CONFIDENTIAL (FR) CLASS II-FOMC

Materials for

Staff Presentation to the Federal Open Market Committee

January 30, 1984

Principal Assumptions

Monetary Policy

- Growth of M2 of 8 percent and 7½ percent during 1984 and 1985, respectively.
- Growth of M1 of 6½ percent and 6 percent during 1984 and 1985, respectively.

Fiscal Policy

- No substantial deficit-reducing actions take effect during the forecast period.

Other

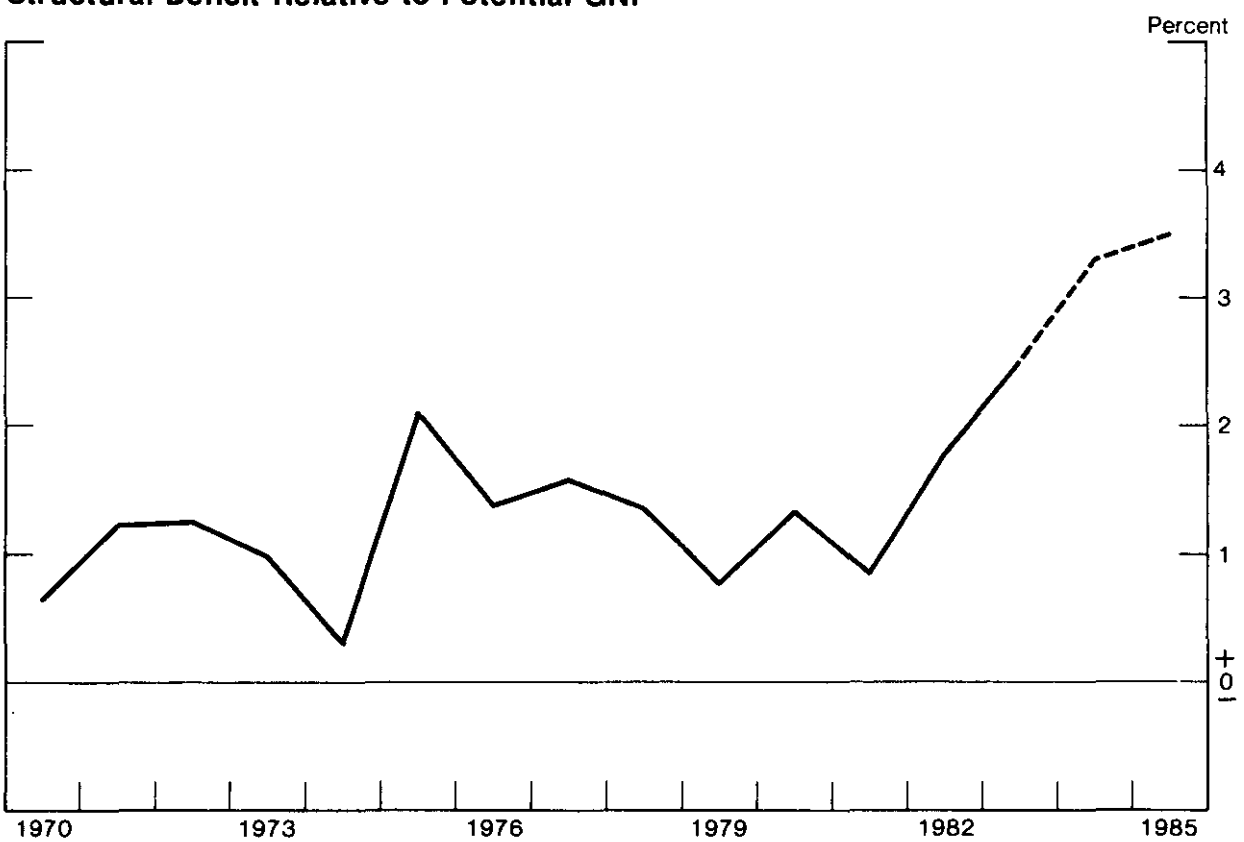
- Foreign exchange value of the dollar declines 17 percent during 1984-85.

Federal Budget

Fiscal Years, Unified Budget Basis, Billions of Dollars

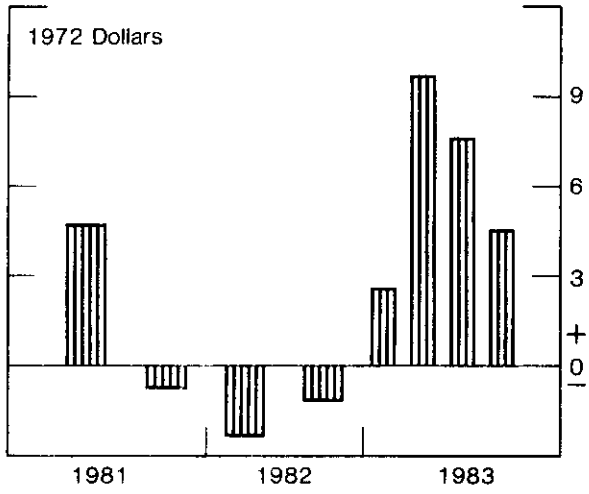
	1983	1984		1985	
		Staff	Administration	Staff	Administration
Outlays	796	856	853	936	925
Receipts	601	666	669	742	745
Deficit	195	189	184	195	180
Structural Deficit	85	122	n.a.	142	n.a.

Structural Deficit Relative to Potential GNP



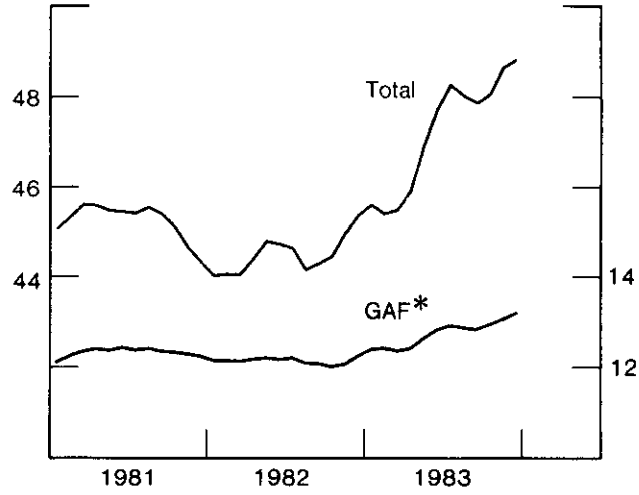
Real GNP

Change from previous period, annual rate, percent

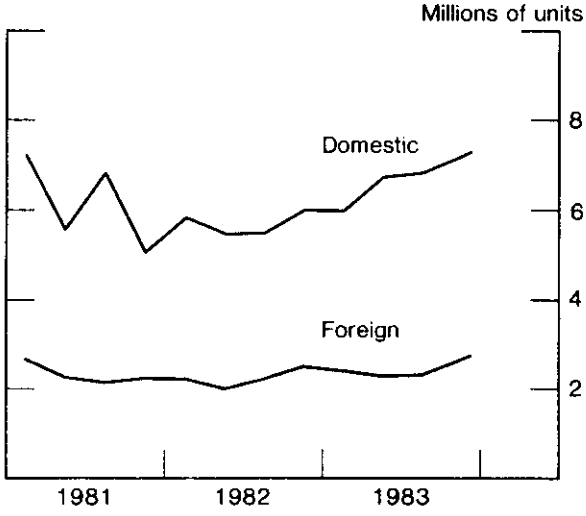


Real Retail Sales

Billions of 1972 dollars

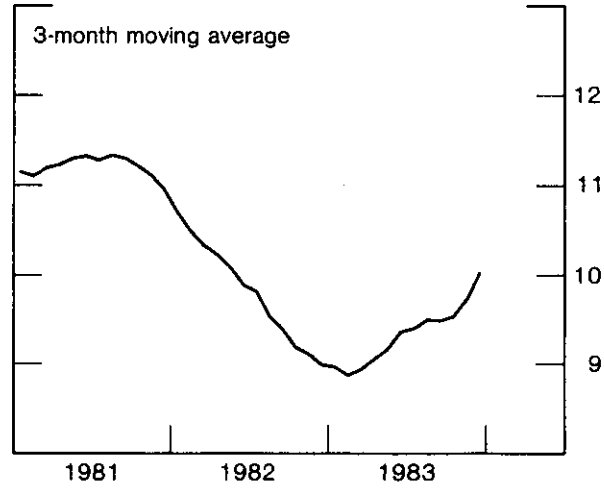


Auto Sales

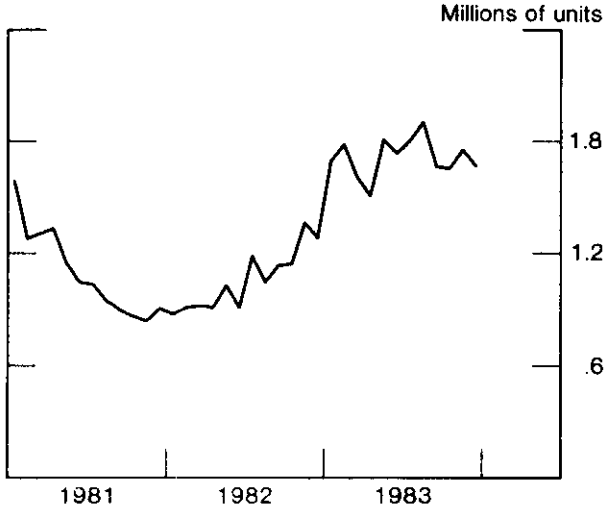


Real Shipments of Nondefense Capital Goods

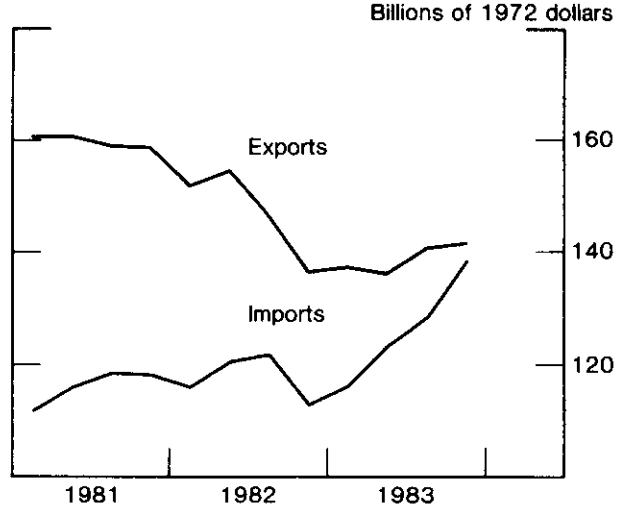
Billions of 1972 dollars



Total Housing Starts

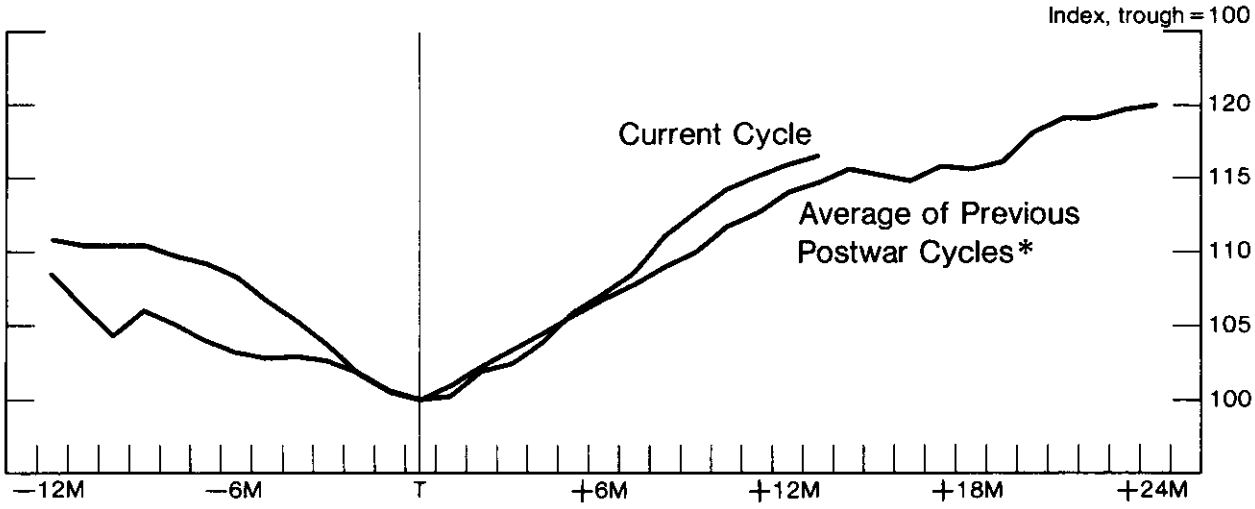


Real Exports and Imports

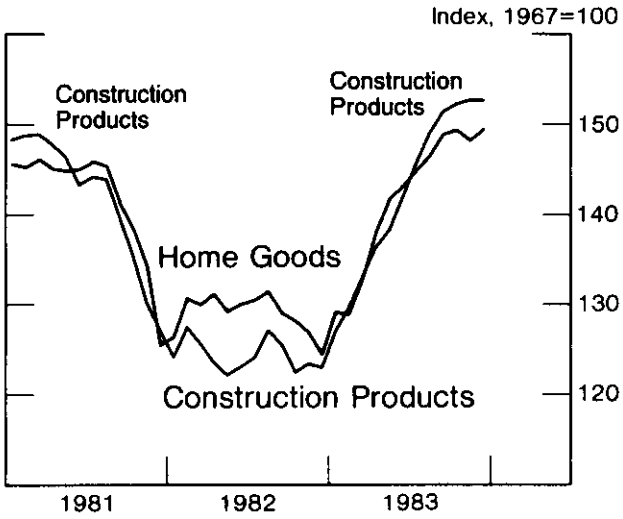


* General merchandise, apparel, furniture and appliance stores.

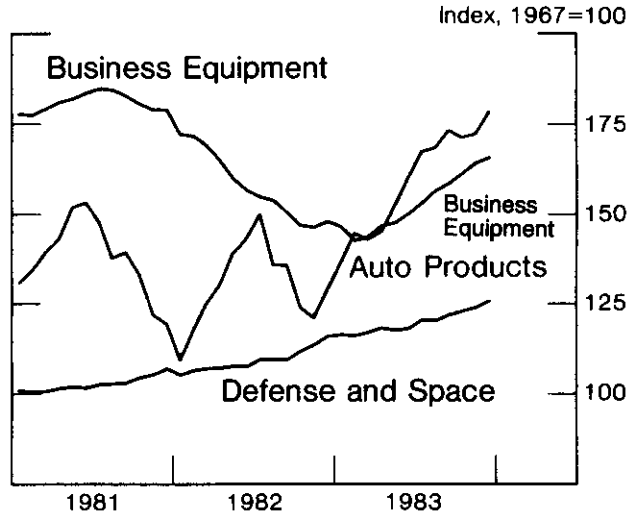
Industrial Production



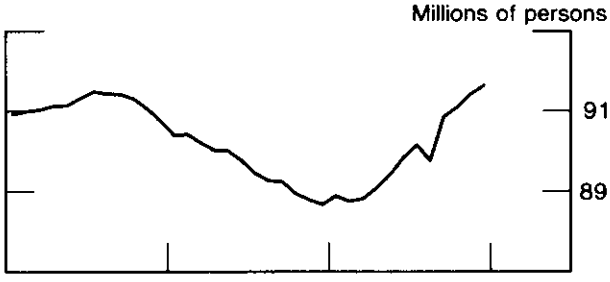
Industrial Production



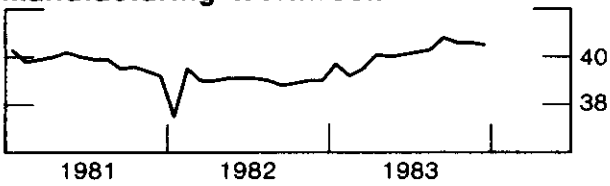
Industrial Production



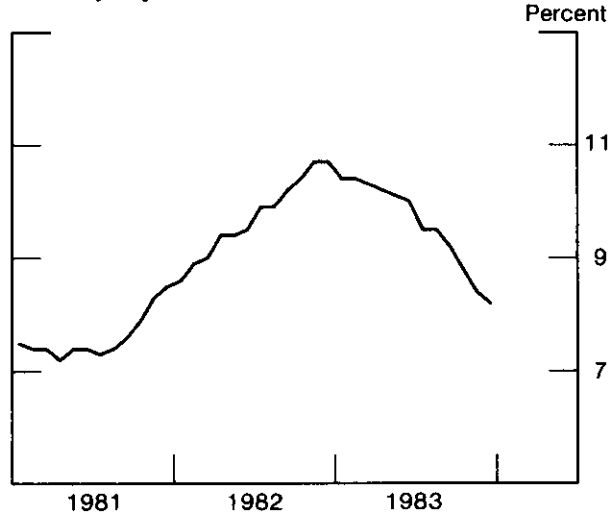
Nonfarm Payroll Employment



Manufacturing Workweek

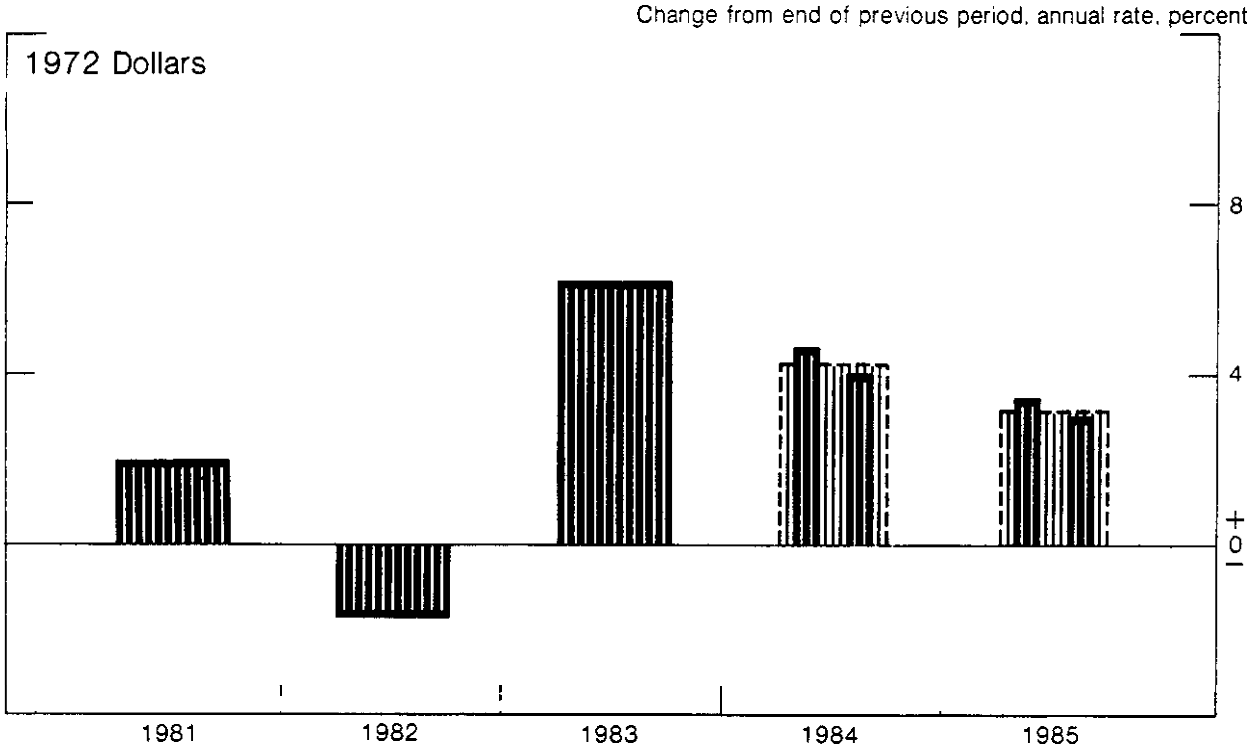


Unemployment Rate

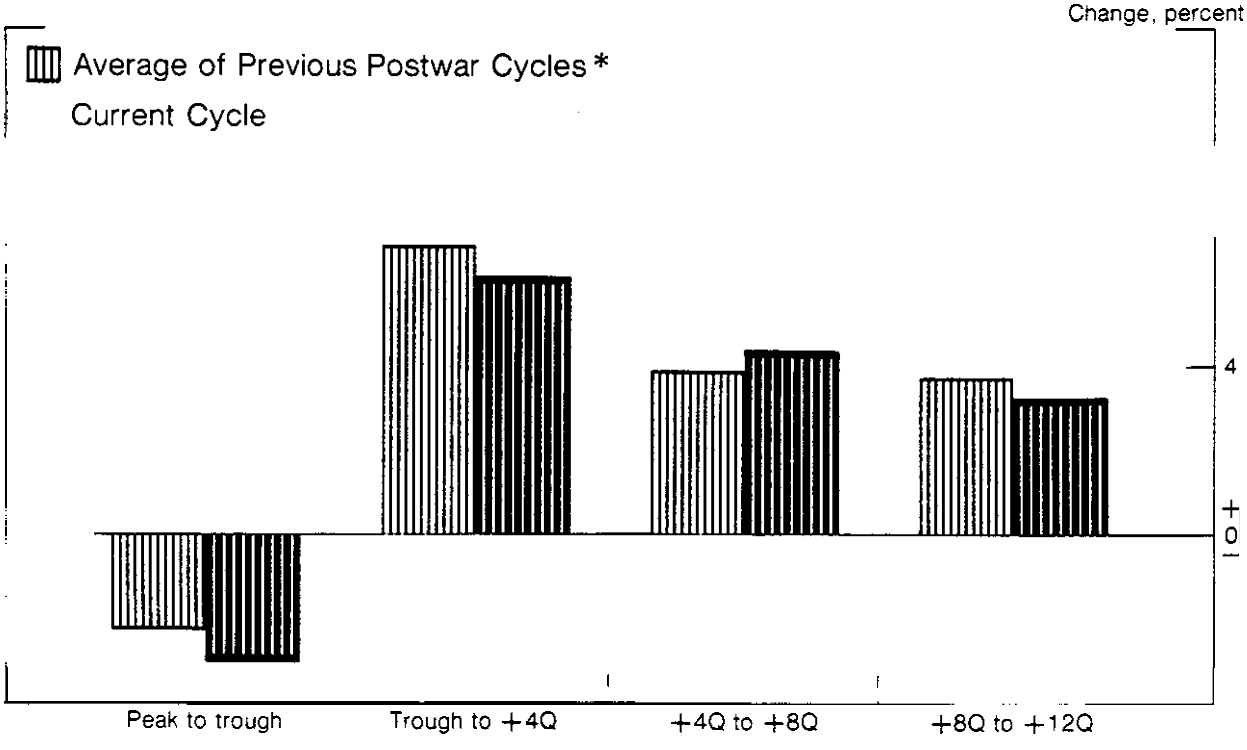


*Excludes 1948-49 and 1980 cycles.

Real GNP

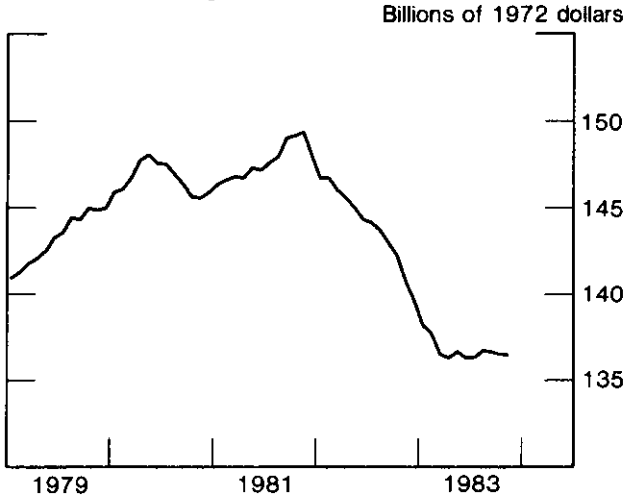


Cyclical Comparison of Real GNP

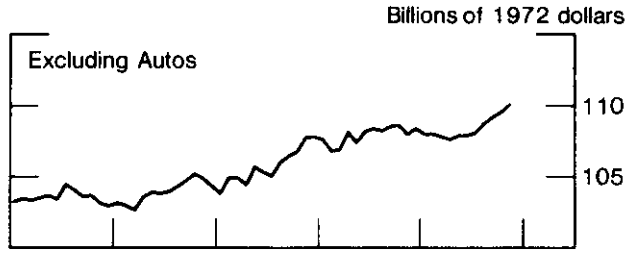


*Excludes 1948-49 and 1980 cycles

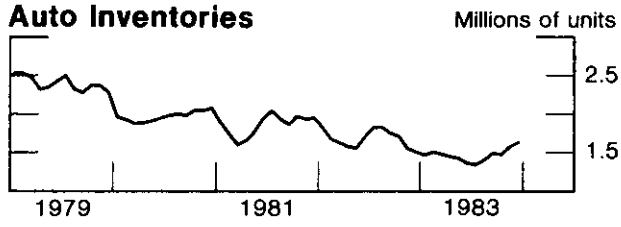
Manufacturing Inventories



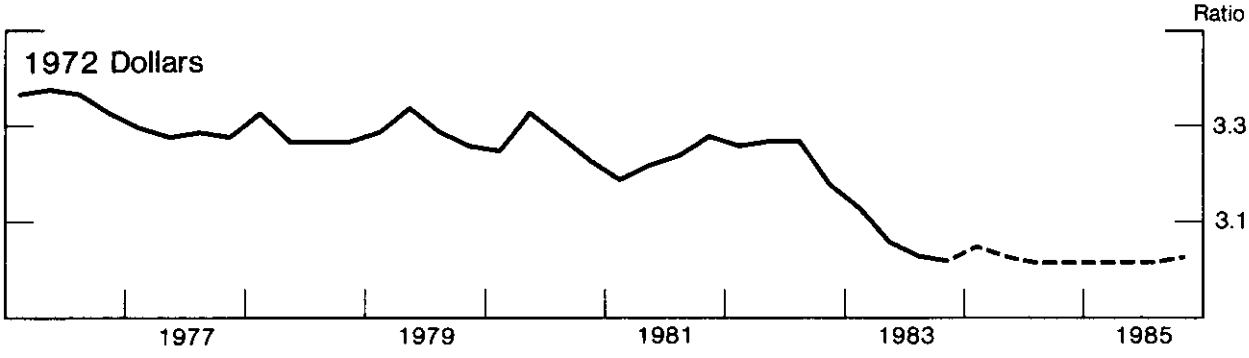
Trade Inventories



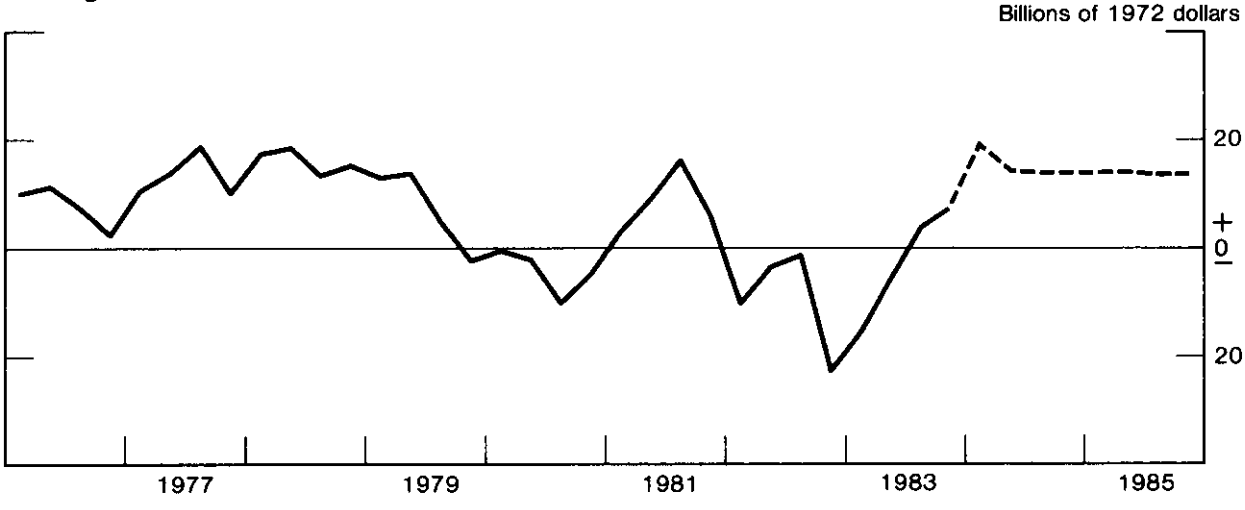
Auto Inventories



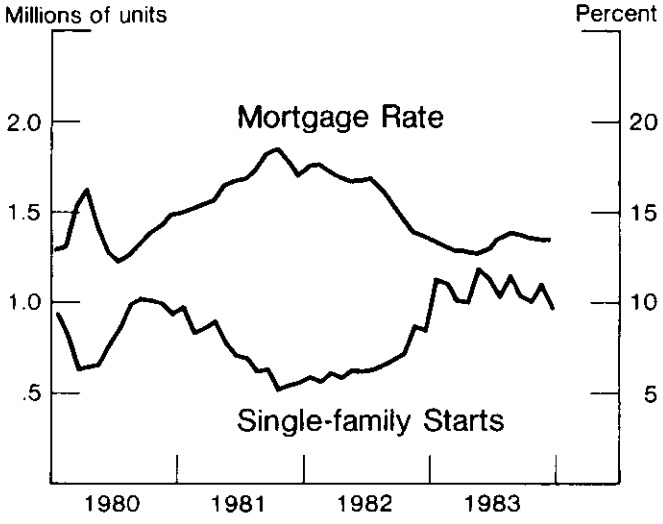
Inventories Relative to Sales



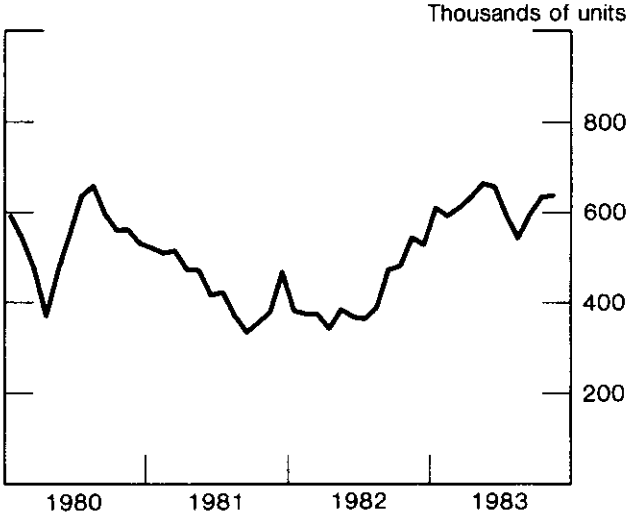
Change in Business Inventories



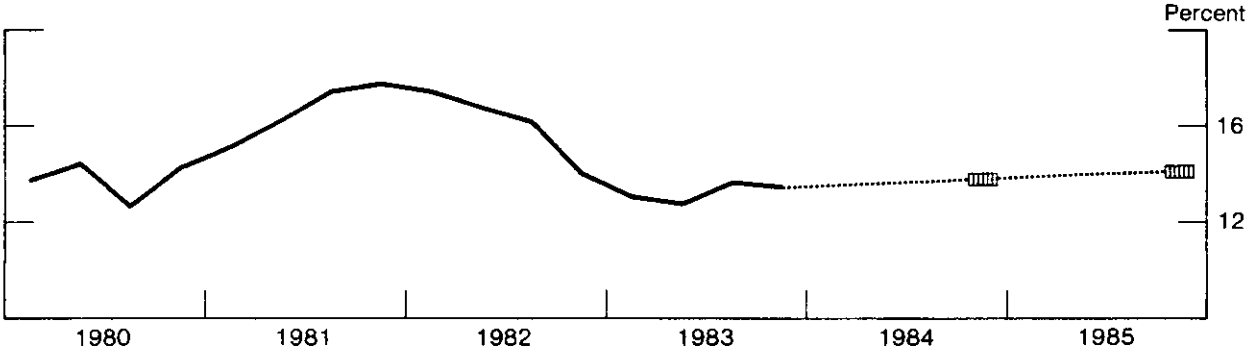
Housing Starts and Home Mortgage Rate



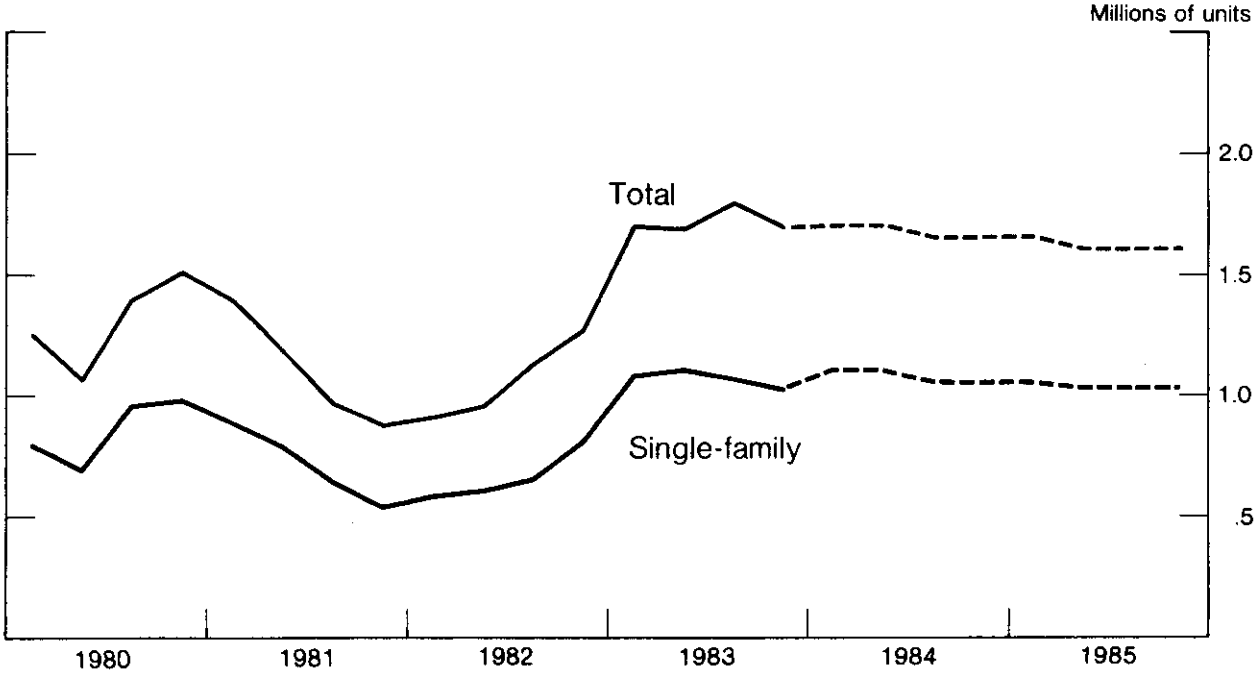
New Home Sales



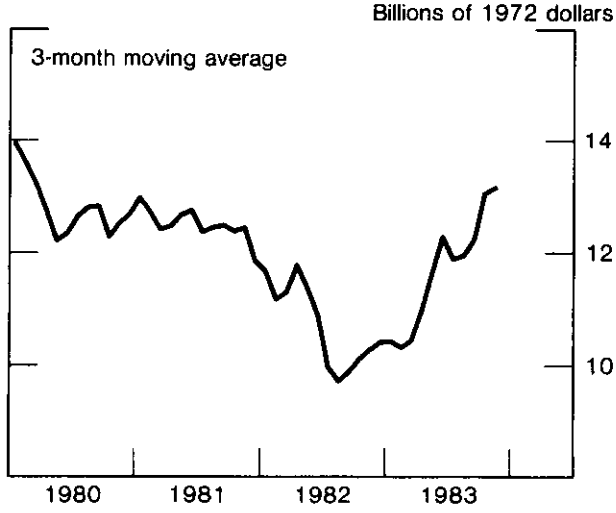
Home Mortgage Rate



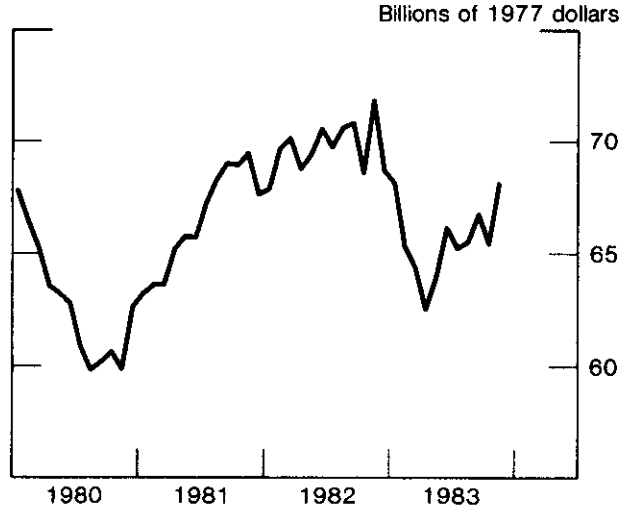
Housing Starts



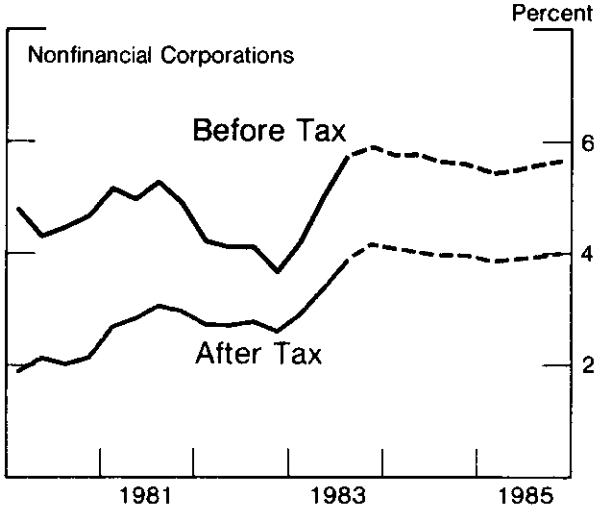
Real New Orders for Nondefense Capital Goods



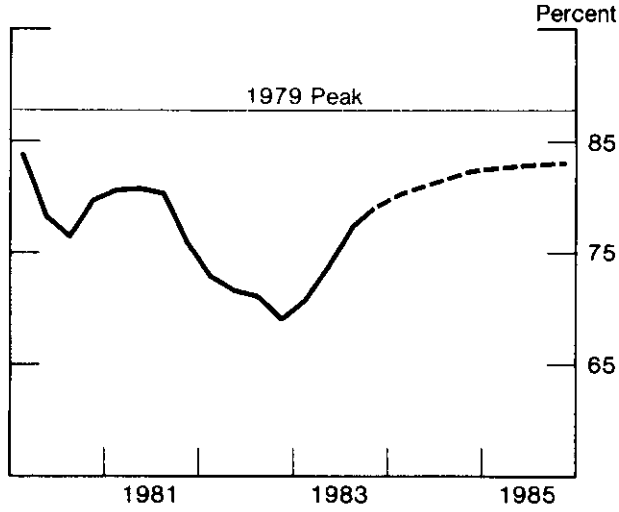
Nonresidential Construction Put in Place



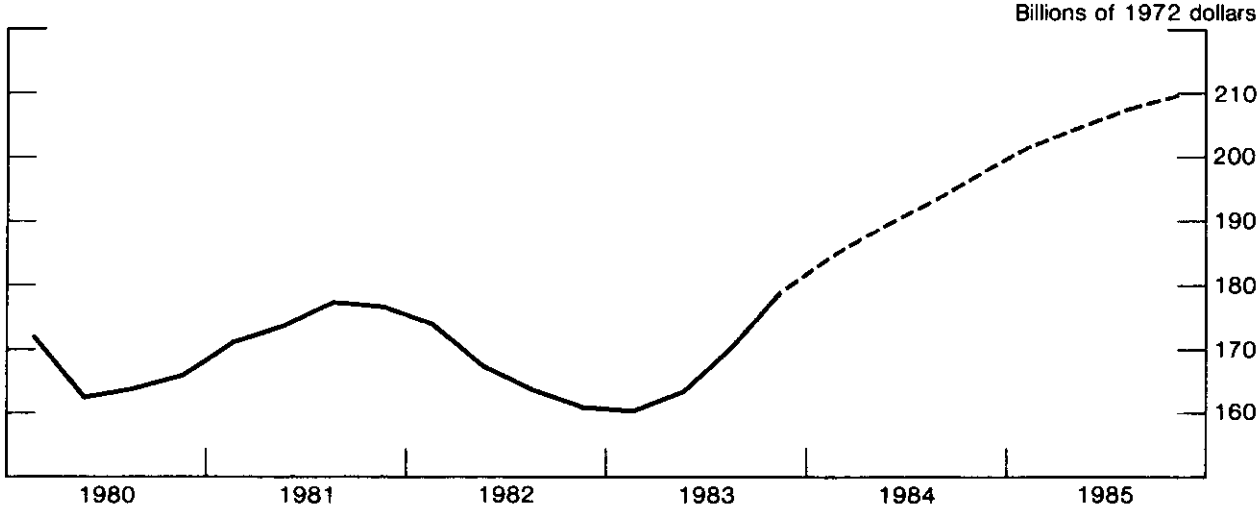
Economic Profits Relative to GNP



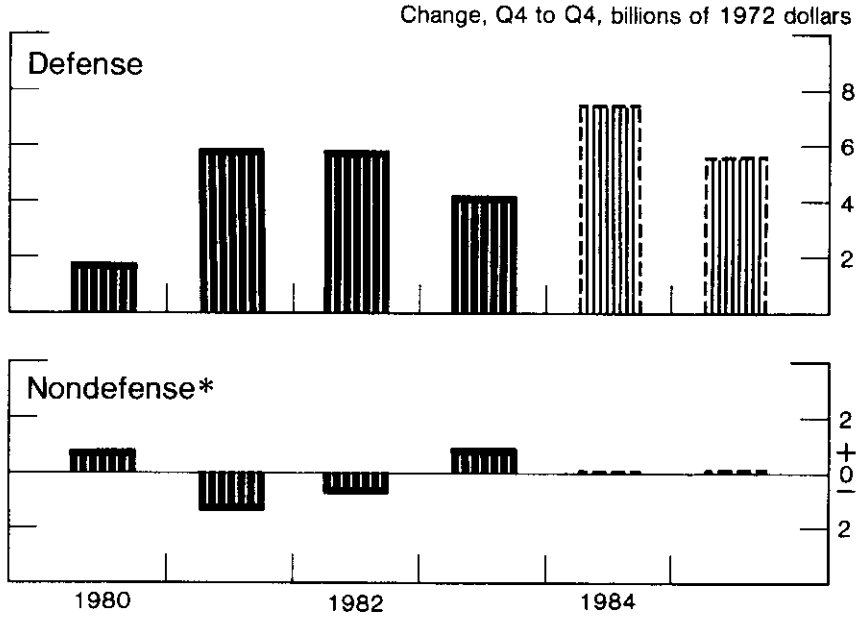
Manufacturing Capacity Utilization



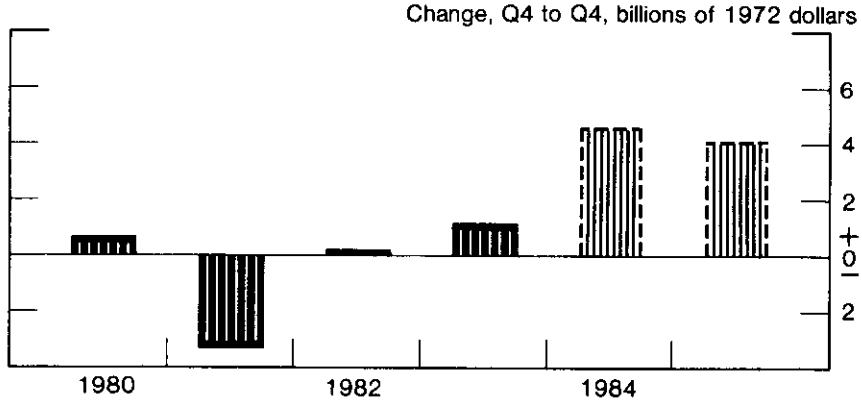
Real Business Fixed Investment



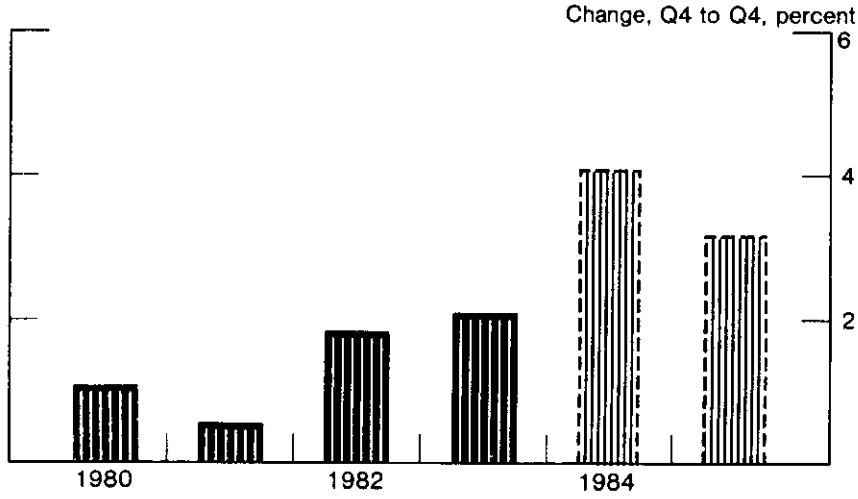
Real Federal Purchases



Real State and Local Purchases

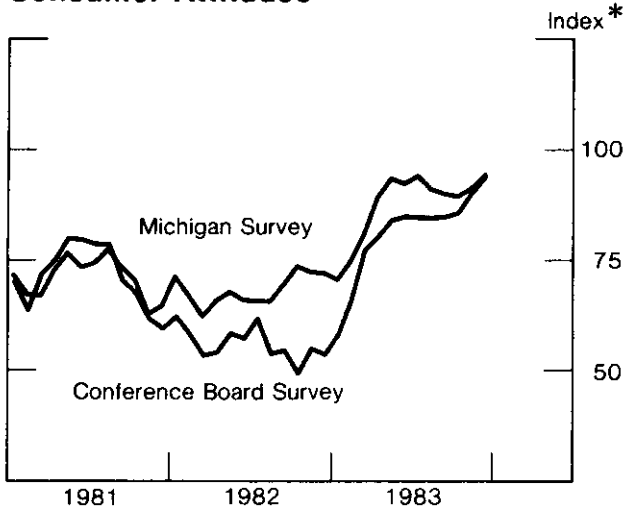


Real Total Government Purchases*

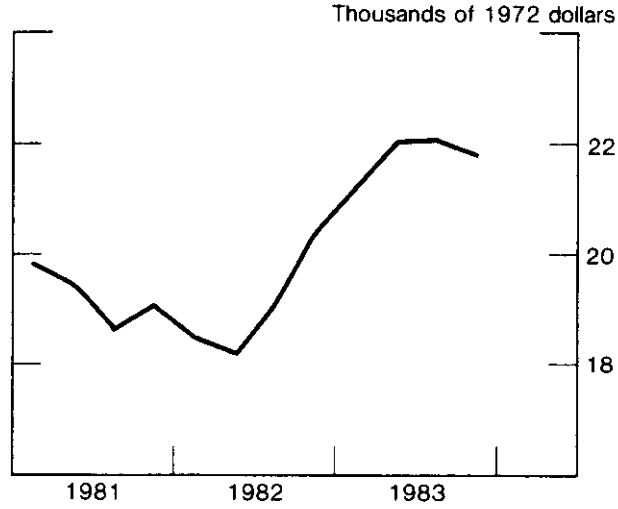


* Excluding CCC

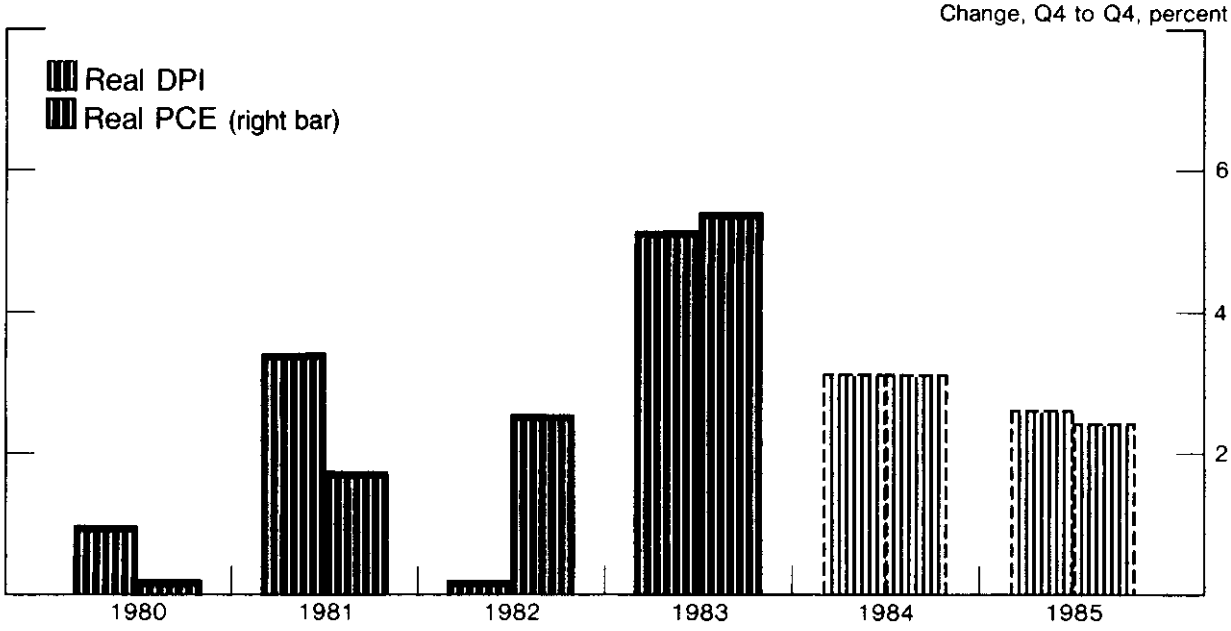
Consumer Attitudes



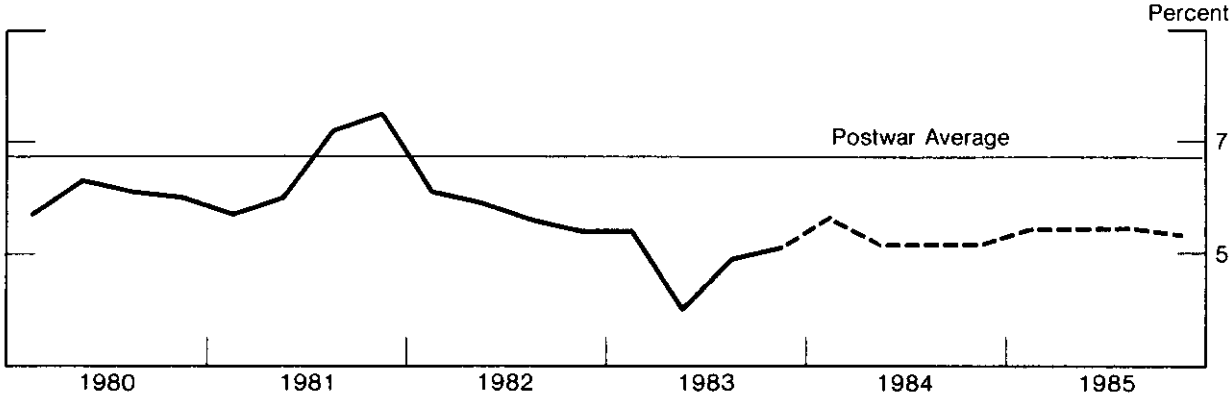
Real Household Financial Net Worth



Real Disposable Personal Income and Consumption Expenditures

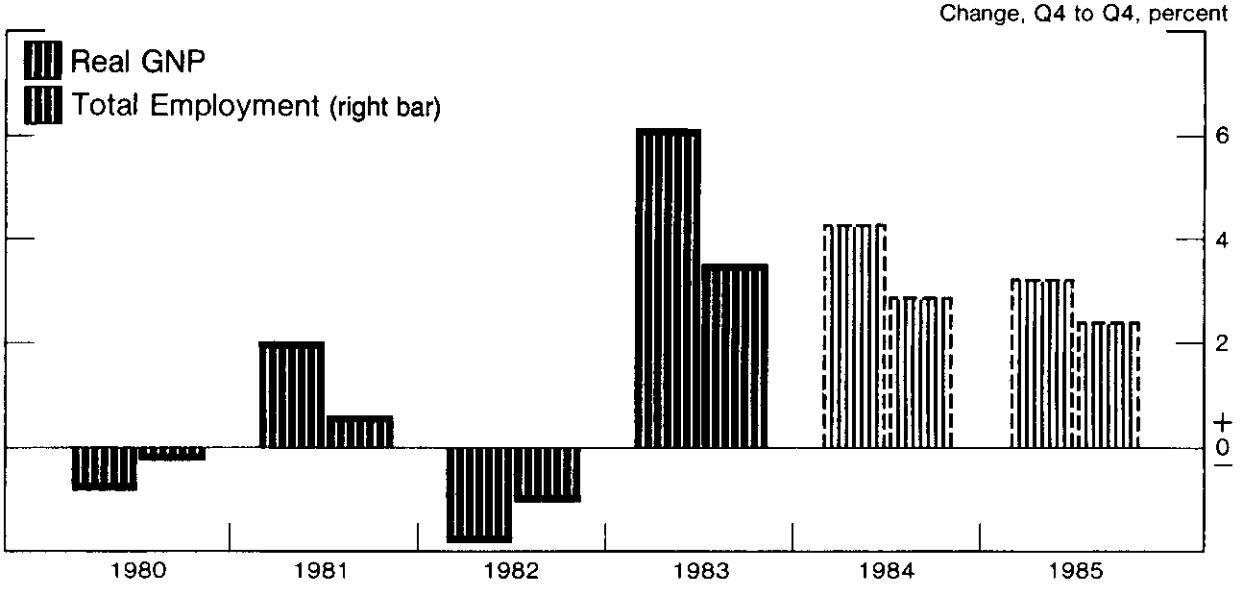


Saving Rate

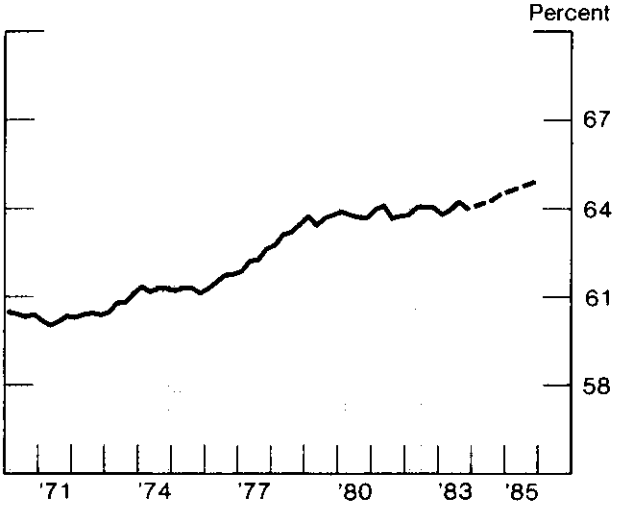


*Michigan Survey Research Center Index of Consumer Sentiment (1966 Q1=100) and Conference Board Index of Consumer Confidence (1969-70=100).

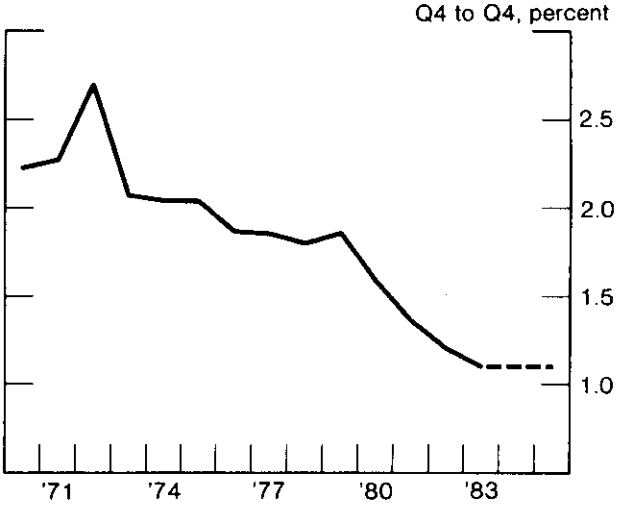
Total Employment and Real GNP



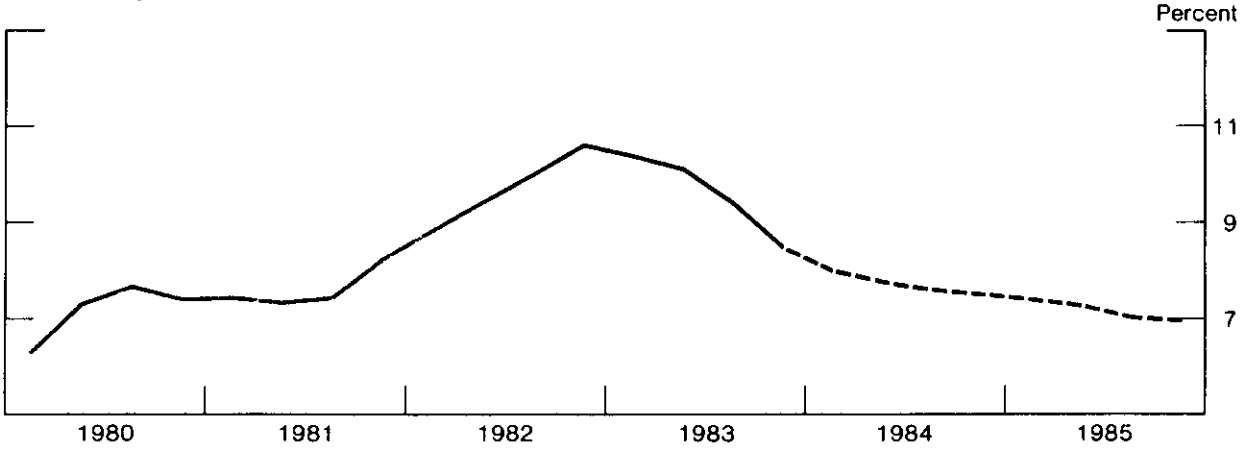
Labor Force Participation Rate



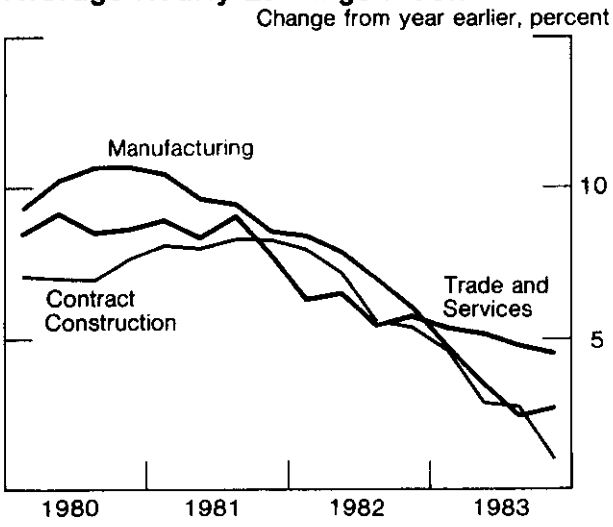
Change in Working Age Population



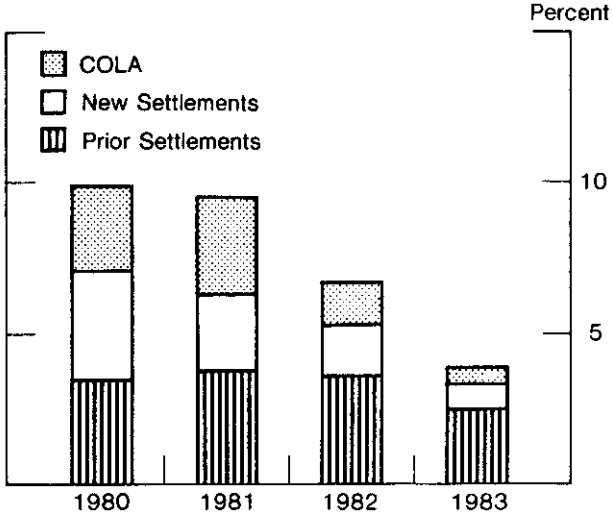
Unemployment Rate



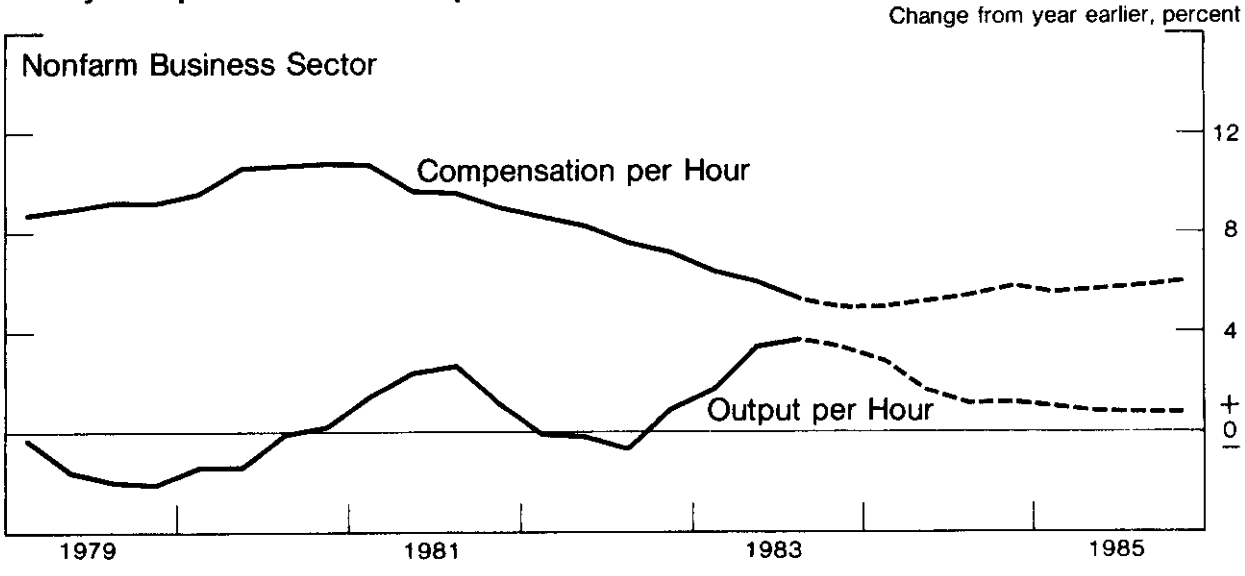
Average Hourly Earnings Index



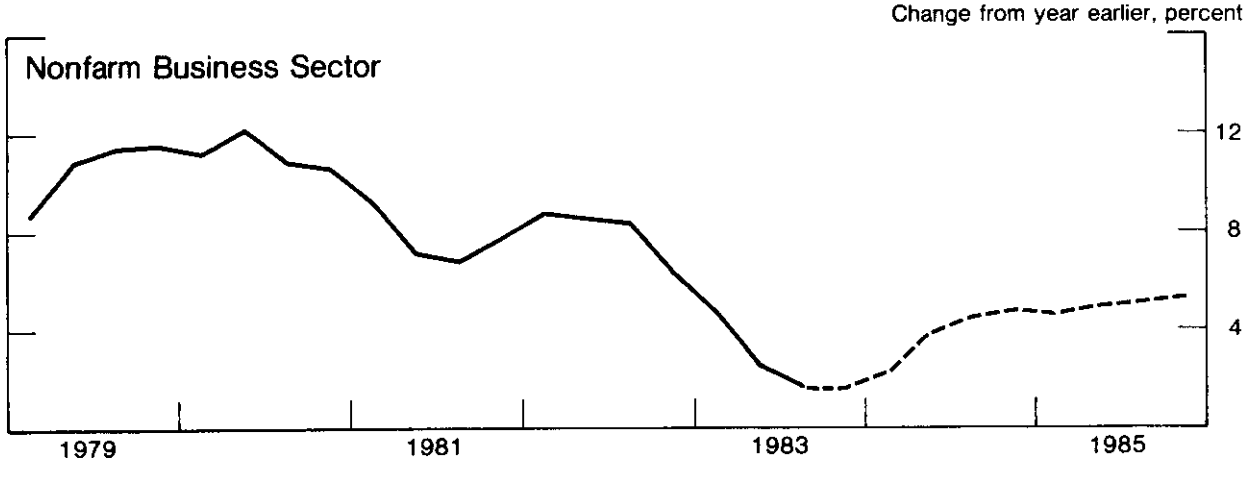
Union Wage Change

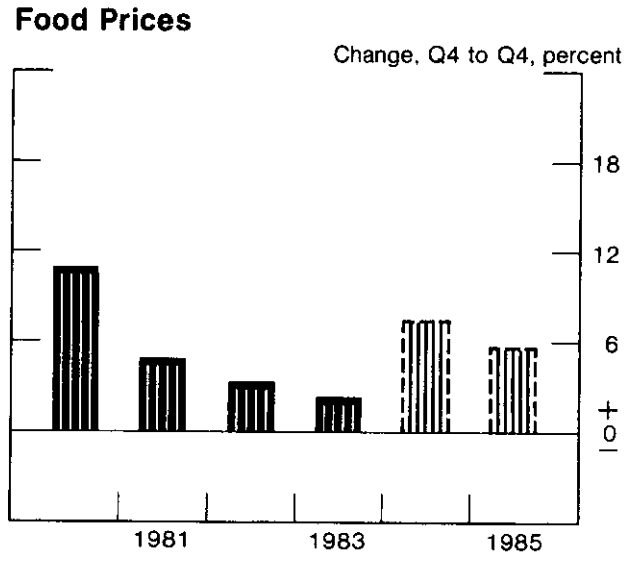


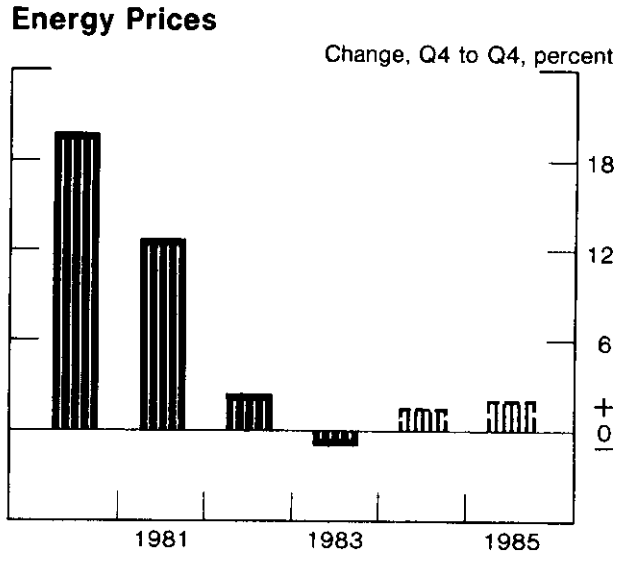
Hourly Compensation and Output

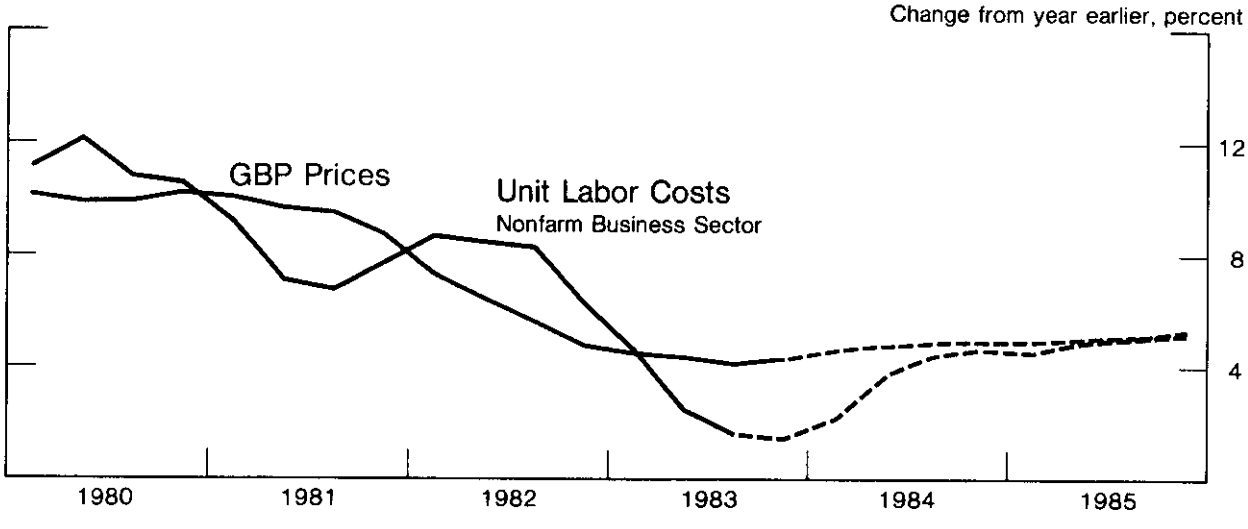


Unit Labor Costs

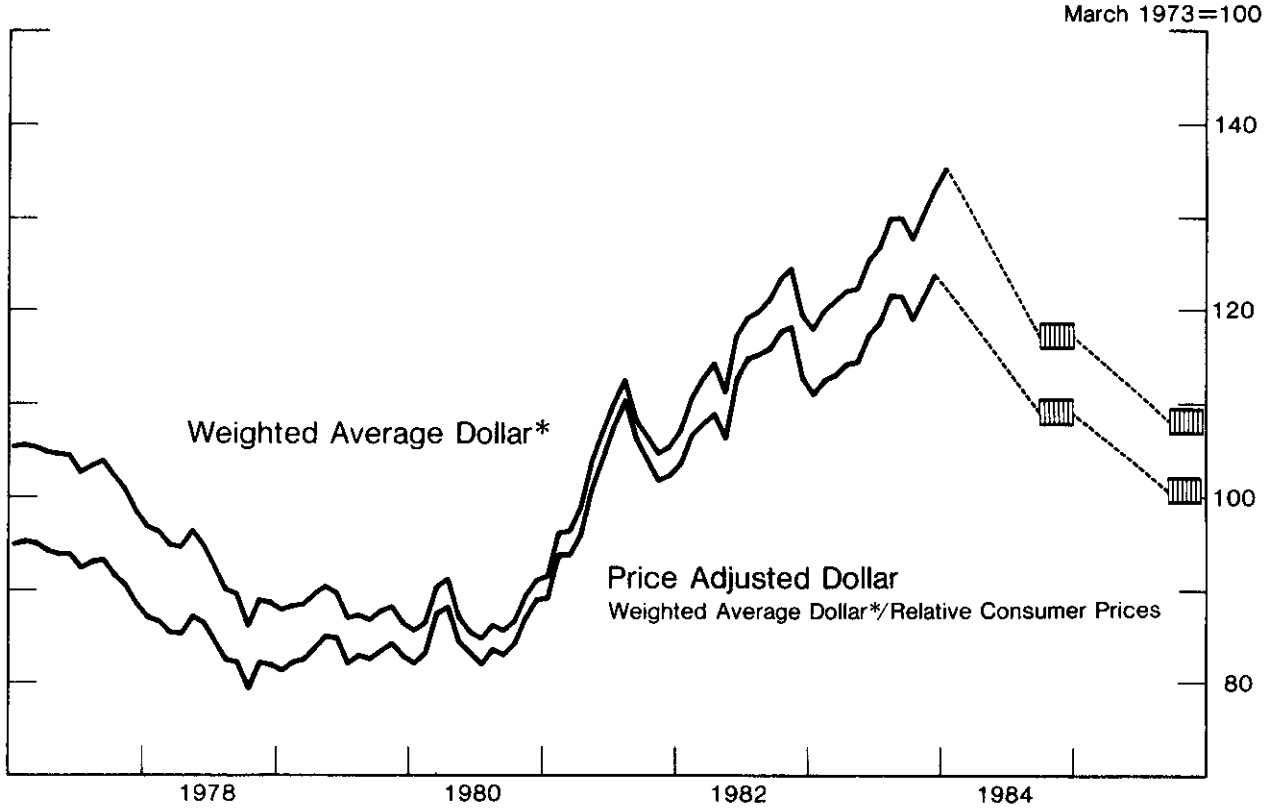



Food Prices
Change, Q4 to Q4, percent
18
12
6
+
0
−
1981
1983
1985

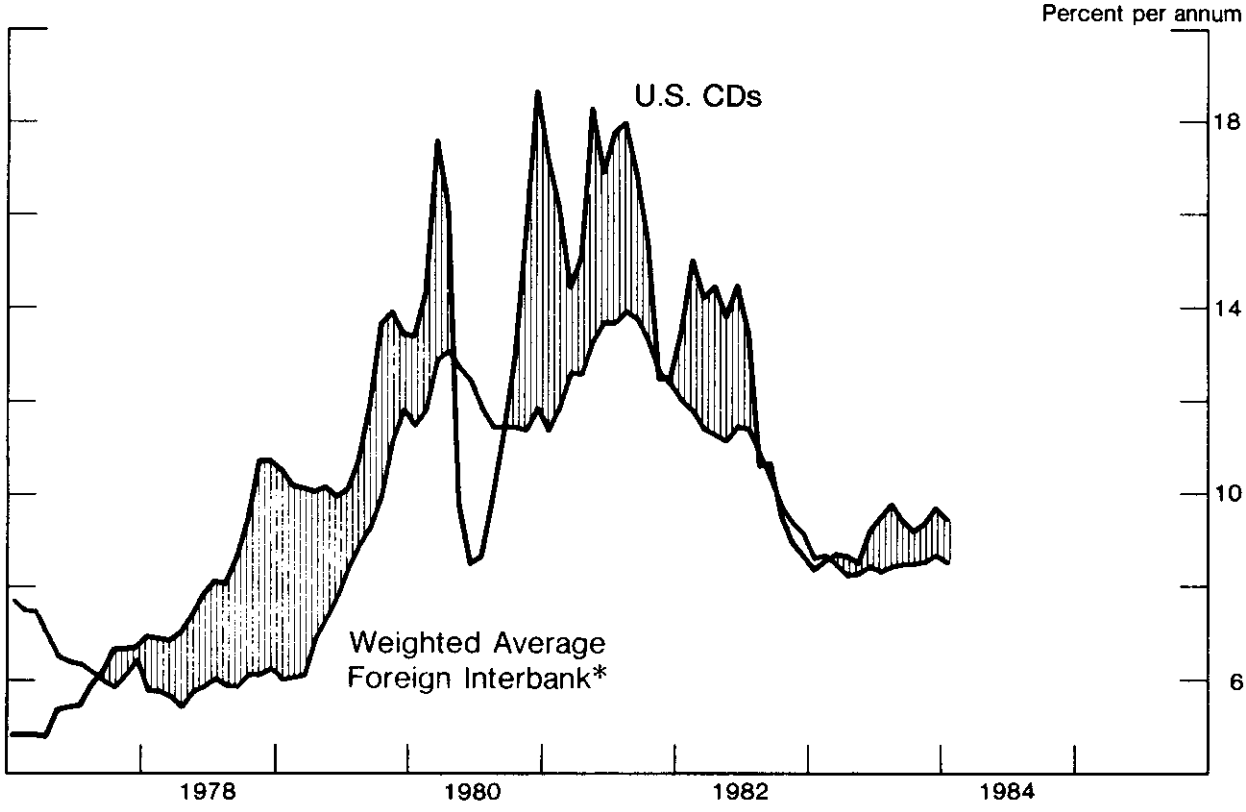

Energy Prices
Change, Q4 to Q4, percent
18
12
6
+
0
−
1981
1983
1985


Change from year earlier, percent
GBP Prices
Unit Labor Costs
Nonfarm Business Sector
12
8
4
1980
1981
1982
1983
1984
1985

Foreign Exchange Value of the U.S. Dollar



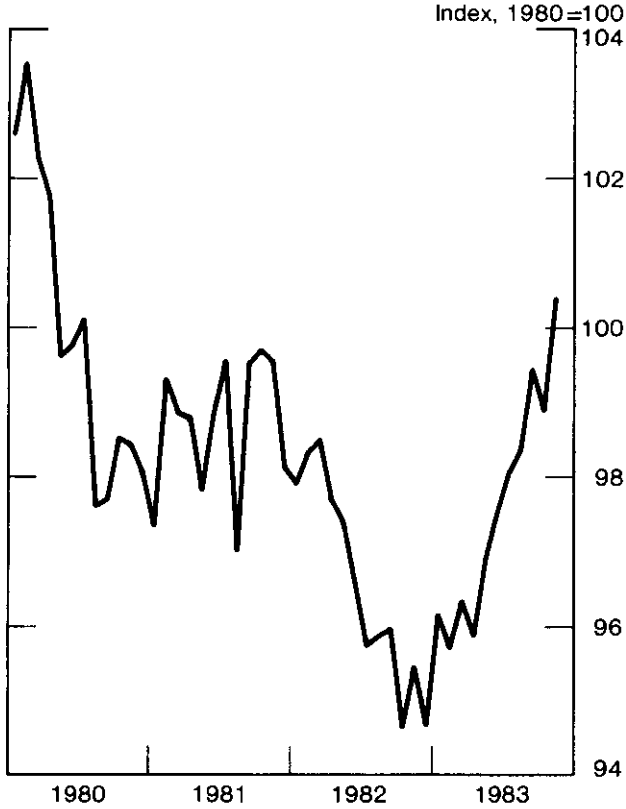
Short-term Interest Rates



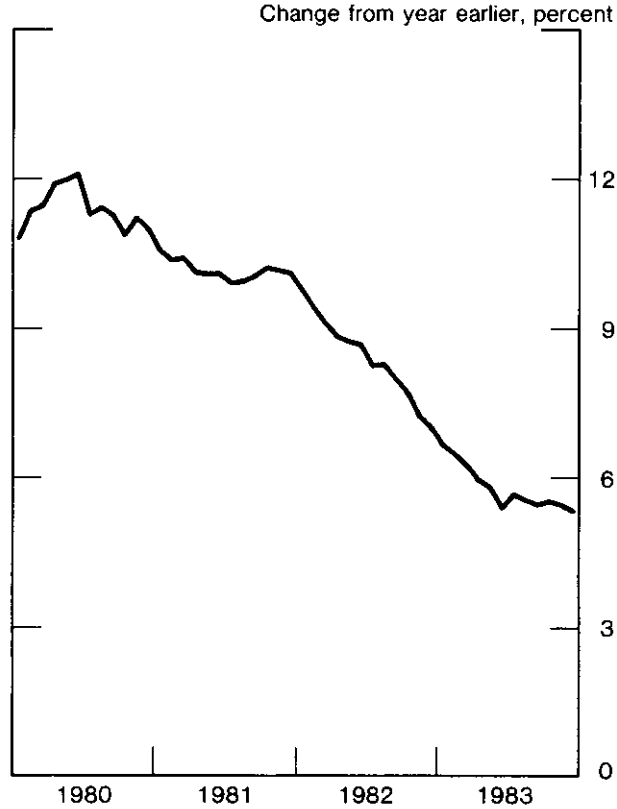
* Weighted average against or of foreign G-10 countries plus Switzerland using total 1972-76 average trade of these countries.

Industrial Countries

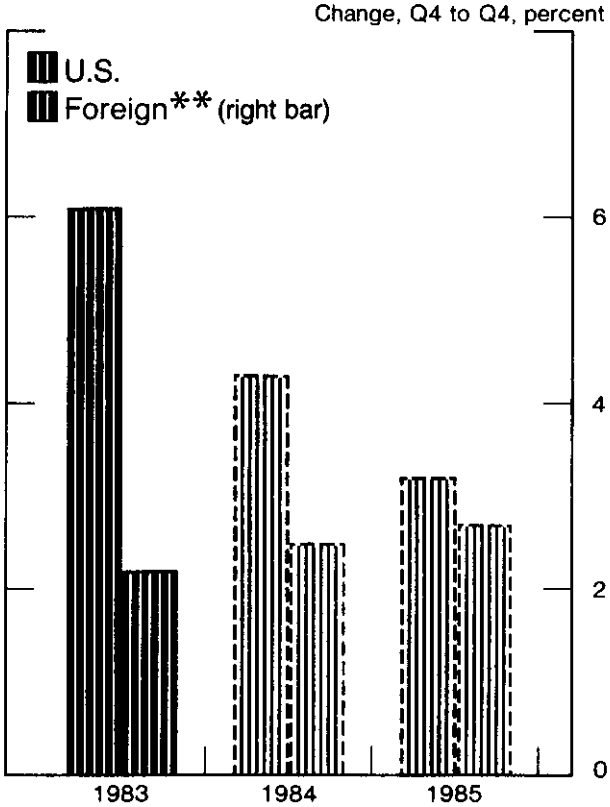
Industrial Production*



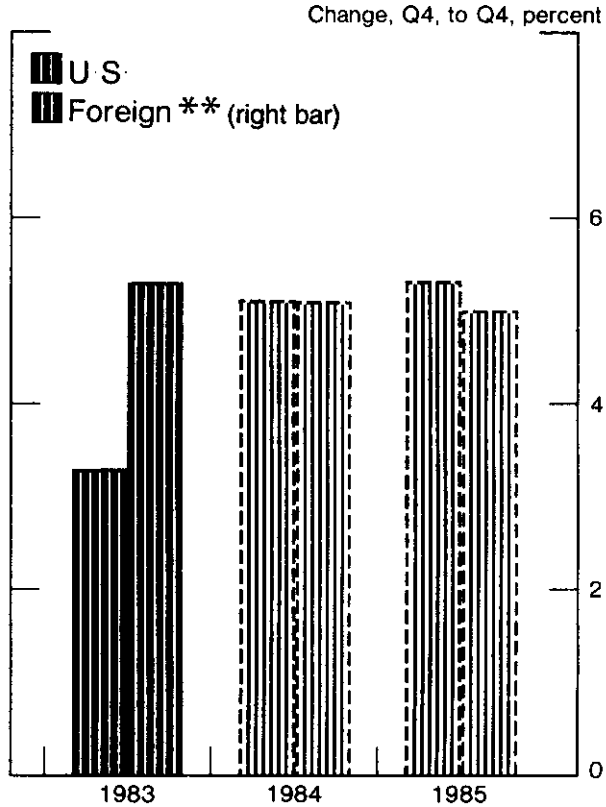
Consumer Prices*



Real GNP



Consumer Prices

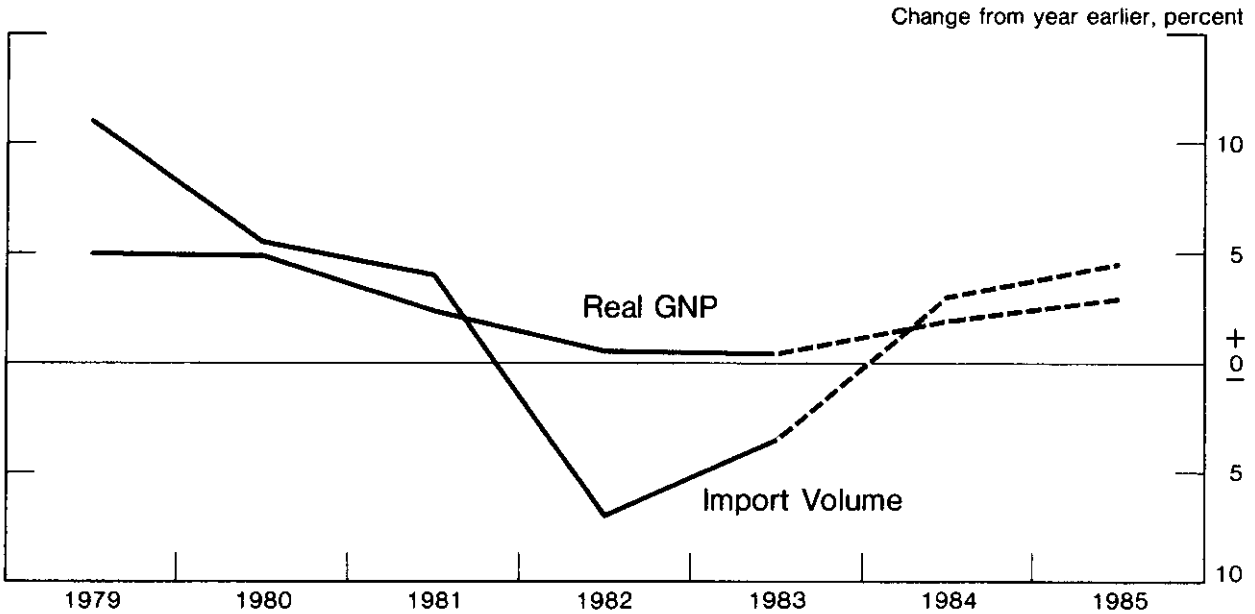


* Weighted average of six major foreign countries using total 1972-76 average trade of these countries.

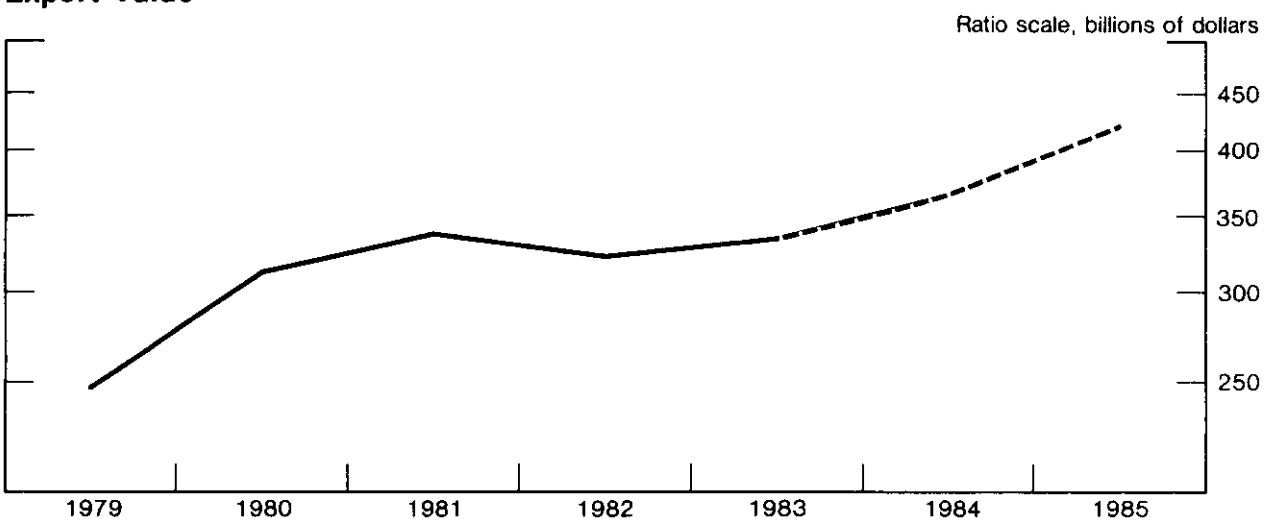
** Weighted average of foreign G-10 countries plus Switzerland using total 1972-76 average trade of these countries.

Non-OPEC Developing Countries

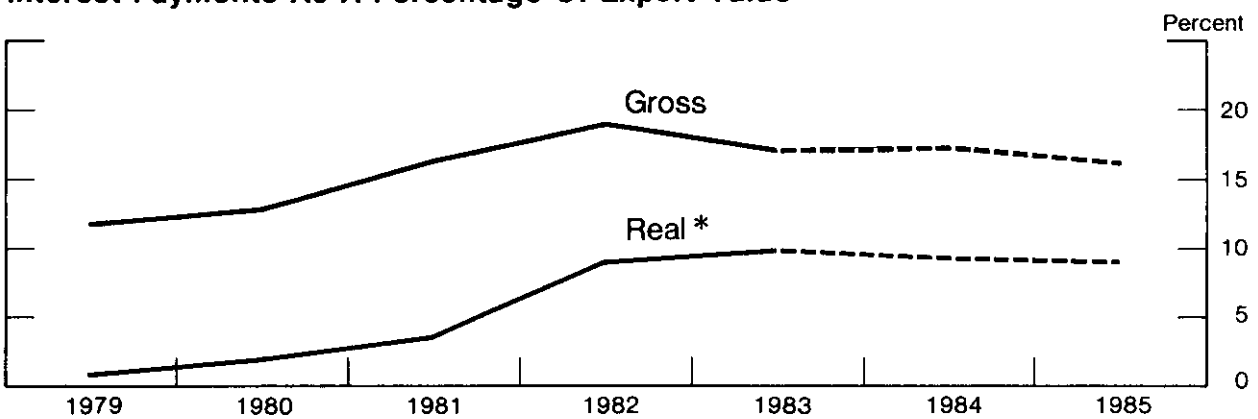
Real GNP and Import Volume



Export Value

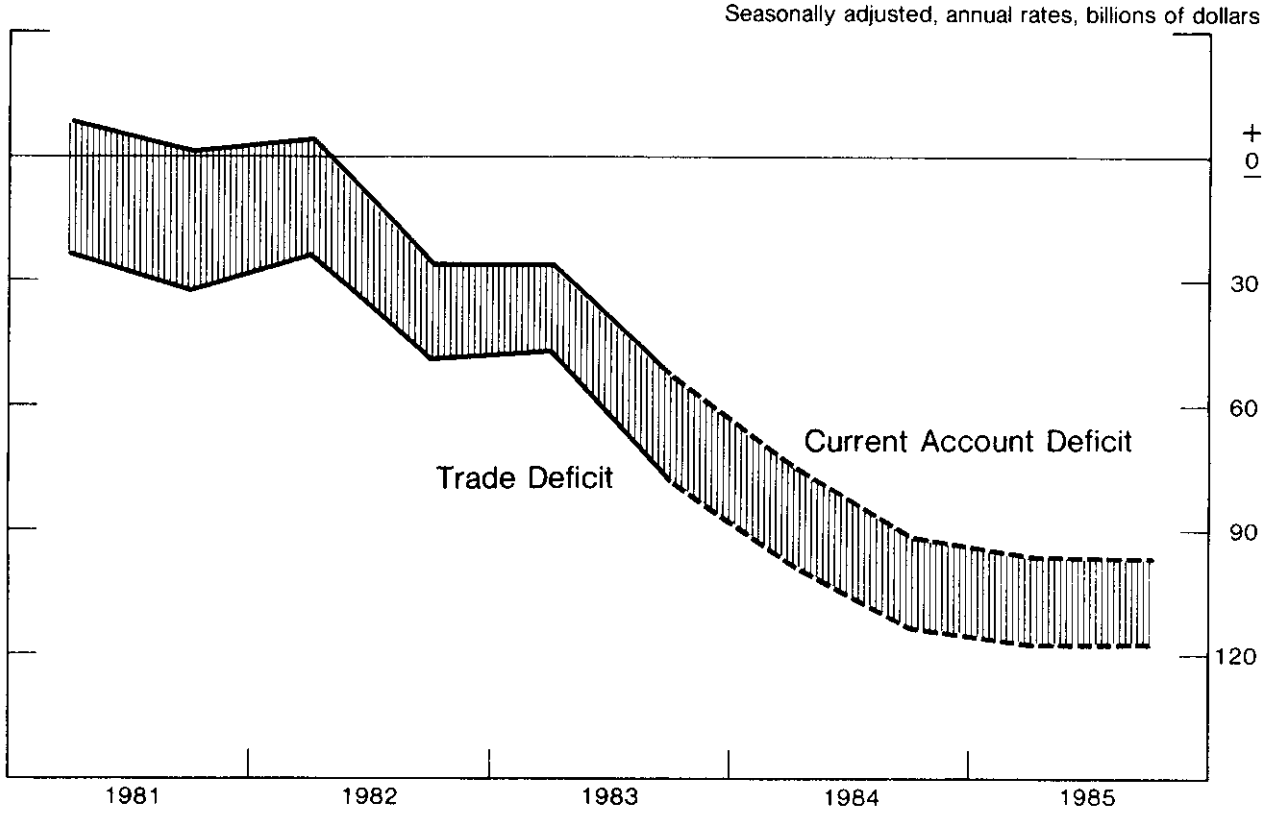


Interest Payments As A Percentage Of Export Value

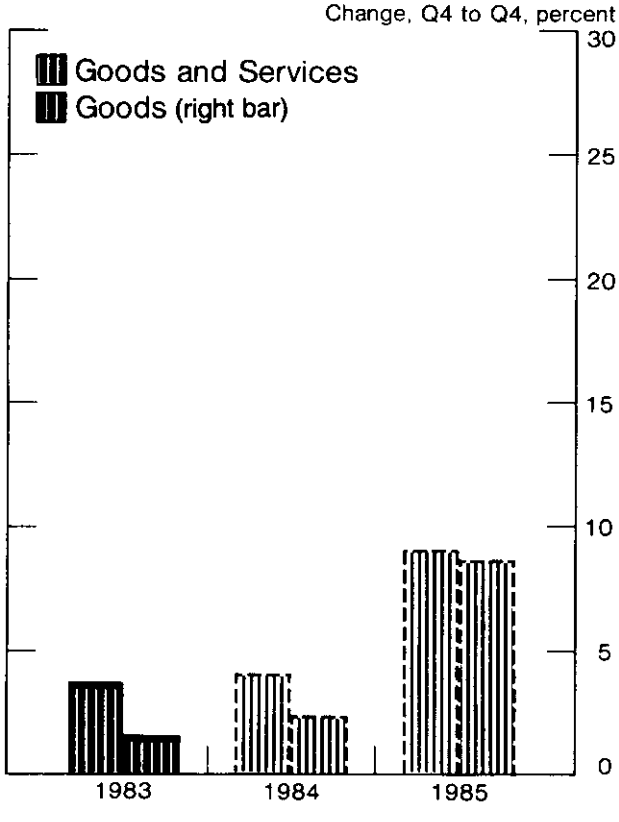


* Gross interest payments reduced by portion compensating for inflation as measured by the U.S. GNP deflator.

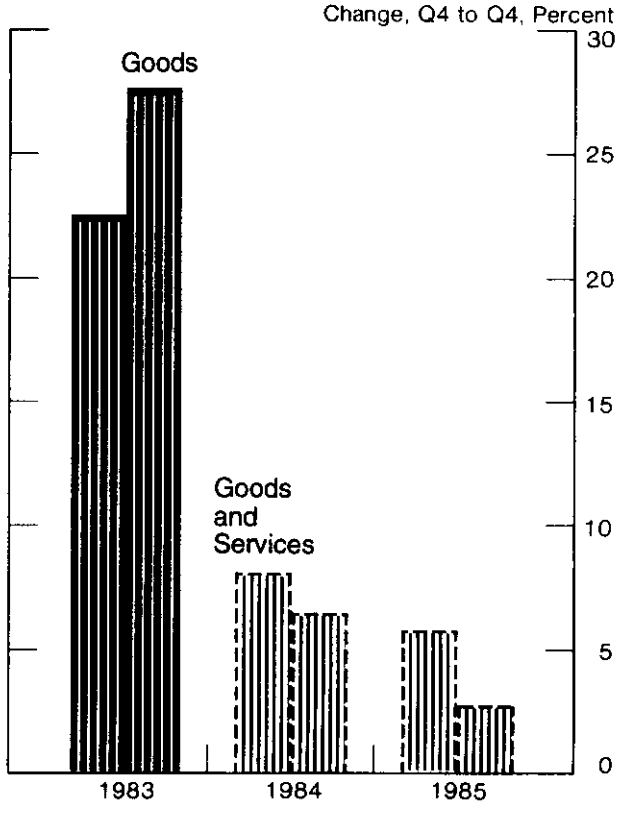
U.S. External Accounts



Real GNP Exports



Real GNP Imports



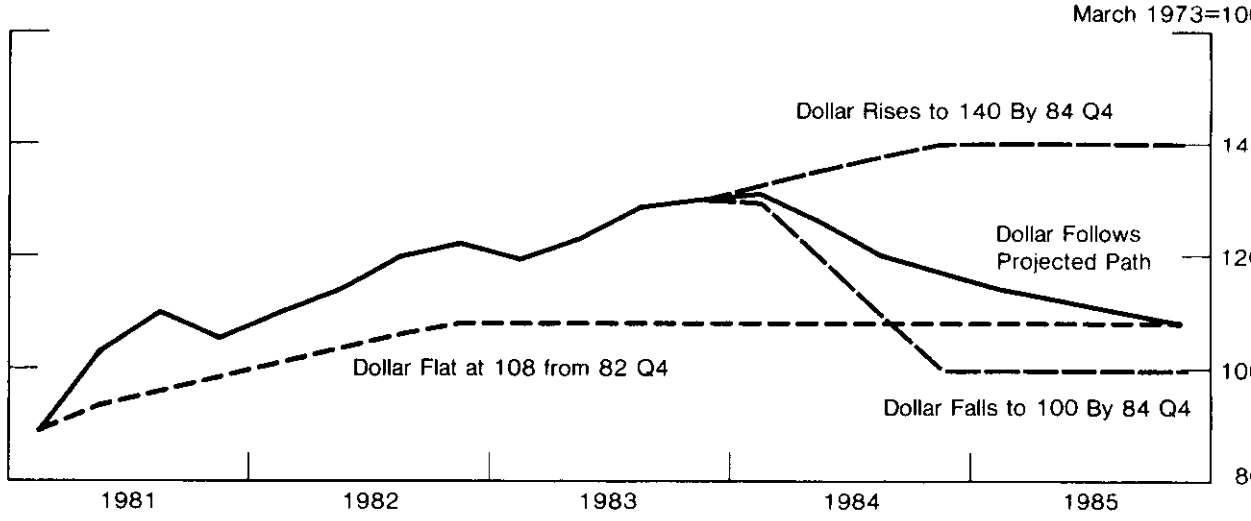
Illustrative Pattern of Current Account Financing

	Billions of dollars		
	1982	1983*	1984[p]
1. Current account	– 11.2	– 40	– 83
2. Statistical discrepancy	41.4	11	25
3. Recorded capital flows (+ = inflow) [lines 4 + 5 = – (1 + 2)]	– 30.2	29	58
4. Official capital, net	– 2.1	4	13
5. Private capital, net	– 28.1	25	45
a. U.S. banking offices	– 39.6	17	30
b. Other private capital	11.5	8	15

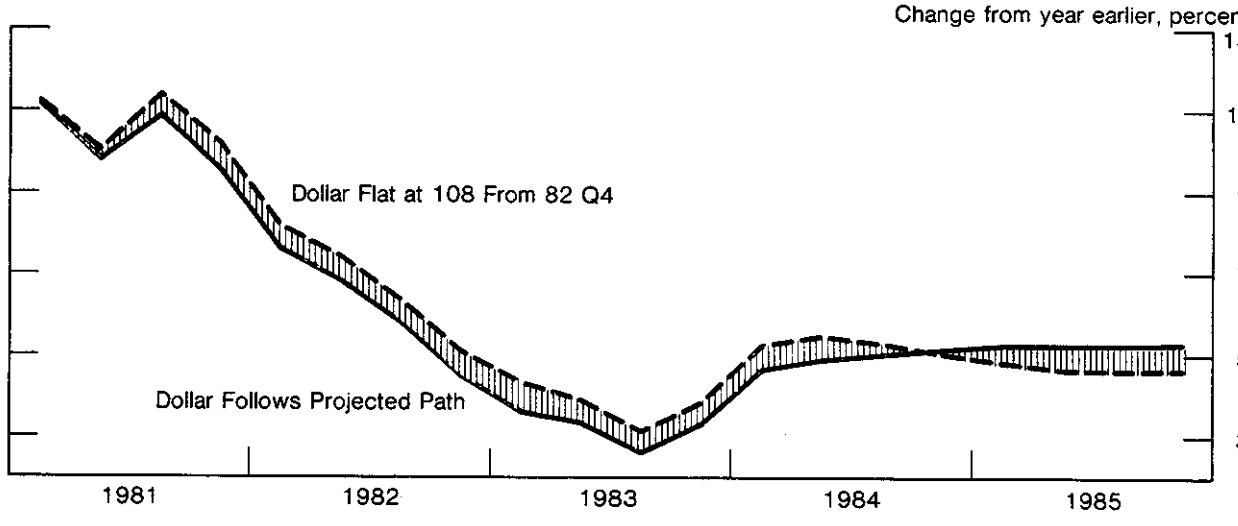
* Partially estimated

[p] Projected

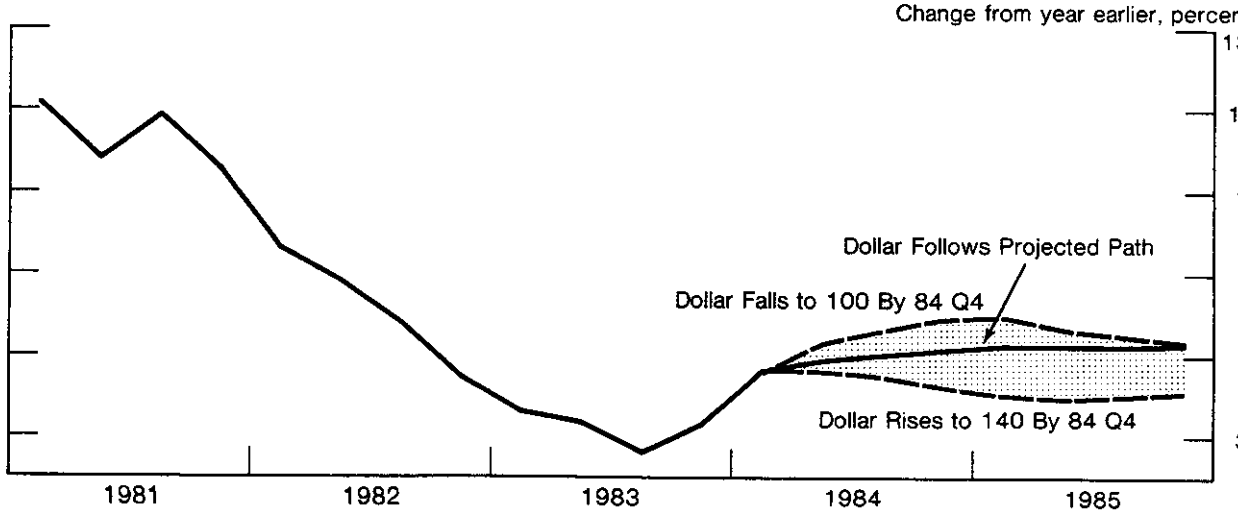
Foreign Exchange Value of the U.S. Dollar



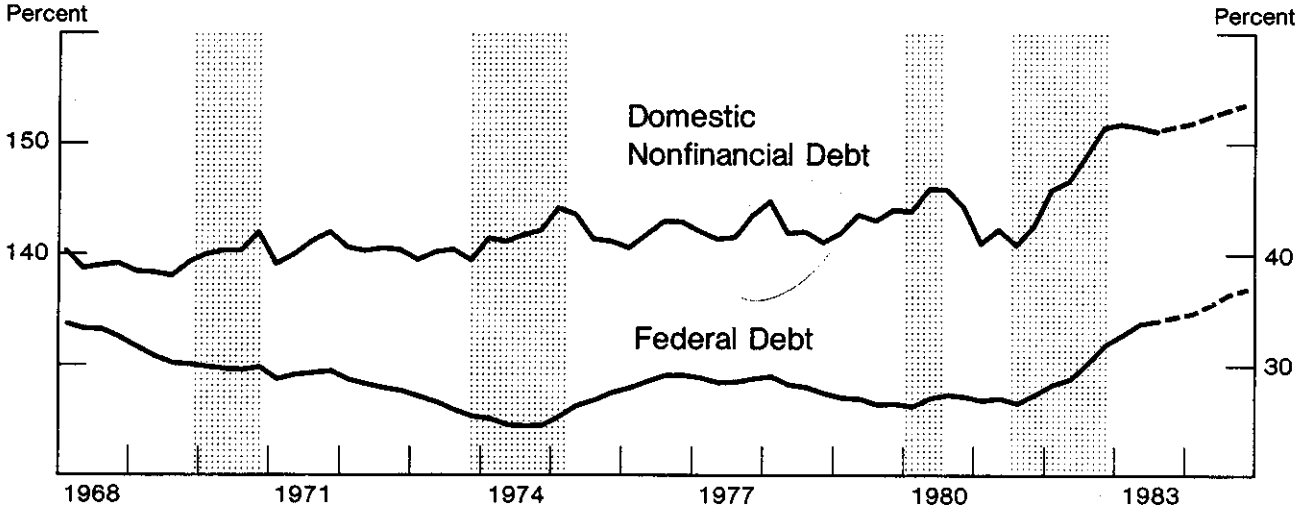
Consumer Prices



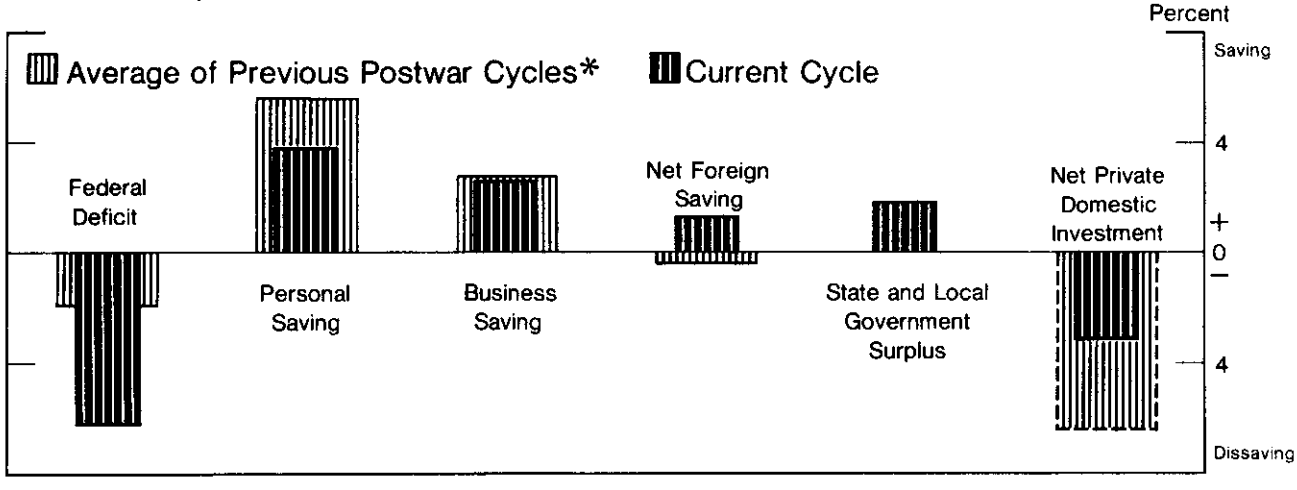
Consumer Prices



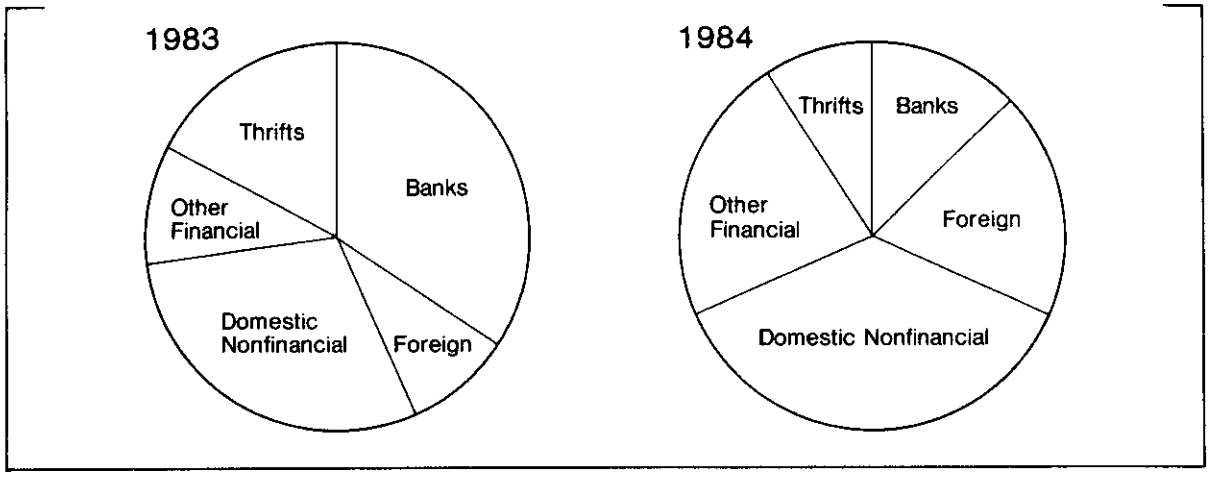
Domestic Nonfinancial Debt Relative to GNP



Sector Saving and Dissaving Relative to NNP

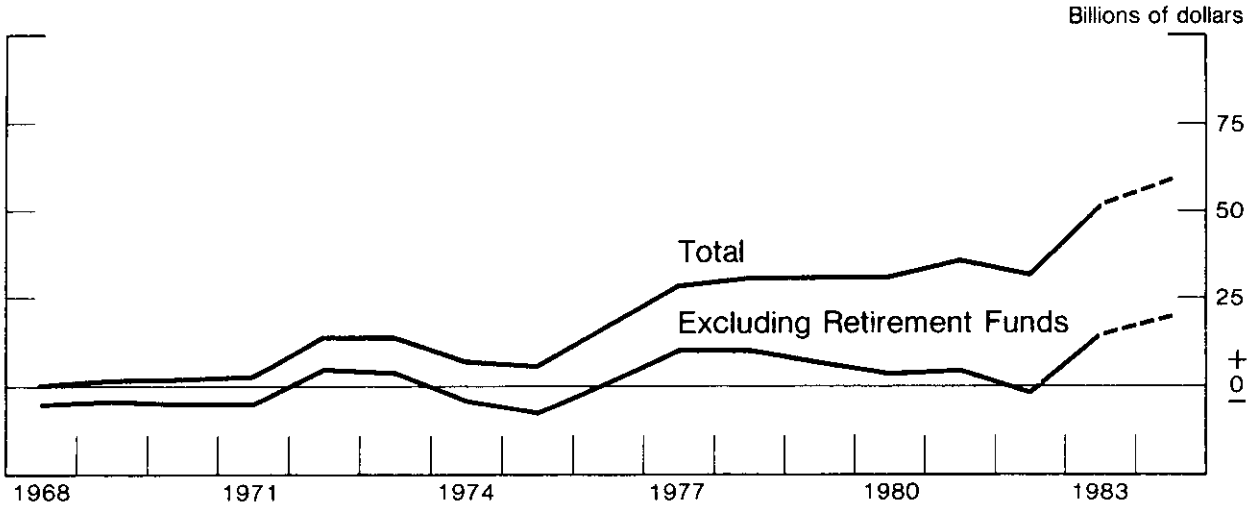


Absorption of Federal Debt

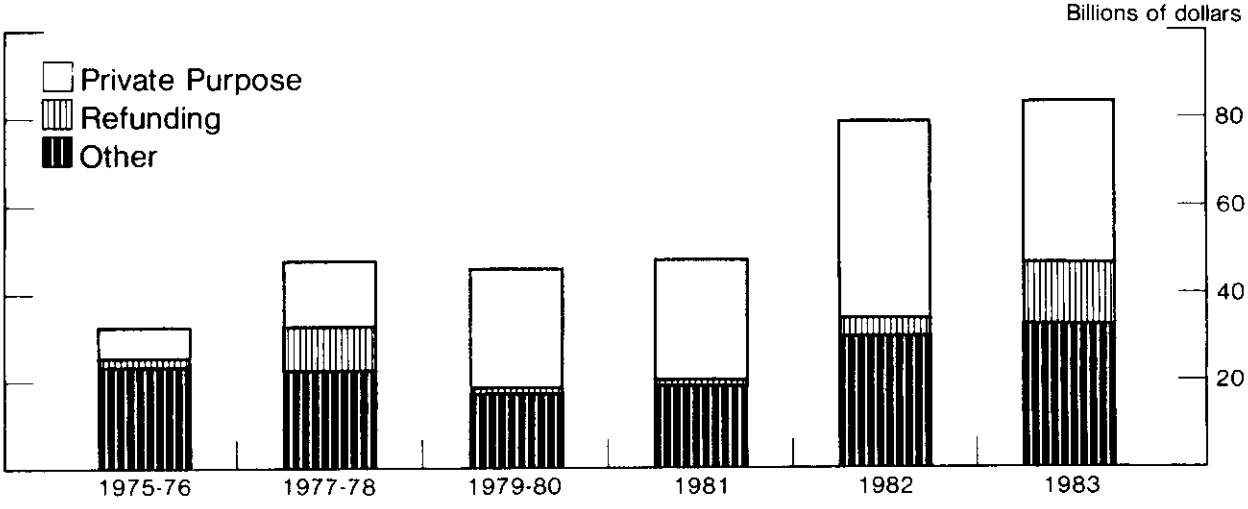


*Excludes 1948-49 and 1980 cycles.

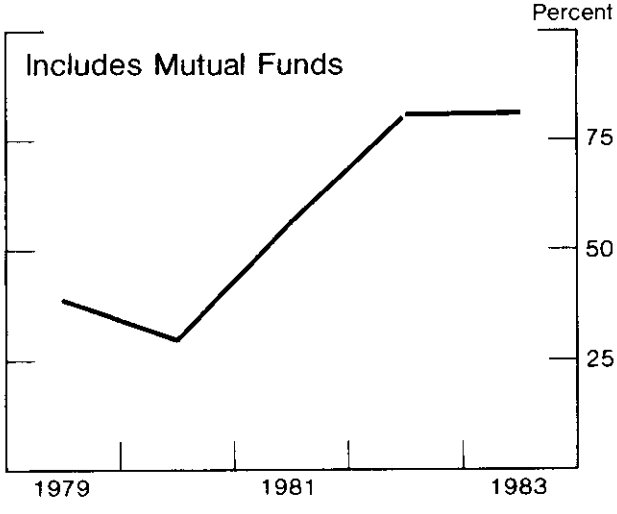
State and Local Government Surplus



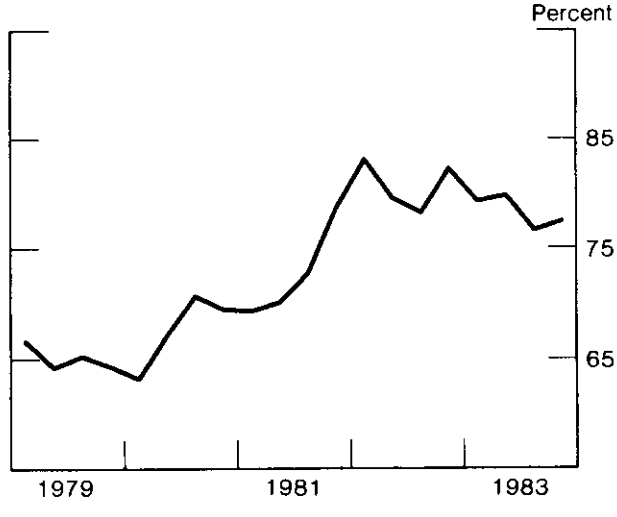
Gross Tax-exempt Bond Issues



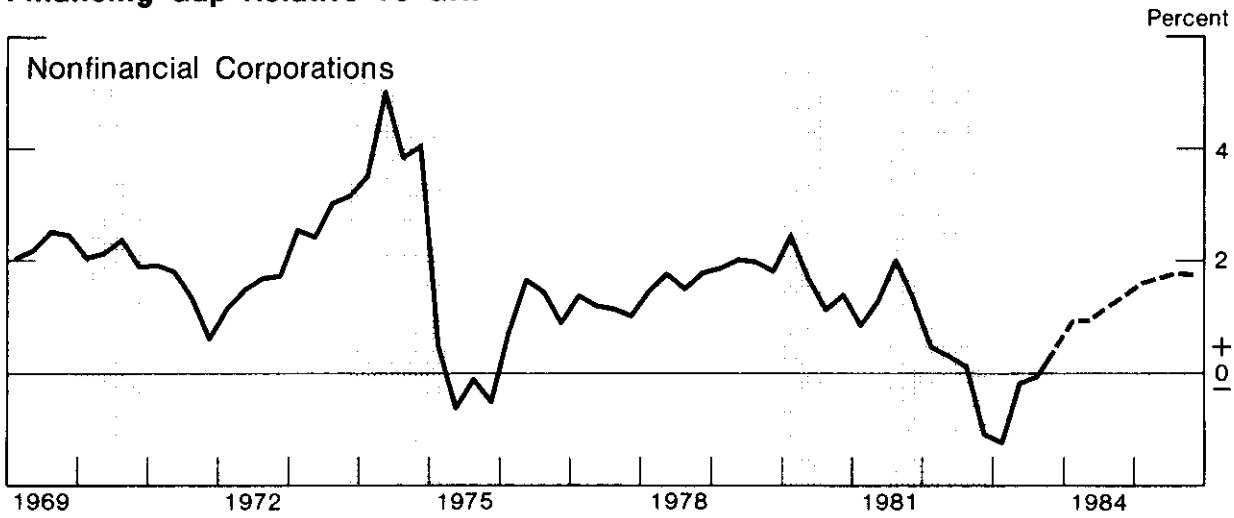
Household Absorption of Tax-exempt Debt



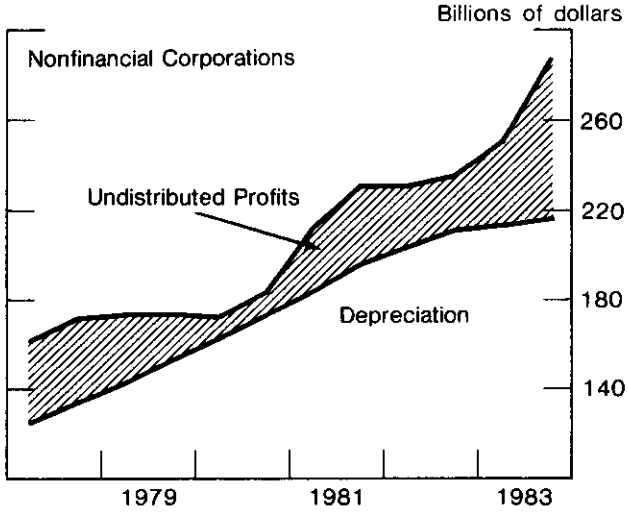
Ratio of Municipal to Corporate Bond Yield



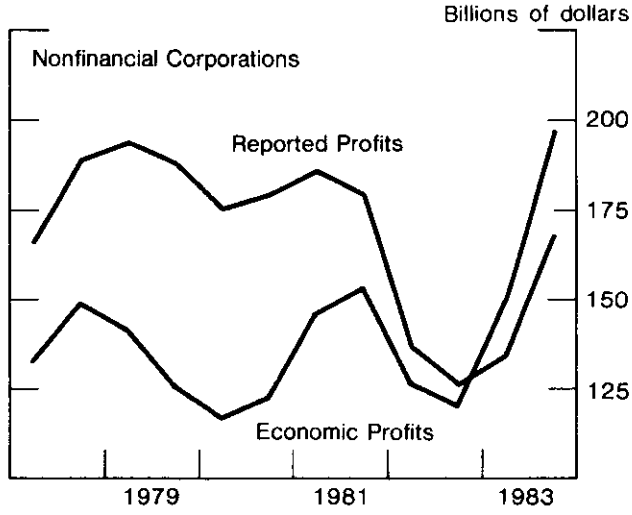
Financing Gap Relative To GNP



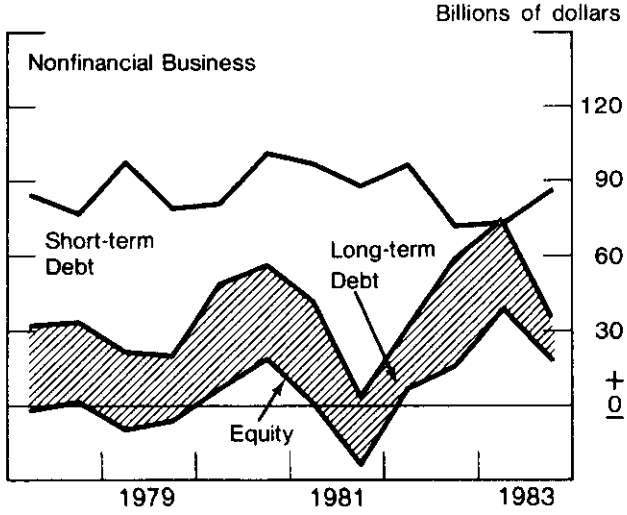
Internal Funds



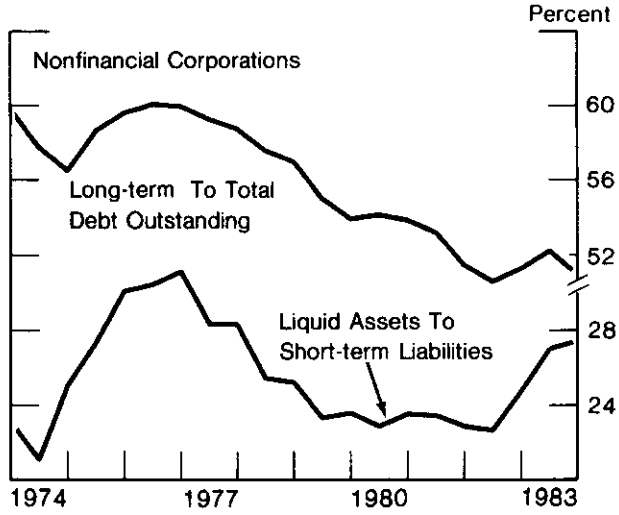
Profits Before Tax



Funds Raised

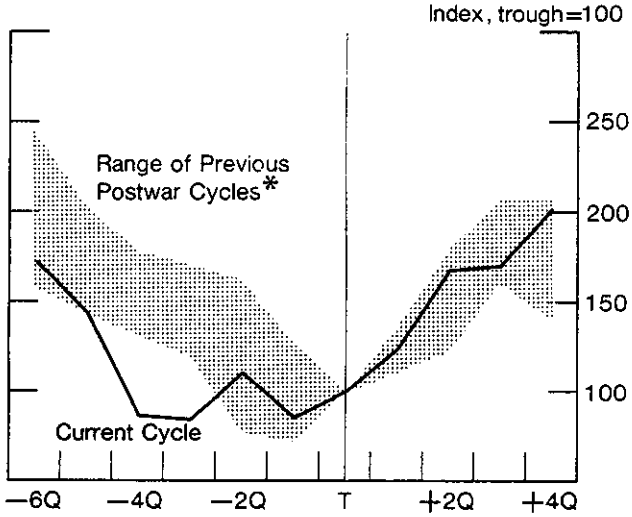


Liquidity Ratios

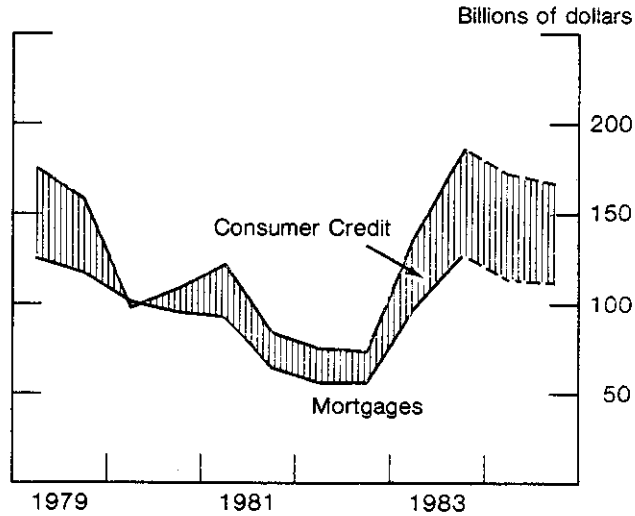


Households

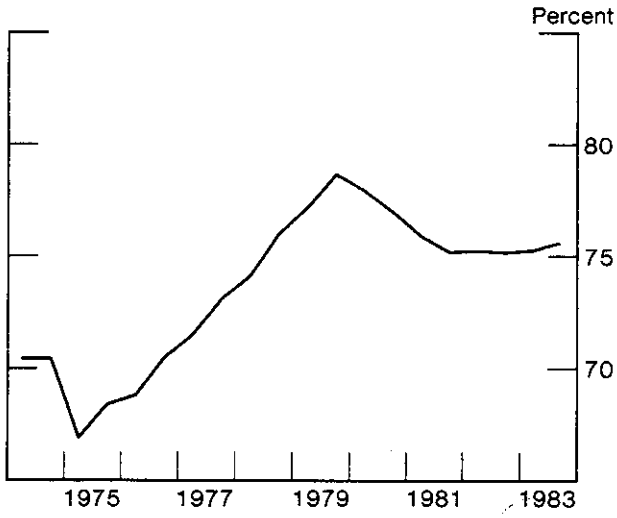
Household Borrowing Relative to Disposable Personal Income



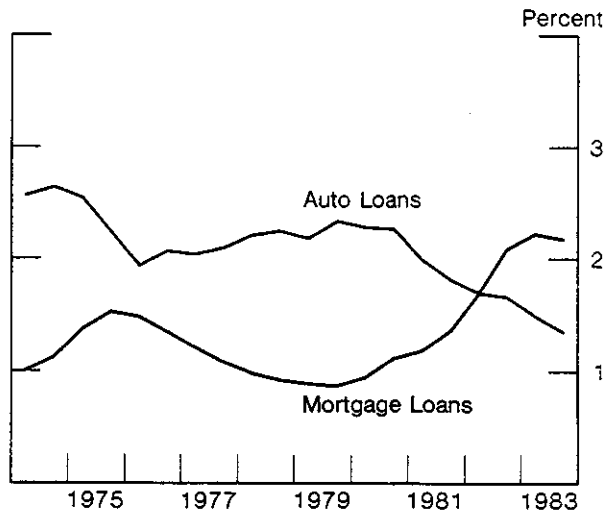
Selected Borrowing



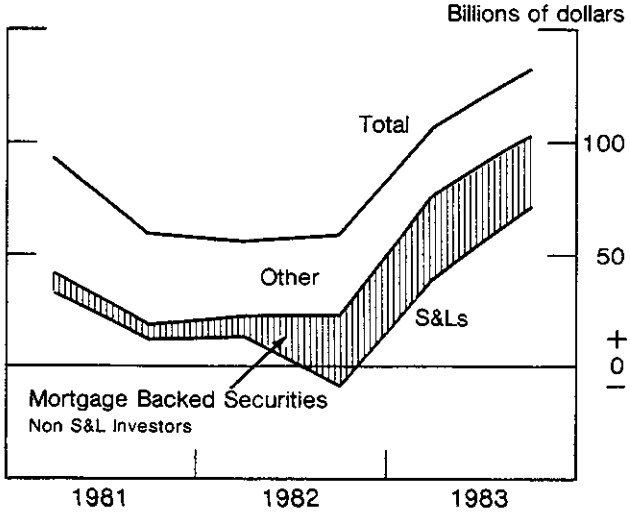
Household Debt Relative to Disposable Personal Income



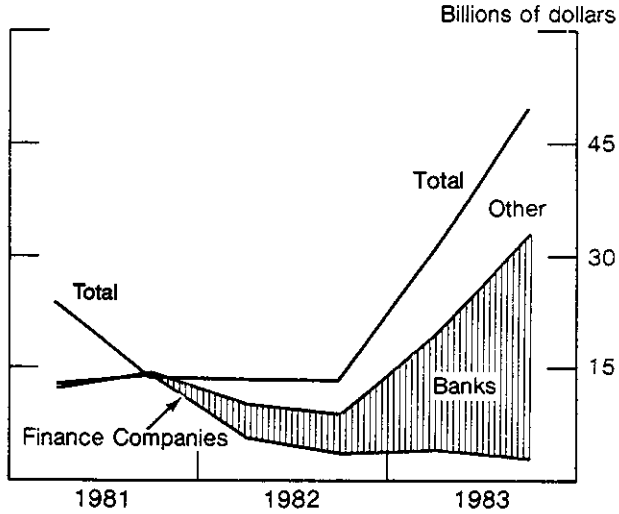
Loan Delinquencies



Sources of Home Mortgage Credit



Sources of Consumer Installment Credit



* Excludes 1948-49 and 1980 cycles.

Forecast Summary

	Board Members		Presidents		Staff	Administration
Percent change	Range	Median	Range	Median		
Nominal GNP						
1984 Q4 to Q4	8 to 10½	9	7 to 10	9½	9	9¾
1984 annual averages	9 to 10½	9½	8¼ to 10½	9¾	9¾	10
Real GNP						
1984 Q4 to Q4	4 to 4¾	4½	2 to 5	4¼	4¼	4½
1984 annual averages	5 to 5½	5¼	3½ to 5¾	5	5	5¼
GNP Deflator						
1984 Q4 to Q4	4 to 5½	4½	4½ to 6	5	4½	5
1984 annual averages	4 to 4¾	4¼	4 to 5½	4½	4¼	4½
Average level						
Unemployment Rate						
1984 Q4	7¼ to 7¾	7¾	7¼ to 8	7¾	7½	n.a.
1984 annual average	7½ to 8	8	7½ to 8	8	7¾	7¾

FOMC Projections for 1984

Reported to Congress July 20, 1983

	Percent change, Q4 to Q4
Nominal GNP	7 to 10¼
Real GNP	3 to 5
GNP deflator	3¾ to 6½
	Average level in the fourth quarter, percent
Unemployment rate	8¼ to 9¼