-26.5	18.2	-13.0	46.9	75.3	76.7	47.5	-7.3
Business fixed investment	-6.7	-9.1	-11.3	-6.0	-5.7	5.1	18.8	28.8
Gov't. purchases of goods and services	4.6	1.2	16.1	15.5	-1.3	3.6	9.0	.4
Federal	2.1	-8.7	32.1	29.5	-8.0	.3	6.6	-5.6
National defense	3.5	18.0	20.8	16.5	7.8	10.7	3.6	10.5
State and local	6.2	8.1	6.8	6.8	3.5	5.8	10.7	4.6
Disposable personal income	1.4	6.0	6.1	6.8	5.1	8.2	11.0	10.9
Personal income	1.8	5.7	4.5	6.4	4.0	8.7	7.3	11.0
Wage and salary disbursements	3.2	5.6	4.2	1.6	6.4	9.7	8.4	8.7
Corporate profits with I.V.A. and C.C. Adj.	-49.3	12.4	4.1	-14.8	59.0	107.5	68.0	35.9
Corporate profits before tax	-59.6	13.6	-3.3	-20.3	5.4	106.0	61.3	-1.6
Nonfarm payroll employment	-3.0	-1.8	-2.7	-2.3	.1	2.9	3.6	4.9
Manufacturing	-9.5	-7.5	-7.7	-8.6	-.1	5.2	7.0	8.2
Nonfarm business sector								
Output per hour	.1	-.4	2.3	1.3	3.7	7.1	2.3	.9
Compensation per hour	10.0	5.8	7.2	5.8	6.8	4.3	3.8	4.4
Unit labor costs	9.9	6.2	4.7	4.4	3.0	-2.6	1.5	3.5
GNP implicit deflator <1>	4.3	5.6	3.7	3.8	5.5	3.3	3.6	3.9
Gross domestic business product								
fixed-weighted price index <2>	4.9	4.5	5.8	3.8	3.6	4.1	4.7	4.1
Excluding food and energy	5.8	6.4	5.4	3.9	6.7	3.5	5.6	4.4
Consumer price index (all urban)	3.8	5.5	7.3	1.5	.3	4.4	4.1	4.5
Industrial production	-11.8	-6.5	-3.4	-8.2	10.1	18.4	21.8	10.2

<1> Excluding the Federal pay increase, the rate of change in 1982-Q4 was 3.5 percent.

<2> Uses expenditures in 1972 as weights.

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CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	Projected							
	1984				1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3541.2	3622.2	3707.8	3779.8	3855.7	3933.3	4016.3	4102.2
Final sales	3479.0	3578.2	3659.8	3735.8	3817.7	3898.3	3982.3	4069.2
Private	2768.4	2833.1	2894.2	2949.7	3009.5	3072.5	3137.9	3206.4
Domestic final purchases	2813.6	2883.9	2949.4	3012.3	3073.1	3134.8	3198.7	3263.5
Personal consumption expenditures	2280.5	2330.5	2380.0	2432.2	2480.5	2528.0	2577.5	2628.5
Goods	1154.7	1180.0	1203.0	1226.0	1246.0	1265.5	1285.0	1305.0
Services	1125.8	1150.5	1177.0	1206.2	1234.5	1262.5	1292.5	1323.5
Gross private domestic investment	595.3	597.4	617.4	624.1	630.6	641.8	655.2	668.0
Residential structures	148.9	154.9	156.4	152.9	151.9	152.9	154.9	156.9
Business fixed investment	384.2	398.5	413.0	427.2	440.7	453.9	466.3	478.1
Change in business inventories	62.2	44.0	48.0	44.0	38.0	35.0	34.0	33.0
Nonfarm	41.1	35.0	42.0	41.0	38.0	35.0	34.0	33.0
Net exports of goods and services <1>	-45.2	-50.8	-55.2	-62.6	-63.7	-62.3	-60.8	-57.1
Exports	357.7	365.0	378.4	386.6	400.0	413.7	428.4	445.5
Imports	402.9	415.8	433.6	449.2	463.7	475.9	489.2	502.7
Gov't. purchases of goods and services	710.6	745.1	765.6	786.2	808.2	825.8	844.4	862.8
Federal <2>	275.0	299.5	310.0	320.7	333.0	340.6	349.1	357.3
State and local	435.6	445.6	455.6	465.5	475.2	485.2	495.3	505.5
Gross national product in constant (1972) dollars	1604.3	1623.9	1643.5	1656.3	1667.4	1679.4	1691.5	1703.1
Personal income	2924.6	2980.7	3046.4	3112.5	3185.4	3247.2	3313.5	3377.7
Wage and salary disbursements	1756.2	1798.4	1838.7	1875.4	1916.0	1955.0	1994.1	2033.1
Disposable personal income	2503.3	2546.1	2600.6	2655.4	2717.4	2767.1	2821.3	2873.3
Saving rate (percent)	6.1	5.7	5.7	5.6	5.9	5.8	5.9	5.7
Corporate profits with I.V.A. and C.C. Adj.	275.5	271.1	283.6	287.0	282.0	286.4	296.8	308.7
Corporate profits before tax	235.2	231.8	241.3	241.7	232.7	233.1	239.5	245.4
Federal government surplus or deficit (-) (N.I.A. basis)	-173.5	-169.4	-170.7	-180.5	-190.5	-188.5	-189.8	-188.7
High employment surplus or deficit (-) <3>	-121.6	-125.4	-135.0	-147.5	-158.6	-157.8	-160.3	-159.7
State and local government surplus or deficit (-) (N.I.A. basis)	57.6	58.5	58.8	56.9	55.0	53.3	51.4	50.4
Excluding social insurance funds	19.6	19.8	19.4	16.9	14.3	12.0	9.4	7.7
Civilian labor force (millions)	112.6	113.4	114.0	114.6	115.1	115.6	116.1	116.6
Unemployment rate (percent)	7.9	7.6	7.3	7.2	7.1	7.0	6.9	6.8
Nonfarm payroll employment (millions)	92.3	93.2	94.2	94.9	95.6	96.2	96.8	97.4
Manufacturing	19.5	19.7	20.0	20.3	20.4	20.5	20.6	20.7
Industrial production (1967=100)	159.8	164.1	166.8	168.6	170.2	171.8	173.5	175.0
Capacity utilization: all manufacturing (percent)	80.8	82.6	83.6	84.0	84.1	84.4	84.6	84.7
Materials (percent)	81.6	83.7	84.6	85.1	85.3	85.7	86.0	86.3
Housing starts, private (million units, A.R.)	1.99	1.85	1.75	1.70	1.65	1.65	1.65	1.65
New auto sales (millions, A.R.)	10.52	10.60	10.85	11.00	10.95	11.15	11.15	11.15
Domestic models	8.22	8.25	8.30	8.40	8.50	8.60	8.50	8.40
Foreign models	2.30	2.35	2.55	2.60	2.45	2.55	2.65	2.75

<1> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

<3> Estimates in table are evaluated at a 6.0 percent high employment unemployment rate.

CONFIDENTIAL - FR
CLASS II FOMC

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

	1984				Projected 1985			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	8.3	5.0	4.9	3.1	2.7	2.9	2.9	2.8
Final sales	3.6	7.3	4.6	3.6	3.4	3.3	3.1	2.9
Private	4.7	5.7	4.4	3.2	3.1	3.2	3.0	2.8
Domestic final purchases	7.8	5.8	4.1	3.1	2.9	2.8	2.6	2.3
Personal consumption expenditures	5.8	4.3	3.0	2.9	2.5	2.2	2.1	2.0
Goods	9.2	5.1	2.9	2.4	2.0	1.8	1.5	1.5
Services	2.0	3.4	3.3	3.5	3.0	2.7	2.8	2.6
Gross private domestic investment	51.9	-1.3	10.0	.9	.7	2.7	3.4	2.4
Residential structures	31.3	12.6	-.5	-13.2	-7.6	-2.9	-.6	-1.0
Business fixed investment	12.1	12.9	11.3	9.5	8.5	7.4	5.9	4.6
Gov't. purchases of goods and services	-.8	14.3	5.5	5.6	4.7	3.5	3.6	3.3
Federal	-6.6	33.5	9.3	9.6	7.7	4.5	4.9	4.2
National defense	9.7	9.5	10.1	8.3	6.9	5.9	6.6	5.5
State and local	3.2	3.1	2.9	2.9	2.7	2.7	2.7	2.6
Disposable personal income	10.2	2.3	3.1	2.6	3.9	1.9	2.1	1.5
<u>Current Dollars</u>								
Gross national product	12.8	9.5	9.8	8.0	8.3	8.3	8.7	8.8
Final sales	7.5	11.9	9.4	8.6	9.1	8.7	8.9	9.0
Private	7.7	9.7	8.9	7.9	8.4	8.6	8.8	9.0
Domestic final purchases	10.6	10.4	9.4	8.8	8.3	8.3	8.4	8.4
Personal consumption expenditures	9.2	9.1	8.8	9.1	8.2	7.9	8.1	8.2
Goods	11.5	9.1	8.0	7.9	6.7	6.4	6.3	6.4
Services	6.9	9.1	9.5	10.3	9.7	9.4	9.8	9.9
Gross private domestic investment	56.2	1.4	14.0	4.4	4.3	7.3	8.6	8.1
Residential structures	32.6	17.1	3.9	-8.7	-2.6	2.7	5.3	5.3
Business fixed investment	11.4	15.8	15.3	14.5	13.3	12.5	11.4	10.5
Gov't. purchases of goods and services	6.8	20.9	11.5	11.2	11.7	9.0	9.3	9.0
Federal	1.3	40.7	14.8	14.5	16.2	9.4	10.4	9.7
National defense	20.7	14.6	15.9	14.3	16.4	11.4	12.8	11.5
State and local	10.5	9.5	9.3	9.0	8.6	8.7	8.6	8.5
Disposable personal income	13.8	7.0	8.8	8.7	9.7	7.5	8.1	7.6
Personal income	13.2	7.9	9.1	9.0	9.7	8.0	8.4	8.0
Wage and salary disbursements	9.4	10.0	9.3	8.2	8.9	8.4	8.3	8.0
Corporate profits with I.V.A. and C.C. Adj.	11.4	-6.3	19.8	4.8	-6.8	6.3	15.4	17.0
Corporate profits before tax	12.8	-5.7	17.5	.6	-14.1	.6	11.5	10.1
Nonfarm payroll employment	4.1	4.2	4.1	3.0	2.9	2.8	2.5	2.4
Manufacturing	6.6	5.6	5.8	4.7	3.2	2.2	1.4	.9
Nonfarm business sector								
Output per hour	2.6	.5	1.0	.3	.1	.5	.9	.8
Compensation per hour	6.1	5.4	5.7	5.7	6.4	6.1	6.3	6.4
Unit labor costs	3.4	4.9	4.6	5.4	6.3	5.6	5.4	5.6
GNP implicit deflator <1>	4.1	4.3	4.6	4.7	5.4	5.2	5.6	5.9
Gross domestic business product								
fixed-weighted price index <2>	4.1	4.3	5.0	5.2	5.4	5.5	5.8	6.0
Excluding food and energy	3.8	4.5	4.9	5.1	5.5	5.8	6.1	6.4
Consumer price index (all urban)	5.0	4.4	5.4	5.6	5.6	5.6	5.8	6.0
Industrial production	11.5	11.2	6.7	4.4	3.9	3.8	4.0	3.5

<1> Excluding Federal pay increase, the rate of change in 1984-Q1 is 3.7 percent and in 1985-Q1 is 5.0 percent.
<2> Uses expenditures in 1972 as weights.

May 16, 1984

CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of current dollars.)

	1978	1979	1980	1981	1982	1983	—Projected—	
							1984	1985
Gross national product	2163.9	2417.8	2631.7	2954.1	3073.0	3310.5	3662.8	3976.9
Final sales	2137.4	2403.5	2641.5	2935.6	3097.5	3316.9	3613.2	3941.9
Private	1705.5	1929.1	2103.7	2339.9	2448.3	2627.4	2861.3	3106.6
Domestic final purchases	1706.6	1915.9	2079.7	2313.6	2430.9	2636.4	2914.8	3167.6
Personal consumption expenditures	1346.5	1507.2	1668.1	1857.2	1991.9	2158.0	2355.8	2553.6
Goods	728.5	813.5	883.5	970.0	1005.5	1083.5	1190.9	1275.4
Services	618.0	693.7	784.5	887.1	986.4	1074.5	1164.9	1278.3
Gross private domestic investment	386.6	423.0	401.9	474.9	414.5	471.9	608.5	648.9
Residential construction	111.2	118.6	102.9	104.3	90.8	130.0	153.3	154.1
Business fixed investment	248.9	290.2	308.8	352.2	348.3	348.4	405.7	459.8
Change in business inventories	26.5	14.3	-9.8	18.5	-24.5	-6.4	49.5	35.0
Nonfarm	25.4	8.6	-4.5	10.9	-23.1	-2.8	39.8	35.0
Net exports of goods and services <1>	-1.1	13.2	23.9	26.3	17.4	-9.0	-53.4	-61.0
Exports	218.7	281.4	338.8	368.8	347.6	335.4	371.9	421.9
Imports	219.8	268.1	314.8	342.5	330.2	344.4	425.4	482.9
Gov't. purchases of goods and services	431.9	474.4	537.8	595.7	649.2	689.5	751.9	835.3
Federal <2>	153.6	168.3	197.0	229.2	258.7	274.8	301.3	345.0
State and local	278.3	306.0	340.8	366.5	390.5	414.7	450.6	490.3
Gross national product in constant (1972) dollars	1438.6	1479.4	1475.0	1513.8	1485.4	1535.3	1632.0	1685.4
Personal income	1732.7	1951.2	2165.3	2435.0	2578.6	2742.1	3016.1	3280.9
Wage and salary disbursements	1106.3	1237.6	1356.7	1493.2	1568.1	1664.6	1817.2	1974.5
Disposable personal income	1474.0	1650.2	1828.9	2047.6	2176.5	2335.6	2576.4	2794.7
Saving rate (percent)	6.1	5.9	6.0	6.6	5.8	4.9	5.8	5.8
Corporate profits with I.V.A. and C.C.Adj.	192.4	194.8	175.4	192.3	164.8	229.1	279.3	293.5
Corporate profits before tax	229.1	252.7	234.6	227.0	174.2	267.5	237.5	237.7
Federal government surplus or deficit(-) (N.I.A. basis)	-29.5	-16.1	-61.2	-62.2	-147.1	-181.6	-173.5	-189.3
High employment surplus or deficit(-)	-33.9	-20.8	-36.4	-30.2	-65.0	-96.3	-132.4	-159.1
State and local government surplus or deficit (-) (N.I.A. basis)	30.3	30.4	30.6	35.3	31.3	51.4	58.0	52.5
Excluding social insurance funds	10.0	6.6	3.5	4.4	-1.9	15.3	18.9	10.8
Civilian labor force (millions)	102.3	105.0	106.9	108.7	110.2	111.5	113.6	115.9
Unemployment rate (percent)	6.1	5.8	7.1	7.6	9.7	9.6	7.5	7.0
Nonfarm payroll employment (millions)	88.7	89.8	90.4	91.2	89.6	90.0	93.6	96.5
Manufacturing	20.5	21.0	20.3	20.2	18.9	18.7	19.9	20.6
Industrial production (1967=100)	146.1	152.5	147.0	150.9	138.6	147.6	164.8	172.6
Capacity utilization: all manufacturing (percent)	84.7	86.0	79.6	79.4	71.1	75.2	82.7	84.4
Materials (percent)	85.6	87.6	80.4	80.7	70.1	75.2	83.8	85.8
Housing starts, private (million units, A.R.)	2.00	1.72	1.30	1.10	1.06	1.70	1.81	1.65
New auto sales (millions, A.R.)	11.29	10.68	9.04	8.56	8.00	9.18	10.74	11.10
Domestic models	9.29	8.36	6.62	6.24	5.77	6.77	8.29	8.50
Foreign models	2.00	2.32	2.42	2.32	2.23	2.41	2.45	2.60

<1> Balance of payments data underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

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

	1978	1979	1980	1981	1982	1983	--Projected--	
							1984	1985
<u>Constant (1972) Dollars</u>								
Gross national product	5.0	2.8	-.3	2.6	-1.9	3.4	6.3	3.3
Final sales	4.9	3.5	.5	1.8	-.7	2.8	4.8	3.7
Private	5.6	4.0	.1	2.0	-1.3	3.4	5.2	3.4
Domestic final purchases	5.5	2.9	-1.0	2.7	-.1	5.0	6.7	3.1
Personal consumption expenditures	4.5	2.7	.5	2.7	1.4	4.2	4.9	2.6
Goods	4.2	1.9	-1.4	2.1	.1	5.6	6.7	2.2
Services	4.8	3.7	2.7	3.3	2.9	2.7	2.9	3.0
Gross private domestic investment	10.5	-.2	-11.8	9.2	-14.5	12.6	25.6	2.5
Residential structures	2.8	-5.3	-20.3	-5.1	-15.4	39.4	14.8	-4.5
Business fixed investment	12.8	7.3	-2.4	5.2	-4.8	1.4	15.2	8.5
Gov't. purchases of goods and services	2.0	1.3	2.2	.8	1.8	.4	3.1	5.1
Federal	-.1	1.8	4.2	3.8	5.6	1.0	4.4	8.4
National defense	.4	2.6	3.9	5.2	7.1	6.9	7.8	7.4
State and local	3.3	1.1	1.0	-1.0	-.5	.1	2.3	2.8
Disposable personal income	4.9	2.7	.6	3.2	.5	3.2	6.0	2.7
<u>Current Dollars</u>								
Gross national product	12.8	11.7	8.8	12.2	4.0	7.7	10.6	8.6
Final sales	12.8	12.4	9.9	11.1	5.5	7.1	8.9	9.1
Private	13.6	13.1	9.0	11.2	4.6	7.3	8.9	8.6
Domestic final purchases	13.4	12.3	8.5	11.2	5.1	8.5	10.6	8.7
Personal consumption expenditures	11.8	11.9	10.7	11.3	7.3	8.3	9.2	8.4
Goods	10.9	11.7	8.6	9.8	3.7	7.8	9.9	7.1
Services	12.9	12.2	13.1	13.1	11.2	8.9	8.4	9.7
Gross private domestic investment	19.3	9.4	-5.0	18.2	-12.7	13.8	29.0	6.6
Residential structures	16.1	6.6	-13.2	1.4	-13.0	43.3	17.9	.6
Business fixed investment	21.3	16.6	6.4	14.1	-1.1	.0	16.5	13.3
Gov't. purchases of goods and services	9.7	9.8	13.4	10.8	9.0	6.2	9.0	11.1
Federal	7.1	9.6	17.1	16.3	12.9	6.2	9.6	14.5
National defense	8.0	11.5	17.3	17.4	16.5	11.6	13.8	14.1
State and local	11.2	9.9	11.4	7.5	6.6	6.2	8.7	8.8
Disposable personal income	12.2	12.0	10.8	12.0	6.3	7.3	10.3	8.5
Personal income	12.5	12.6	11.0	12.5	5.9	6.3	10.0	8.8
Wage and salary disbursements	12.5	11.9	9.6	10.1	5.0	6.2	9.2	8.7
Corporate profits with I.V.A. and C.C.Adj.	15.0	1.3	-9.9	9.6	-14.3	39.0	21.9	5.1
Corporate profits before tax	17.7	10.3	-7.1	-3.3	-23.2	19.1	14.5	.1
Nonfarm payroll employment	5.1	3.6	.6	.8	-1.7	.4	4.0	3.1
Manufacturing	4.2	2.6	-3.6	-.6	-6.5	-.9	6.4	3.4
Nonfarm business sector								
Output per hour	.6	-1.5	-.7	1.9	-.1	6.4	2.1	.5
Compensation per hour	8.6	9.0	10.4	9.8	7.8	11.2	5.1	6.0
Unit labor costs	8.0	10.7	11.1	7.7	7.9	4.6	3.0	5.5
GNP implicit deflator	7.4	8.6	9.2	9.4	6.0	4.2	4.1	5.1
Gross domestic business product								
fixed-weighted price index <1>	8.0	9.9	10.0	9.5	6.0	4.2	4.4	5.4
Excluding food and energy	7.8	8.6	8.5	9.3	6.9	5.1	4.5	5.5
Consumer price index (all urban)	7.6	11.3	13.5	10.3	6.1	3.2	4.7	5.6
Industrial production	5.8	4.4	-3.6	2.6	-8.1	6.4	11.7	4.7

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1983*	FY1984 ^e /2/		FY1985 ^e /2/		CY1984 ^e		FRB staff estimates								
		Admin. 1/	FRB Staff	Admin. 1/	FRB Staff	CY 1983*	FRB Staff	Calendar quarters; not seasonally adjusted								
								1983			1984			1985		
								IV*	I*	II	III	IV	I	II	III	
Unified budget receipts	601	673	673	753	749	613	692	149	155	191	178	168	172	212	196	
Unified budget outlays	796	851	850	932	939	803	875	213	209	213	215	237	231	235	235	
Surplus/deficit(-), unified budget	-195	-178	-177	-179	-190	-190	-182	-63	-55	-22	-37	-68	-59	-23	-39	
Surplus/deficit(-), off-budget agencies ³	-12	-15	-12	-15	-15	-10	-15	1	-2	-5	-5	-3	-3	-5	-5	
Combined deficit to be financed	-208	-193	-189	-194	-205	-201	-198	-62	-57	-27	-43	-71	-62	-28	-44	
Means of financing combined deficit:																
Net borrowing from public	212	176	168	192	199	187	197	36	49	37	45	65	54	39	41	
Decrease in cash operating balance	-8	17	15	0	4	8	-3	25	-2	-3	-5	7	5	-8	1	
Other ⁴	3	0	7	2	2	6	4	1	10	-7	3	-2	4	-3	3	
Cash operating balance, end of period	37	20	22	20	17	12	14	12	14	17	22	14	10	18	17	
Memo: Sponsored agency borrowing ⁵	-3	38	17	41	18	1	17	3	5	5	4	4	4	5	5	
NIA Budget																
								Seasonally adjusted annual rates								
Receipts	631	694	695	785	771	645	716	658	687	707	727	743	762	779	798	
Expenditures	816	871	870	954	958	826	890	847	861	876	898	924	953	967	988	
Purchases	275	291	290	342	336	275	301	274	275	299	310	321	333	341	349	
Defense	197	224	220	257	252	200	228	206	216	224	232	240	249	256	264	
Nondefense	78	67	70	85	84	75	73	68	59	76	78	81	84	84	85	
All other expenditures	541	581	581	612	622	551	588	573	586	577	588	603	620	627	639	
Surplus/deficit(-)	-186	-177	-176	-169	-187	-182	-174	-190	-173	-169	-171	-181	-190	-188	-190	
High employment surplus/deficit(-) evaluated at 6 percent unemployment	-93	n.a.	-126	n.a.	-156	-96	-132	-122	-122	-125	-135	-148	-159	-158	-160	

*--actual

e--estimated

n.a.--not available

1. OMB Current Budget Estimates, April 1984 and BEA's NIA translations, April 1984.
2. The CBO baseline budget estimates show revenues of \$663 billion and \$733 billion, outlays of \$852 billion and \$930 billion and deficits of \$189 billion and \$197 billion in fiscal years 1984 and 1985 respectively (An Analysis of the President's Budgetary Proposals, February 1984).

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

3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and Strategic Petroleum Reserve.
4. Checks issued less checks paid, accrued items and other transactions.
5. FRB staff estimates and actuals include Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage-backed securities), Federal Land Banks, Federal Intermediate Credit Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis. FRB and administration estimates are not strictly comparable.

Recent Developments. Most market interest rates have risen sharply further since the last FOMC meeting, as buoyant economic activity induced strong credit demands. Federal funds have traded higher on the basis of the firming of reserve positions at depository institutions that occurred in March and the later one-half percentage point hike in the discount rate. Yields on other private short-term instruments have jumped 70 to 135 basis points, and the prime rate has twice been marked up by 50 basis points. Treasury bill rates increased much less, however, as the Treasury cut back on bill issuance in light of the debt ceiling and a record cash balance, and as subsequent rumors of a major bank failure led to a heightened preference for safety. The 1/4 percentage point rise in municipal bond yields similarly was restrained by a limited volume of offerings stemming from congressional inaction on private-purpose issues. By contrast, rates on taxable long-term securities have increased about 1 percentage point since late March.

The debt of domestic nonfinancial sectors grew at a 12-1/4 percent annual rate during the first three months of the year, with indications of further strengthening in April. Merger-related financings boosted this broad credit measure by only a fraction of a percentage point over this span, but had a more pronounced impact on short-term business borrowing. Bank C&I loans plus nonfinancial commercial paper expanded at a 20 percent annual rate during February through April, with about one third of this pace reflecting merger-related borrowing. In addition, nonfinancial corporations in March and April increased their gross issuance of bonds in domestic and Eurodollar markets. The heavier overall business borrowing in recent

months reflected retirement of outstanding equity associated with mergers, sluggish sales of new equity, and a mounting financing gap.

Despite some firming in interest rates on consumer and mortgage loans, household borrowing also has remained robust. Installment credit growth continued extraordinarily rapid through March. Consumer credit expansion at commercial banks remained sizable in April and banks reported increased or continued willingness to make such loans. Residential mortgage borrowing was again heavy in March, and a stepup in bank real estate lending in April plus a record backlog of S&L mortgage commitments at the end of March suggested further sizable credit extensions.

Hefty credit expansion so far this year at commercial banks and thrift institutions has contributed to a rapid growth of M3, which by April was 1/2 percentage point above the 9 percent upper end of its annual range. In March and April, M3 growth averaged close to 10 percent at an annual rate, with its non-M2 component expanding at nearly a 30 percent pace, in part reflecting heavy reliance by depository institutions on large time deposits to fund strong loan growth. In addition to issuing liabilities included in M3, banks raised a sizable volume of funds from their foreign branches.

The other monetary aggregates stayed within their long-run ranges through April, though showing divergent monthly patterns. After growing by 5 percent, at an annual rate, in March, M1 was flat in April, while M2 growth about doubled to a 7-1/4 percent rate last month. Seasonal factor inaccuracies associated with tax payments, holidays, and record flows into IRA/Keogh accounts evidently led to an understatement of the seasonally adjusted growth of both aggregates in April.

Outlook. Credit demands seem likely to remain strong in the months ahead. The Treasury's combined deficit this quarter is sizable in what used to be a period of surplus. As a result, federal borrowing this quarter, on a seasonally adjusted basis, represents a sizable pickup over last quarter, although some slowing is expected in the third quarter. A considerable potential volume of state and local offerings of industrial development and mortgage revenue bonds also looms over municipal markets, while issuers await congressional resolution of legislative restrictions.

The growth of business indebtedness is likely to be well maintained through the remainder of this quarter, but should moderate in the third quarter, especially if merger financing abates. More fundamentally, however, the nonfinancial corporate sector is expected to be experiencing a growing financial deficit over the course of the year as capital expenditures continue to increase faster than internally generated funds. Barring a significant decline in bond rates, business credit demands are likely to remain concentrated in short-term markets.

Rates on consumer credit and in primary mortgage markets are likely to trend upward in the near term, reversing the recent narrowing in spreads over market rates of interest. Continued use of adjustable-rate contracts for consumer installment and home mortgage loans is in prospect. However, large initial "teaser" discounts on ARMs are likely to become less of a factor as institutions tighten their overall lending standards under pressure from mortgage insurance companies and secondary market purchasers, and recent increases in market rates may have dampened borrower enthusiasm for adjustable-rate contracts. The expansion of consumer credit should begin to ease by the summer, along with the slackening growth of personal

consumption expenditures foreseen by the staff, while the projected leveling off of residential investment spending should be associated with some moderation in the growth of mortgage credit.

INTERNATIONAL DEVELOPMENTS

Recent developments. The dollar's trade-weighted foreign exchange value has risen by about 4-1/4 percent since the last FOMC meeting, to a level only slightly below its mid-January peak. The dollar's advance was strongest against the German mark (5-1/4 percent) and other EMS currencies; against non-EMS currencies the rise was around 3 percent, on average.

The dollar's strength has, in part, been a reflection of the mark's particular weakness, as that currency suffered from the effects of a threatening strike (now partially underway) by the metalworkers union over demands for a thirty-five hour week with no cut in pay, effectively a 14 percent wage rate increase. In addition, disappointing figures on industrial production and the current account appear to have diminished the attractiveness of mark assets.

Aside from these special mark-related factors, other developments tended to strengthen the dollar, including an increase in U.S. interest rates. The differential between U.S. short-term rates and a weighted average of foreign rates rose by about 1 percent, and the differential for long-term rates appears to have risen similarly. Most recently, however, interest rates have risen somewhat in Germany, Switzerland, and the United Kingdom, and the currencies of those countries firmed in response.

Recent evidence on the recovery abroad has been mixed, with the release of the latest month's industrial production figures showing declines in five major countries. A record monthly decline in industrial production in Canada in February was accompanied by a decline in new and unfilled orders. Though output fell 1 percent in March in Japan, first-quarter production was still a strong 14 percent (s.a.a.r.) higher than in the fourth quarter of 1983. A sharp drop in German industrial production in March still left the first quarter up 1 percent over the previous quarter and 6 percent over the year-earlier period. Strong export performance has fueled production in both countries, but, in Germany's case, imports have risen even more strongly, so that the current account has been less strong than expected.

The recovery in Italy seems to be proceeding fairly steadily, while activity in France remains weak. In the United Kingdom, despite output declines in both February and March, other indicators appear positive.

Inflation appears to be holding steady in Germany and the United Kingdom at 2-1/2 and 5 percent, respectively. In Japan, consumer prices are accelerating their rise somewhat, but wholesale prices are below year-earlier levels. Italy has made dramatic progress, with consumer prices in April showing an 11-1/2 percent rate of inflation over a year earlier, down 5 percentage points from the previous year. French inflation in the first quarter was also somewhat lower than a year earlier, while Canadian inflation has risen only modestly.

The picture for major borrowing countries is mixed. Brazil recorded a large trade surplus in the first four months of 1984 and economic activity seems to have turned around under the impetus of strong export growth. Brazil met all performance criteria under its IMF program in the first quarter. A turnaround in activity has not occurred yet in Mexico, and inflation is exceeding the projected rate for the year and the rate of crawl of the peso. Venezuela has cleared most public sector interest arrears and is implementing an austerity program aimed at clearing private sector interest arrears and reducing total external debt. On the other hand, Argentina's negotiations with the IMF on a stabilization program are proceeding very slowly, which is delaying negotiations with its bank creditors.

The U.S. merchandise trade deficit widened to another record in March, bringing the first-quarter rate to \$103 billion (s.a.a.r.), \$25 billion larger than in last year's fourth quarter. Exports rose for the third consecutive quarter, reflecting the recovery abroad, but imports jumped substantially, particularly in capital goods, nonoil industrial supplies, and consumer goods.

Private capital inflows to the United States in the first quarter occurred mainly through the banking system, whose net foreign asset position decreased by \$12-1/2 billion, about the same as in the fourth quarter. Capital flight from Latin America was still in evidence, with deposits by Latin American non-banks in U.S. banking offices up by about \$2 billion in the first quarter, greater than the quarterly average increase in 1983. Foreign net purchases of U.S. equities amounted to \$1.1 billion, up considerably from the fourth quarter. U.S. corporate

sales of Euro-bonds were heavy in the first quarter and much of these proceeds should show up in later figures on foreign direct investment. Foreign official reserves in the United States declined by \$2-1/2 billion, more than accounted for by a decline in OPEC reserves held here.

Outlook. Projections for U.S. and foreign economic activity have been changed little since the March Greenbook. The exchange value of the dollar is now expected to average 5 percent higher for the current quarter than was previously projected. However, the staff continues to project a significant depreciation of the dollar, as interest rate differentials stop rising and U.S. external deficits continue to widen. The projected depreciation is somewhat more than fifteen percent from current levels by the end of 1985. Despite an expected drop in import growth from the extraordinary first quarter rate, the U.S. trade balance is now projected to be in deficit by \$112 billion in 1984 and \$124 billion in 1985. Current account deficits are now forecast at \$94 and \$108 billion in the respective years.

MAY 15, 19

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

	1983 ANN.	1984-P ANN.	1985-P ANN.	1983 Q3	1983 Q4	1984 Q1	1984-P Q2	1984-P Q3	1984-P Q4	1985-P Q1	1985-P Q2	1985-P Q3	1985-P Q4
1. GNP NET EXPORTS													
CURRENT \$, NET	-9.0	-53.4	-61.0	-18.3	-26.1	-45.2	-50.8	-55.2	-62.6	-63.7	-62.3	-60.8	-57.1
EXPORTS OF G+S	335.4	371.9	421.9	341.1	346.5	357.7	365.0	378.4	386.6	400.0	413.7	428.4	445.5
IMPORTS OF G+S	344.4	425.4	482.9	359.4	372.6	402.9	415.8	433.6	449.2	463.7	475.9	489.2	502.7
CONSTANT 72 \$, NET	11.8	-6.2	-2.8	11.5	2.8	-6.5	-6.9	-5.8	-5.6	-5.0	-3.5	-2.3	-0.4
EXPORTS OF G+S	138.7	146.9	156.3	140.7	140.6	143.9	145.2	148.6	149.9	152.3	154.8	157.5	160.7
IMPORTS OF G+S	126.9	153.1	159.1	129.2	137.8	150.4	152.1	154.4	155.5	157.4	158.3	159.7	161.1
TERMS OF TRADE (1972=100) 1/	89.2	91.2	88.9	87.2	91.2	92.8	92.0	90.7	89.3	89.1	88.9	88.8	88.9
2. U.S. MERCHANDISE TRADE BALANCE 2/													
EXPORTS (EXCL. MILITARY)	200.2	220.3	245.5	201.8	207.2	216.5	218.1	222.0	224.7	231.7	239.9	249.4	260.9
AGRICULTURAL	36.6	39.0	41.0	37.2	39.2	41.0	38.2	38.7	37.8	39.3	40.4	41.4	42.9
NONAGRICULTURAL	163.6	181.4	204.5	164.5	168.0	175.4	179.9	183.2	186.8	192.4	199.5	208.0	218.0
IMPORTS	261.3	332.5	369.1	271.7	284.9	319.6	325.6	336.7	348.0	356.7	364.6	373.0	382.3
PETROLEUM AND PRODUCTS	53.8	60.7	66.9	63.7	57.1	55.2	59.5	63.1	65.1	65.6	66.0	67.0	68.8
NONPETROLEUM	207.5	271.7	302.3	208.1	227.8	264.3	266.0	273.6	282.9	291.1	298.5	306.0	313.5
3. U.S. CURRENT ACCOUNT BALANCE													
OF WHICH: NET INVESTMENT INCOME	23.6	21.8	16.6	27.5	24.1	24.7 ^P	20.4	21.4	20.6	18.9	17.4	15.4	14.5
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/													
REAL GNP, % CHANGE, ANNUAL RATES	1.4	2.7	2.6	2.0	3.8	2.6	2.5	2.6	2.7	2.6	2.6	2.5	2.8
CONSUMER PRICES, % CHANGE, ANNUAL RATES	5.7	5.3	5.0	5.3	5.5	5.3	5.4	4.9	5.0	5.1	5.2	4.8	5.0

1/ GNP EXPORT IMPLICIT DEFLATOR DIVIDED BY GNP IMPORT IMPLICIT DEFLATOR

2/ INTERNATIONAL ACCOUNTS BASIS

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- PERCENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE.

GERMANY (20.8%), JAPAN (13.6%), FRANCE (13.1%), UNITED KINGDOM (11.8%), CANADA (9.1%), ITALY (9.0%), THE NETHERLANDS (8.3%), BELGIUM (6.4%), SWEDEN (4.2%), SWITZERLAND (3.6%)

P/ PROJECTED