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CONFIDENTIAL (FR)

January 30, 1980

SUMMARY AND OUTLOOK

By the Staff  
Board of Governors  
of the Federal Reserve System

# **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

Summary

Economic activity apparently continued to move upward at a sluggish pace as 1979 drew to a close. Upward price pressures, however, intensified. There are as yet no major economic indicators available for January.

Industrial production increased 0.3 percent in December, about offsetting the declines of the previous two months. Production of business equipment and nondurable goods rose, but output of motor vehicles and parts continued to decline leaving the year-end level of this output about 25 percent below that of December 1978. Auto assemblies were at an annual rate of 6.8 million units in December, and they appear to be running at about a 6 million rate in January, considerably less than the recent rate of sales.

The rise in industrial production during December was accompanied by an increase in manufacturing employment of 110,000, with gains fairly widespread. This followed four months of decline, but still left factory employment below its peak level of last July. The factory workweek rose 0.2 hour to 40.3 hours. Hiring in the service-producing industries continued at about the strong pace of previous months. The unemployment rate edged up to 5.9 percent, thus remaining within the narrow range that has prevailed during the last 18 months. A report on January employment will be included in the Greenbook Supplement.

Retail sales in nominal terms are indicated to have increased in November and December, after falling in October. For the quarter as a whole, retail sales are estimated to have edged down when measured in

constant dollars. While consumer buying has been robust for nondurable goods and also for services--an item not reported in retail sales-- purchases of durable goods weakened in the fourth quarter. This was largely due to weakness in the automobile market. Sales of new autos were at an annual rate of 9.8 million units in the fourth quarter, the lowest since late 1975. Sales strengthened somewhat late in the quarter both for domestic cars and imports, and sales of domestic cars remained at this higher level early in 1980 under the continuing influence of sales incentives.

Real disposable income is estimated to have been unchanged in the fourth quarter, and thus the increase in real personal consumption was associated with a decline in the saving rate to a historically low level of 3.3 percent. This was the lowest rate since the Korean War, and it appears to reflect efforts by households to maintain expected living standards.

In real estate markets activity declined substantially. Private housing starts were at a 1.5 million annual rate in December, virtually unchanged from November, but down 16 percent from the pace during the summer. Permits fell even more sharply than starts over the same time period. Moreover, the total number of homes sold declined, and the rise in prices of existing homes sold slowed considerably while average prices of new homes sold actually showed a decline.

Business fixed investment expenditures, in constant dollars, fell at an annual rate of 7 percent in the fourth quarter; to some extent this decline reflects weaker motor vehicle purchases by businesses and strike activity at some makers of durable equipment. Orders for

nondefense capital goods rose appreciably in the fourth quarter, but remained below their level during the first quarter. The sharp rise in orders in December was concentrated among aircraft and parts. The Commerce Department's December survey of planned capital spending indicates a nominal increase of 10.9 percent in 1980, compared with the 14.7 percent rise now estimated for 1979. Given expectations of inflation, the survey implies an increase in real terms in 1980 of only one percent. However, in the past the survey has overstated spending in recession years.

Inventory investment has shown a tendency to moderate since early summer. Stocks of autos have generally declined since July and most trade establishments have continued conservative inventory policies. At manufacturers, there was a sizable inventory increase at producers of aircraft and missiles during the last several months.

Consumer prices increased more rapidly in December than in other recent months, with the acceleration primarily attributable to a spurt in food and energy prices. Over the year, the CPI rose 13.3 percent, a marked speedup from the 9 percent rise during 1978. The major part of this difference was accounted for by the faster rise of energy prices and homeownership costs as measured in the CPI. However, there was also some acceleration in prices outside these sectors.

### Outlook

For the current quarter, the staff projects a slight reduction in real GNP, of perhaps 1 percent at an annual rate. In the last Greenbook the staff had projected a sharper downward adjustment, and this month's upward revision is based partly on stronger-than-expected recent data on

employment, production and automobile sales. Real purchases by consumers are still expected to decline this quarter, but by less than earlier, although given the surprising recent strength of this sector a great deal of uncertainty attaches to the likely behavior of consumers. Projected first-quarter spending for business fixed investment and for federal purchases also has been strengthened.

The fiscal policy assumptions in the current projection have been changed in several respects. On the outlay side, the staff has incorporated a faster growth of defense spending for 1980 and 1981 of about 13 percent nominal rate in each year, a bit more than in the administration's budget. In addition, spending estimates have been increased in nondefense areas; in particular, a \$2.8 billion hike in agricultural price support spending results from the embargo on grain exports to the Soviet Union. Total outlays are now expected to be \$563 billion in FY 1980 and \$623 billion in FY 1981. Receipts have been revised upward since last Greenbook; nevertheless, our projections show lower levels of receipts than the administration's budget which assumes a stronger economic outlook. A deficit of \$43 billion in FY 1980 and \$39 billion in FY 1981 is projected, compared to the official estimates of \$40 and \$16 billion, respectively. On a high-employment basis, we project the surplus to increase about \$18 billion from late 1979 to late 1980 and by around \$50 billion over the four quarters of 1981. (See also Comments on the Federal Sector Outlook below.)

With this month's projection, the staff has reduced its assumptions of the rate of expansion in the monetary aggregates, with growth in M-1A scaled back from 6 percent to 5 percent for both 1980 and 1981. The

assumption of slower growth in money, given the staff's GNP projection, results in a higher level of projected interest rates. Nevertheless, rates are still expected to move slowly downward during 1980.

A number of key factors continue to point toward the probability of a recession during 1980, including the transfer of household purchasing power to OPEC, probable efforts by households to increase their saving rates from current extremely low levels, credit restraint--especially in the housing sector--and the dampening effect of excess productive capacity on investment spending. Over the four quarters of 1980, the staff projects a decline in GNP of around 2-1/4 percent, about the same as the projection in the last Greenbook. A relatively mild decline in economic activity now is expected during the first half of this year, as consumer outlays are expected to soften gradually, buoyed in part by larger-than-usual tax refunds. However, greater weakness is expected in the second half of the year and the trough of the recession is tentatively projected in early 1981.

A sluggish recovery is projected to begin around midyear 1981. By that time housing activity should benefit from a slight easing in mortgage rates--permitting underlying strength of demand to emerge--and consumption should again begin to keep pace with income gains following a gradual rise in saving rates into the 5 percent area. But with both fiscal and monetary policy continuing restrictive, real GNP is projected to increase only slightly during the four quarters of 1981, by less than 1 percent.

The contraction in labor demand associated with these projected developments is expected to lift the unemployment rate to almost 8 percent by late 1980 and about 8-3/4 percent by late 1981.

Pressures on wages and hourly compensation are still expected to be intense in 1980, as the effects of a weakening labor market are offset by attempts to recover past losses in real wages. With productivity performance expected to remain poor in the near term, a rapid further rise in unit labor costs will persist in 1980. The inflation rate, as measured by the fixed-weighted price index for gross domestic business product, is projected to accelerate in the first half of the year to almost 10-1/2 percent. As slack in labor and product markets grows, wage and price increases can be expected to moderate, although additional payroll taxes scheduled for early 1981 will limit the deceleration. Inflation rates of about 9 percent are projected for late 1980 and around 8 percent toward the end of 1981.

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				
1/3/80	1/30/80	1/3/80	1/30/80	1/3/80	1/30/80	1/3/80	1/30/80	1/3/80	1/30/80	
<b>Annual changes:</b>										
1978 <u>1/</u>	12.0	12.0	4.4	4.4	7.6	7.6	7.2	7.2	6.0	6.0
1979 <u>1/</u>	11.4	11.3	2.3	2.3	9.7	9.6	8.2	8.2	5.8	5.8
1980	7.8	8.1	-1.3	-.7	10.2	10.0	8.1	7.9	7.4	6.9
1981	9.3	8.1	.2	-1.0	9.1	8.9	8.1	7.9	8.6	8.4
<b>Quarterly changes:</b>										
1979-Q1 <u>1/</u>	10.6	10.6	1.1	1.1	10.0	10.0	7.7	7.7	5.7	5.7
1979-Q2 <u>1/</u>	6.7	6.7	-2.3	-2.3	10.1	10.1	7.9	7.9	5.7	5.8
1979-Q3 <u>1/</u>	12.0	11.9	3.1	3.1	10.4	10.4	7.6	7.6	5.8	5.8
1979-Q4 <u>1/</u>	10.7	10.3	1.5	1.4	9.6	9.2	8.1	7.7	5.9	5.9
1980-Q1	4.7	7.2	-3.7	-.8	10.5	10.3	7.8	7.6	6.6	6.2
1980-Q2	6.0	6.5	-3.4	-2.2	11.0	10.5	8.6	7.9	7.2	6.5
1980-Q3	8.0	6.2	-1.6	-3.1	9.5	9.8	8.4	8.8	7.8	7.1
1980-Q4	9.4	7.9	-.3	-2.4	9.3	9.2	8.3	8.2	8.1	7.7
1981-Q1	9.5	7.9	.4	-1.3	9.3	9.0	8.3	8.1	8.3	8.0
1981-Q2	10.0	9.0	1.2	.4	8.9	8.5	7.9	7.5	8.5	8.4
1981-Q3	10.0	9.2	1.6	1.4	8.3	8.0	7.3	7.0	8.7	8.6
1981-Q4	10.8	10.0	2.0	1.9	8.3	7.9	7.3	6.9	8.8	8.7
<b>Two-quarter changes: <sup>2/</sup></b>										
1979-Q4 <u>1/</u>	11.4	11.1	2.3	2.3	9.9	9.7	7.9	7.7	.2	.1
1980-Q2	5.4	6.8	-3.5	-1.5	10.7	10.4	8.2	7.7	1.3	.6
1980-Q4	8.7	7.1	-1.0	-2.8	9.4	9.5	8.4	8.4	.9	1.2
1981-Q2	9.8	8.5	.8	-.5	9.1	8.7	8.1	8.0	.4	.7
1981-Q4	10.4	9.6	1.8	1.6	8.2	8.0	7.3	7.1	.3	.3
<b>Four-quarter changes: <sup>3/</sup></b>										
1978-Q4 <u>1/</u>	13.4	13.4	4.8	4.8	8.6	8.6	8.1	8.1	-.8	-.7
1979-Q4 <u>1/</u>	10.0	9.9	.9	.8	10.0	9.9	7.8	7.7	.1	.1
1980-Q4	7.0	7.0	-2.3	-2.2	10.0	9.9	8.3	8.1	2.2	1.8
1981-Q4	10.1	9.0	1.3	.6	8.7	8.3	7.7	7.4	.7	1.0

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

January 30, 1980

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.)

	1980				1981			
	Q1	Q2	Q3	Projected Q4	Q1	Q2	Q3	Q4
Gross national product	2499.0	2538.4	2577.0	2626.6	2677.1	2735.5	2796.6	2863.9
Final purchases	2494.5	2535.4	2582.5	2633.1	2683.1	2735.5	2792.1	2855.4
Private	1978.8	2009.3	2046.7	2084.3	2123.7	2165.4	2211.4	2259.2
Excluding net exports	1992.7	2023.4	2052.0	2078.7	2112.0	2151.5	2197.8	2248.3
Personal consumption expenditures	1614.8	1646.0	1670.0	1691.5	1718.5	1748.6	1783.5	1821.6
Goods	858.5	868.5	871.5	872.0	878.6	888.7	903.2	920.3
Services	756.3	777.5	798.5	819.5	839.9	859.9	880.3	901.3
Gross private domestic investment	382.4	380.4	376.5	380.7	387.5	402.9	418.8	435.2
Residential construction	112.1	108.6	111.6	115.6	120.1	127.1	134.6	142.6
Business fixed investment	265.8	268.8	270.4	271.6	273.4	275.8	279.7	284.1
Change in business inventories	4.5	3.0	-5.5	-6.5	-6.0	.0	4.5	8.5
Nonfarm	4.0	2.5	-6.0	-7.0	-6.5	-5	4.0	8.0
Net exports of goods and services <sup>1/</sup>	-13.9	-14.1	-5.3	5.6	11.7	13.9	13.6	10.9
Exports	284.4	288.2	294.6	304.0	312.5	320.7	329.0	336.6
Imports	298.3	302.3	300.0	298.4	300.8	306.8	315.3	325.7
Gov't. purchases of goods and services	515.7	526.1	535.8	548.8	559.4	570.1	580.7	596.2
Federal <sup>2/</sup>	185.2	188.9	192.2	198.8	203.2	207.4	211.3	220.0
State and local	330.5	337.2	343.6	350.0	356.2	362.7	369.4	376.2
Gross national product in constant (1972) dollars	1435.3	1427.2	1415.9	1407.1	1402.4	1403.9	1408.9	1415.4
Personal income	2044.5	2090.0	2140.4	2181.9	2212.8	2254.3	2313.4	2365.0
Wage and salary disbursements	1294.6	1315.1	1328.7	1348.2	1367.9	1389.4	1416.0	1449.4
Disposable personal income	1724.3	1761.2	1803.9	1836.4	1857.6	1889.6	1937.4	1975.6
Saving rate (percent)	3.8	4.0	4.8	5.3	4.8	4.7	5.2	5.0
Corporate profits with I.V.A. and C.C. Adj.	164.9	154.8	153.7	158.2	155.3	164.7	171.7	177.0
Corporate profits before tax	228.4	214.5	211.8	215.8	212.6	221.7	228.4	231.4
Federal government surplus or deficit (-) (N.I.A. basis)	-26.4	-32.3	-51.4	-54.0	-37.9	-33.5	-40.3	-36.7
High employment surplus or deficit (-)	6.6	13.2	12.5	30.4	60.2	73.8	74.1	83.4
State and local government surplus or deficit (-) (N.I.A. basis)	21.9	19.9	20.4	19.1	17.4	17.8	17.9	18.7
Excluding social insurance funds	-7.0	-9.6	-9.6	-11.5	-13.8	-14.0	-14.5	-14.3
Civilian labor force (millions)	104.3	104.7	105.1	105.3	105.5	105.8	106.1	106.4
Unemployment rate (percent)	6.2	6.5	7.1	7.7	8.0	8.4	8.6	8.7
Nonfarm payroll employment (millions)	90.4	90.4	89.9	89.4	89.0	88.9	89.0	89.2
Manufacturing	20.7	20.5	20.1	19.8	19.5	19.3	19.1	19.0
Industrial production (1967=100)	151.2	150.6	148.9	147.8	147.0	147.0	147.4	147.9
Capacity utilization: all mfg. (percent)	83.4	82.3	80.5	79.0	77.9	77.3	77.0	76.9
Materials (percent)	84.2	82.3	80.0	78.2	76.9	76.2	75.9	75.7
Housing starts, private (million units, A.R.)	1.40	1.40	1.45	1.50	1.50	1.60	1.70	1.80
New autos sales, (millions, A.R.)	9.60	9.30	9.10	8.95	9.15	9.40	9.60	9.90
Domestic models	7.30	7.10	6.95	6.80	7.00	7.15	7.30	7.50
Foreign models	2.30	2.20	2.15	2.15	2.15	2.25	2.30	2.40

<sup>1/</sup> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.<sup>2/</sup> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

January 3, 1980

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CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS  
(Annual rates compounded quarterly)

	1980				1981				
	Q1	Q2	Q3	Projected		Q1	Q2	Q3	Q4
				Q4	Q1				
<u>Constant (1972) dollars</u>									
Gross national product	- .8	- 2.2	- 3.1	- 2.4	- 1.3	. 4	1.4	1.9	
Final purchases	- .6	- 2.0	- 2.0	- 2.3	- 1.4	- .4	. 8	1.3	
Private	- 1.8	- 2.7	- 2.6	- 2.7	- 1.8	- .7	. 8	1.3	
Excluding net exports	- 2.9	- 3.2	- 3.2	- 3.6	- 2.3	- .9	. 9	1.6	
Personal consumption expenditures	- 2.0	- 2.1	- 3.0	- 3.6	- 2.3	- 1.2	. 4	1.1	
Goods	- 5.4	- 5.7	- 7.1	- 8.2	- 5.3	- 3.3	- .9	. 3	
Services	2.1	2.1	1.8	1.5	1.0	1.0	1.8	1.9	
Gross private domestic investment	- 8.7	- 9.5	- 11.9	- 4.7	- 2.1	7.5	7.7	8.4	
Residential structures	- 19.6	- 19.9	. 9	4.2	6.4	15.6	15.9	16.1	
Business fixed investment	- 2.0	- 3.8	- 5.8	- 6.3	- 5.3	- 4.0	- 1.8	- .6	
Gov't. purchases of goods and services	4.7	. 6	. 2	- .5	. 3	. 7	. 7	1.0	
Federal	12.2	2.4	1.4	- .4	2.0	2.8	2.9	2.9	
State and local	. 5	- .4	- .5	- .6	- .7	- .5	- .1	- .1	
Disposable personal income	. 1	- 1.3	. 7	- 1.6	- 4.0	- 1.4	2.5	. 4	
<u>Current dollars</u>									
Gross national product	7.2	6.5	6.2	7.9	7.9	9.0	9.2	10.0	
Final purchases	7.6	6.7	7.6	8.1	7.8	8.0	8.5	9.4	
Private	6.1	6.3	7.6	7.6	7.8	8.1	8.8	8.9	
Excluding net exports	7.4	6.3	5.8	5.3	6.6	7.7	8.9	9.5	
Personal consumption expenditures	9.0	8.0	6.0	5.2	6.5	7.2	8.2	8.8	
Goods	5.8	4.7	1.4	. 2	3.1	4.7	6.7	7.8	
Services	12.8	11.7	11.2	10.9	10.3	9.9	9.8	9.9	
Gross private domestic investment	- .9	- 2.1	- 4.0	4.5	7.3	16.9	16.7	16.6	
Residential structures	- 11.6	- 11.9	11.5	15.1	16.5	25.4	25.8	26.0	
Business fixed investment	7.1	4.6	2.4	1.8	2.7	3.6	5.8	6.4	
Gov't. purchases of goods and services	13.3	8.3	7.6	10.1	8.0	7.9	7.6	11.1	
Federal	19.9	8.2	7.2	14.5	9.2	8.5	7.7	17.5	
State and local	9.9	8.4	7.8	7.7	7.3	7.5	7.6	7.6	
Disposable personal income	11.3	8.8	10.0	7.4	4.7	7.1	10.5	8.1	
Personal income	9.1	9.2	10.0	8.0	5.8	7.7	10.9	9.2	
Wage and salary disbursements	7.9	6.5	4.2	6.0	6.0	6.4	7.9	9.8	
Corporate profits with IVA & C.C. Adj.	- 33.8	- 22.3	- 2.8	12.2	- 7.1	26.5	18.1	12.9	
Corporate profits before tax	- 30.1	- 22.2	- 4.9	7.8	- 5.8	18.2	12.6	5.5	
Nonfarm payroll employment	. 9	. 2	- 2.1	- 2.2	- 1.7	- .6	. 4	. 9	
Manufacturing	- 3.8	- 4.4	- 6.2	- 6.5	- 6.1	- 4.6	- 3.5	- 2.5	
Nonfarm business sector									
Output per hour	- .6	- 1.2	. 0	. 2	. 6	1.4	1.2	1.0	
Compensation per hour	10.1	9.1	8.7	8.5	11.5	8.1	8.4	8.5	
Unit labor costs	10.8	10.4	8.7	8.3	10.8	6.6	7.1	7.4	
GNP implicit deflator <sup>1/</sup>	8.1	8.9	9.7	10.6	9.4	8.6	7.7	8.0	
Gross domestic business product									
fixed-weighted price index <sup>2/</sup>	10.3	10.5	9.8	9.2	9.0	8.5	8.0	7.9	
Excluding food and energy	7.6	7.9	8.8	8.2	8.1	7.5	7.0	6.9	
Consumer price index (all urban)	15.6	11.7	9.2	9.2	9.2	8.4	8.5	8.4	
Industrial production	- 2.3	- 1.6	- 4.4	- 3.0	- 2.2	. 0	1.2	1.5	

<sup>1/</sup> Excluding Federal pay increases, the rates of change are: 1980-Q1, 8.1 percent; 1980-Q4, 10.0 percent; 1981-Q1, 9.3 percent; 1981-Q4, 7.3 percent.

<sup>2/</sup> Uses expenditures in 1972 as weights.

CONFIDENTIAL - FR  
CLASS II FOMC

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

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2011.3	2104.2	2159.6	2235.2	2292.1	2329.8	2396.5	2455.8
Final purchases	1988.5	2078.4	2139.5	2214.5	2272.9	2296.4	2381.9	2449.5
Private	1569.1	1650.1	1698.6	1760.7	1812.8	1829.8	1904.1	1949.7
Excluding net exports	1591.3	1657.7	1705.4	1765.2	1808.8	1837.9	1906.4	1957.4
Personal consumption expenditures	1287.2	1331.2	1369.3	1415.4	1454.2	1475.9	1528.6	1580.4
Goods	691.2	722.1	740.2	770.2	784.9	789.9	818.1	846.5
Services	596.0	609.1	629.1	645.1	669.3	686.0	710.6	733.9
Gross private domestic investment	327.0	352.3	356.2	370.5	373.8	395.4	392.3	383.3
Residential construction	100.5	107.7	110.2	113.7	111.2	112.9	116.0	115.6
Business fixed investment	203.7	218.8	225.9	236.1	243.4	249.1	261.8	261.3
Change in business inventories	22.8	25.8	20.0	20.6	19.1	33.4	14.5	6.4
Nonfarm	22.0	25.3	18.5	19.3	18.8	32.6	12.6	2.3
Net exports of goods and services <sup>1/</sup>	-22.2	-7.6	-6.8	-4.5	4.0	-8.1	-2.3	-7.7
Exports	184.4	205.7	213.8	224.9	238.5	243.7	267.3	280.0
Imports	206.6	213.3	220.6	229.4	234.4	251.9	269.5	287.7
Gov't. purchases of goods and services	419.4	428.3	440.9	453.8	460.1	466.6	477.8	499.8
Federal <sup>2/</sup>	150.9	148.2	152.3	159.0	163.6	161.7	162.9	177.0
State and local	268.5	280.1	288.6	294.8	296.5	304.9	314.9	322.8
Gross national product in constant (1972) dollar	1367.8	1395.2	1407.3	1426.6	1430.6	1422.3	1433.3	1438.4
Personal income	1634.8	1689.3	1742.5	1803.1	1852.6	1892.5	1946.6	2000.5
Wage and salary disbursements	1052.0	1090.0	1116.8	1154.3	1189.3	1212.4	1238.1	1270.1
Disposable personal income	1395.0	1437.3	1476.5	1524.8	1572.2	1601.7	1640.0	1678.8
Saving rate (percent)	5.3	5.0	4.8	4.7	5.0	5.4	4.3	3.3
Corporate profits with I.V.A. and C.C. Adj.	141.2	169.4	175.2	184.8	178.9	176.6	180.8	181.7
Corporate profits before tax	177.5	207.2	212.0	227.4	233.3	227.9	242.3	248.7
Federal government surplus or deficit (-) (N.I.A. basis)	-49.4	-24.6	-20.4	-16.3	-11.7	-7.0	-11.3	-11.5
High employment surplus or deficit (-)	-24.9	-8.0	-6.8	-6.6	-9	13.8	10.8	12.6
State and local government surplus or deficit (-) (N.I.A. basis)	30.2	29.6	22.7	27.1	27.6	19.7	25.3	25.4
Excluding social insurance funds	7.9	6.5	-9	3.3	2.6	-6.3	-1.8	-2.9
Civilian labor force (millions)	99.1	100.2	100.8	101.5	102.3	102.4	103.2	103.7
Unemployment rate (percent)	6.2	6.0	6.0	5.8	5.7	5.8	5.8	5.9
Nonfarm payroll employment (millions)	84.8	86.3	86.9	87.8	88.7	89.4	89.8	90.2
Manufacturing	20.2	20.4	20.5	20.8	21.0	21.1	21.0	20.9
Industrial production (1967=100)	140.8	145.1	147.9	150.7	152.2	151.9	152.3	152.1
Capacity utilization: all mfg. (percent)	82.0	83.9	85.2	86.4	86.7	85.9	85.4	84.6
Materials (percent)	82.6	85.0	86.4	88.2	88.0	87.3	87.1	86.1
Housing starts, private (million units, A.R.)	1.81	2.10	2.04	2.08	1.62	1.83	1.83	1.60
New autos sales, (millions, A.R.)	10.80	12.12	11.16	11.07	11.55	10.66	10.77	9.83
Domestic models	8.80	10.01	9.19	9.06	9.13	8.00	8.49	7.25
Foreign models	2.00	2.11	1.98	2.00	2.42	2.66	2.28	2.58

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

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

CONFIDENTIAL - FR  
CLASS II FOMC

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

	1978				1979			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	1.9	8.3	3.5	5.6	1.1	-2.3	3.1	1.4
Final purchases	.4	8.7	4.6	5.7	1.1	-3.9	6.4	2.5
Private	.8	10.7	4.4	6.7	1.8	-4.1	7.8	2.0
Excluding net exports	1.0	7.9	4.1	6.9	.4	-2.9	5.3	1.8
Personal consumption expenditures	.8	5.6	4.8	6.8	.6	-2.9	4.9	4.1
Goods	-4.7	9.2	4.2	9.9	-4.4	-7.3	6.0	4.8
Services	7.9	1.4	5.5	3.2	7.1	2.5	3.6	3.2
Gross private domestic investment	12.3	15.7	-5.0	6.6	-5	8.5	-12.8	-14.1
Residential structures	-4.7	11.0	-4.9	-1.1	-14.3	-7.2	-1.5	-9.8
Business fixed investment	4.6	23.2	3.9	11.3	4.8	-8	10.7	-6.9
Gov't. purchases of goods and services	-1.2	.9	5.0	1.8	-1.8	-3.3	1.0	4.7
Federal	-7.4	-12.3	8.2	3.2	7.2	-11.3	-2.6	12.6
State and local	2.7	9.3	3.3	1.0	-6.6	1.6	3.1	.6
Disposable personal income	2.0	4.0	4.2	6.4	2.1	-1.4	.2	.0
<u>Current dollars</u>								
Gross national product	8.4	19.8	10.9	14.8	10.6	6.7	11.9	10.3
Final purchases	7.5	19.3	12.3	14.8	11.0	4.2	15.8	11.8
Private	7.7	22.3	12.3	15.4	12.4	3.8	17.3	9.9
Excluding net exports	8.8	17.8	12.0	14.8	10.3	6.6	15.8	11.1
Personal consumption expenditures	9.0	14.4	11.9	14.2	11.4	6.1	15.0	14.3
Goods	3.3	19.1	10.4	17.2	7.9	2.6	15.1	14.6
Services	16.1	9.1	13.8	10.6	15.8	10.4	15.1	13.8
Gross private domestic investment	13.3	34.8	4.5	17.1	3.6	25.2	-3.0	-8.9
Residential structures	2.4	32.0	9.5	13.5	-8.5	6.1	11.7	-1.6
Business fixed investment	10.6	33.3	13.7	19.3	12.9	9.6	22.0	-7
Gov't. purchases of goods and services	6.5	8.8	12.3	12.2	5.6	5.8	10.0	19.7
Federal	-9	-7.0	11.7	18.7	12.1	-4.6	3.1	39.3
State and local	11.1	18.5	12.6	8.9	2.3	11.9	13.8	10.4
Disposable personal income	10.3	12.7	11.4	13.8	13.0	7.7	9.9	9.8
Personal income	10.0	14.0	13.2	14.7	11.4	8.9	11.9	11.5
Wage and salary disbursements	11.7	15.3	10.2	14.1	12.7	8.0	8.8	10.7
Corporate profits with IVA & C.C. Adj.	-27.5	107.2	14.4	23.8	-12.2	-5.0	9.9	2.0
Corporate profits before tax	-11.5	85.7	9.6	32.4	10.8	-8.9	27.8	11.0
Nonfarm payroll employment	4.6	7.1	2.8	4.4	4.3	2.9	1.8	1.9
Manufacturing	5.8	3.8	1.3	5.5	5.0	.8	-1.3	-1.8
Nonfarm business sector								
Output per hour	-9	1.9	2.7	.8	-3.2	-4.1	-1.4	-4
Compensation per hour	11.4	7.5	8.8	8.8	10.4	7.9	8.5	8.9
Unit labor costs	12.4	5.4	6.0	8.0	14.0	12.5	10.1	9.3
GNP implicit deflator <sup>1/</sup>	6.3	10.6	7.2	8.7	9.3	9.3	8.5	8.7
Gross domestic business product fixed-weighted price index <sup>2/</sup>	6.6	10.5	8.8	8.7	10.0	10.1	10.4	9.2
Excluding food and energy	5.5	9.4	8.9	8.7	7.7	7.9	7.6	7.7
Consumer price index (all urban)	7.8	10.2	8.8	9.1	11.1	13.6	12.9	13.2
Industrial production	1.4	12.8	7.9	7.8	4.0	-.8	1.1	-.5

<sup>1/</sup> Excluding Federal pay increases, rates of change were: 1978-Q1, 6.3 percent; 1978-Q4, 8.1 percent; 1979-Q1, 9.3 percent; 1979-Q4, 8.1 percent.

<sup>2/</sup> Uses expenditures in 1972 as weights.

January 30, 1980

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

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
Gross national product	1412.9	1528.8	1702.2	1899.5	2127.6	2368.5	2560.2	2768.3
Final purchases	1404.0	1539.6	1692.1	1877.6	2105.2	2350.2	2561.4	2766.5
Private	1101.3	1201.2	1330.8	1481.4	1669.6	1874.1	2029.8	2189.9
Excluding net exports	1095.3	1180.8	1322.8	1491.3	1679.9	1877.6	2036.7	2177.4
Personal consumption expenditures	889.6	979.1	1089.9	1210.0	1350.8	1509.8	1655.6	1768.0
Goods	498.3	541.5	601.3	660.1	730.9	809.8	867.6	897.7
Services	391.3	437.5	488.5	549.8	619.8	700.0	787.9	870.3
Gross private domestic investment	214.6	190.9	243.0	303.3	351.5	386.2	380.0	411.1
Residential construction	55.1	51.5	68.1	91.9	108.0	113.9	112.0	131.1
Business fixed investment	150.6	150.2	164.9	189.4	221.1	253.9	269.1	278.2
Change in business inventories	8.9	-10.7	10.0	21.9	22.3	18.4	-1.1	1.7
Nonfarm	10.8	-14.3	12.1	20.7	21.3	16.6	-1.6	1.3
Net exports of goods and services <sup>1/</sup>	6.0	20.4	8.0	-9.9	-10.3	-3.5	-6.9	12.5
Exports	137.9	147.3	163.3	175.9	207.2	257.4	292.8	324.7
Imports	131.9	126.9	155.4	185.8	217.5	260.9	299.7	312.2
Gov't. purchases of goods and services	302.7	338.4	361.3	396.2	435.6	476.1	531.6	576.6
Federal <sup>2/</sup>	111.1	123.1	129.7	144.4	152.6	166.3	191.3	210.5
State and local	191.5	215.4	231.6	251.8	283.0	309.8	340.3	366.1
Gross national product in constant (1972) dollars	1217.8	1202.3	1273.0	1340.5	1399.2	1431.1	1421.4	1407.7
Personal income	1154.9	1255.5	1381.6	1531.6	1717.4	1923.1	2114.2	2286.4
Wage and salary disbursements	764.6	805.9	890.0	984.0	1103.3	1227.5	1321.6	1405.7
Disposable personal income	984.6	1086.7	1184.5	1305.1	1458.4	1623.2	1781.4	1915.1
Saving rate (percent)	7.3	7.7	5.8	5.0	4.9	4.5	4.5	4.9
Corporate profits with I.V.A. and C.C. Adj.	83.6	95.9	126.8	150.0	167.7	178.5	157.9	167.2
Corporate profits before tax	126.9	120.4	156.0	177.1	206.0	237.0	217.6	223.5
Federal government surplus or deficit (N.I.A. basis)	-10.7	-70.6	-53.6	-46.3	-27.7	-10.5	-41.0	-37.1
High employment surplus or deficit (-)	9.0	-19.2	-14.3	-19.3	-11.6	9.1	15.7	72.9
State and local government surplus or deficit (-) (N.I.A. basis)	7.6	6.2	17.9	26.8	27.4	24.4	20.3	17.9
Excluding social insurance funds	-2.9	-6.2	2.3	7.3	4.2	-2.2	-9.4	-14.2
Civilian labor force (millions)	91.0	92.6	94.8	97.4	100.4	102.9	104.8	105.9
Unemployment rate (percent)	5.6	8.5	7.7	7.0	6.0	5.8	6.9	8.4
Nonfarm payroll employment (millions)	78.3	77.0	79.4	82.4	86.4	89.5	90.0	89.0
Manufacturing	20.1	18.3	19.0	19.7	20.5	21.0	20.3	19.2
Industrial production (1967=100)	129.3	117.8	130.5	138.2	146.1	152.2	149.6	147.3
Capacity utilization: all manufacturing (percent)	83.8	72.9	79.5	81.9	84.4	85.7	81.3	77.3
Materials (percent)	87.1	73.4	81.1	82.7	85.6	87.1	81.2	76.2
Housing starts, private (million units, A.R.)	1.34	1.16	1.54	1.99	2.02	1.72	1.44	1.65
New auto sales, (millions, A.R.)	8.91	8.66	10.12	11.13	11.29	10.70	9.24	9.51
Domestic models	7.49	7.08	8.63	9.07	9.27	8.22	7.04	7.24
Foreign models	1.42	1.58	1.50	2.06	2.02	2.48	2.20	2.27

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

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

January 30, 1980

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

	1974	1975	1976	1977	1978	1979	Projected	
							1980	1981
<u>Constant (1972) dollars</u>								
Gross national product	-1.4	-1.3	5.9	5.3	4.4	2.3	-7	-1.0
Final purchases	-7	.2	4.5	4.8	4.4	2.6	.1	-1.1
Private	-1.4	-.3	5.6	5.6	5.0	3.1	-.4	-1.4
Excluding net exports	-2.3	-1.0	6.5	6.2	5.0	2.6	-1.2	-1.8
Personal consumption expenditures	-.9	1.8	5.9	5.0	4.5	2.6	-.4	-1.9
Goods	-3.4	.7	6.9	5.1	4.1	1.3	-2.7	-4.9
Services	2.3	3.2	4.8	4.9	5.1	4.2	2.4	1.4
Gross private domestic investment	-11.4	-22.3	21.6	15.4	7.1	.2	-9.6	-.9
Residential structures	-24.6	-13.9	23.3	20.7	4.2	-6.1	-11.2	6.8
Business fixed investment	-.3	-13.0	4.8	8.6	8.4	5.8	-2.5	-4.5
Gov't. purchases of goods and services	2.1	1.9	.2	2.0	1.8	.3	2.1	.3
Federal	-.8	.7	-.2	4.4	-2.0	.7	4.8	1.7
State and local	3.8	2.6	.5	.6	4.0	.2	.5	-.5
Disposable personal income	-1.5	2.1	3.7	4.2	4.6	2.2	-.3	-1.2
<u>Current dollars</u>								
Gross national product	8.1	8.2	11.3	11.6	12.0	11.3	8.1	8.1
Final purchases	8.9	9.7	9.9	11.0	12.1	11.6	9.0	8.0
Private	8.1	9.1	10.8	11.3	12.7	12.2	8.3	7.9
Excluding net exports	8.2	7.8	12.0	12.7	12.6	11.8	8.5	6.9
Personal consumption expenditures	9.8	10.1	11.3	11.0	11.6	11.8	9.7	6.8
Goods	8.9	8.7	11.0	9.8	10.7	10.8	7.1	3.5
Services	11.1	11.8	11.7	12.5	12.7	12.9	12.6	10.5
Gross private domestic investment	-2.5	-11.0	27.3	24.8	15.9	9.9	-1.6	8.2
Residential structures	-16.7	-6.5	32.3	35.0	17.5	5.5	-1.7	17.1
Business fixed investment	10.8	-.3	9.8	14.9	16.7	14.8	6.0	3.4
Gov't. purchases of goods and services	12.3	11.8	6.8	9.7	9.9	9.3	11.7	8.5
Federal	8.7	10.7	5.4	11.3	5.7	9.0	15.0	10.0
State and local	14.5	12.5	7.5	8.7	12.4	9.5	9.8	7.6
Disposable personal income	9.2	10.4	9.0	10.2	11.7	11.3	9.7	7.5
Personal income	9.7	8.7	10.0	10.9	12.1	12.0	9.9	8.1
Wage and salary disbursements	9.0	5.4	10.4	10.6	12.1	11.3	7.7	6.4
Corporate profits with IVA & C.C. Adj.	-15.6	14.7	32.2	18.3	11.8	6.4	-11.5	5.9
Corporate profits before tax	9.6	-5.1	29.6	13.5	16.3	15.0	-8.2	2.7
Nonfarm payroll employment	2.0	-1.7	3.1	3.8	4.9	3.6	.6	-1.1
Manufacturing	-.4	-8.7	3.7	3.6	4.0	2.5	-3.4	-5.3
Nonfarm business sector								
Output per hour	-2.9	1.9	3.5	1.8	.5	-1.2	-.9	.6
Compensation per hour	9.4	9.9	8.3	8.0	8.6	8.9	9.1	9.2
Unit labor costs	12.7	7.8	4.7	6.3	8.0	10.2	10.2	8.6
GNP implicit deflator	9.7	9.6	5.2	6.0	7.3	8.8	8.9	9.1
Gross domestic business product								
fixed-weighted price index <sup>1/</sup>	10.4	9.4	5.3	6.2	7.6	9.6	10.0	8.9
Excluding food and energy	8.1	9.5	5.8	6.3	7.2	8.2	7.9	7.9
Consumer price index (all urban)	11.0	9.1	5.8	6.5	7.7	11.3	12.8	9.1
Industrial production	-.4	-8.9	10.8	5.9	5.7	4.2	-1.7	-1.5

<sup>1/</sup> Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS  
(billions of dollars)

January 30, 1980

	Fiscal Year 1979*	FY 1980 e/2/		FY 1981 e/		CY 1979*	CY80e/ F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data						1981		
								1979		1980		1981				
								III*	IV*	I	II	III	IV	I	II	III
Unified budget receipts	465.9	523.8	520.0	600.0	583.6	480.5	533.4	119.9	114.0	113.5	154.4	138.1	127.5	128.2	173.2	154.7
Unified budget outlays	493.7	563.6	562.6	615.8	622.5	508.7	577.4	124.4	138.6	138.0	141.7	144.3	153.4	152.7	156.8	159.6
Surplus(+)/deficit(-), unified budget	-27.7	-39.8	-42.6	-15.8	-38.9	-28.2	-44.0	-4.5	-24.6	-24.5	12.7	-6.2	-25.9	-24.5	16.4	-4.9
Surplus(+)/deficit(-), off-budget agencies <sup>3</sup>	-12.4	-16.8	-17.8	-18.1	-19.0	-13.2	-17.9	-4.1	-1.0	-6.3	-6.0	-4.5	-1.1	-6.7	-6.4	-4.8
Combined deficit to be financed	-40.2	-56.5	-60.4	-33.9	-57.9	-41.4	-61.9	-8.6	-25.6	-30.8	6.7	-10.7	-27.0	-31.2	10.0	-9.7
Means of financing combined deficits:																
Net borrowing from public	33.6	44.3	49.2	33.1	56.4	37.3	59.3	12.4	18.9	19.8	-0.7	11.2	29.0	28.2	-8.0	7.2
Decrease in cash operating balance	-1.7	9.2	9.2	0.0	0.0	0.4	0.9	-6.7	8.3	7.9	-4.0	-3.0	0.0	0.0	0.0	0.0
Other <sup>4</sup>	8.3	3.0	1.9	0.8	1.5	3.5	1.6	2.9	-1.7	3.1	-2.0	2.5	-2.0	3.0	-2.0	2.5
Cash operating balance, end of period	24.2	15.0	15.0	15.0	15.0	15.9	15.0	24.2	15.9	8.0	12.0	15.0	15.0	15.0	15.0	15.0
Memo: Sponsored agency borrowing <sup>5</sup>	21.4	14.2	24.3	11.9	15.0	24.5	21.0	4.8	7.3	5.0	6.0	6.0	4.0	3.0	4.0	4.0
<b>NIA Budget</b>								<b>Seasonally adjusted annual rates</b>								
Receipts <sup>6</sup>	483.7	530.6	529.3	607.7	589.4	497.7	541.3	504.8	525.1	527.5	535.0	544.7	558.1	585.5	601.4	618.8
Expenditures <sup>6</sup>	493.6	564.2	564.0	626.3	632.8	508.0	582.6	516.1	536.4	554.2	567.6	596.5	612.3	623.8	635.2	659.4
Purchases (total)	162.4	185.6	185.8	202.9	205.2	166.3	191.3	162.9	177.0	185.2	188.9	192.2	198.8	203.2	207.4	211.3
Defense	105.9	118.7	119.3	132.1	134.3	108.3	123.1	109.0	114.6	117.7	120.8	124.0	129.7	132.7	135.9	138.9
Nondefense	56.5	66.9	66.6	70.8	70.9	58.0	68.2	53.9	62.4	67.5	68.1	68.2	69.1	70.5	71.5	72.4
All other expenditures	331.2	378.6	378.2	423.4	427.6	341.7	391.3	353.2	359.4	369.0	378.7	404.3	413.5	420.6	427.8	448.1
Surplus(+)/deficit(-) <sup>6</sup>	-9.9	-33.6	-34.7	-18.6	-43.4	-10.3	-41.3	-11.3	-11.3	-26.7	-32.6	-51.8	-54.2	-38.3	-33.8	-40.6
High Employment Surplus(+)/deficit(-) (NIA basis) <sup>7</sup>	4.3	n.a.	11.2	n.a.	59.7	9.1	15.7	10.8	12.6	6.6	13.2	12.5	30.4	60.2	73.8	74.1
	*--actual			e--estimated				n.a.--not available								

1-1A

1. The Budget of the United States Government, Fiscal Year 1981, January 1980.
2. In the Second Concurrent Resolution on the Budget, Fiscal Year 1980, (November 28, 1979), Congress approved receipts of \$517.8 billion and outlays of \$547.6 billion.
3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.
4. Checks issued less checks paid, accrued items and other transactions.
5. Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives marketable debt on an offerings basis.
6. The fiscal year totals as published by the BEA "Fiscal Year 1981 Budget Translation," January 1980, are based on unadjusted data and do not conform to the average of four seasonally adjusted quarters. The FRB staff estimates, therefore, have been adjusted in order to make the BEA and the staff estimates comparable.
7. Estimates are based on new methodology described in greater detail in Appendix to Part II.

## COMMENTS ON THE FEDERAL SECTOR OUTLOOK

The staff's fiscal outlook has been revised this month to reflect information contained in the President's budget proposals. For fiscal year 1981, federal spending on a unified basis is expected to be \$622-1/2 billion, about \$6-1/2 billion more than the administration's estimate. Differences between the staff and administration forecasts of unemployment and interest rate levels account for much of this divergence of spending. In addition, Congress is not expected to accept all of the President's proposals to reduce spending, especially for hospital cost containment. In the defense area, we assume a rapid buildup in procurement contracts, with our spending estimates running moderately higher than those of the administration. Receipts are projected by the staff at \$584 billion in fiscal year 1981, about \$16 billion below the budget estimate. This difference reflects the effect on incomes of the staff's slower projected economic recovery. Hence, the staff's expenditure and revenue estimates suggest a unified budget deficit in fiscal year 1981 of around \$39 billion.

For the current fiscal year, the staff's outlay forecasts are not substantially different from the administration's estimates. Relative to the last Greenbook, we have revised outlays upward to \$562-1/2 billion in order to reflect the Russian grain embargo, higher defense outlays, the postponement of some FmHA asset sales and larger interest payments on the public debt. Receipts also have been revised upward to an estimated total of \$520 billion, about \$6 billion above the previous forecast. The staff's stronger near term forecast of personal income is responsible for much of this gain. The recent strength in receipts,

however, may be moderated somewhat in the spring by a large increase in refunds (\$10 billion more than the previous year) resulting from the sizable rise in overwithholding experienced in 1979. The resulting deficit for the current fiscal year is now expected to be \$43 billion.

The high-employment budget estimates have been revised this month in order to reflect the Council of Economic Advisers downward revision of potential GNP. In addition, beginning this month the estimates have been computed using a new procedure developed by an inter-agency committee that included the Board's staff. (See Appendix A for more information on this method.) The new high-employment budget estimates show an increasing surplus, rising about \$18 billion during the four quarters of 1980, and around \$50 billion during 1981. The move toward restraint in 1981--when scaled by potential GNP--is among the largest of the postwar period.

Summary

Monetary expansion has continued at a moderate pace and credit conditions have remained firm recently. Short-term market rates of interest are unchanged to up 1/2 of a percentage point, on balance, since the January 9 FOMC meeting. In the taxable bond markets, yields have risen 1/2 to 3/4 of a percentage point, evidencing investor concerns about future inflation and credit market pressures in light of stronger than anticipated economic indicators and possible increases in federal defense spending.

It appears that M-1 has been growing a bit less than 4 percent, at an annual rate, during January, a little above the pace of the preceding three months. High market rates of interest have continued to retard growth of the interest-bearing components of the broader aggregates. Despite a reportedly good reception of the new 2-1/2 year certificates and further substantial sales of 6-month MMCs, bank time and savings deposits subject to rate ceilings are estimated to have little more than matched the 10-1/2 percent growth rate of December; in the second and third quarters of 1979 growth averaged around 15 percent. At S&Ls and MSBs, deposits appear to have grown in January at about the same weak pace as in December--in the neighborhood of 5 percent. Large sums continue to flow into non-deposit investments. Noncompetitive bill tenders and money market mutual fund growth have been at record levels this month.

The additional data that have become available recently confirm that there was a marked drop in aggregate credit flows in the final quarter of 1979. Borrowing by both nonfinancial businesses and households is now

estimated to have declined by one-fourth from the rate of the third quarter, and foreigners appear to have repaid debt, on net.

The fragmentary data available for January suggest that there may have been some pickup in bank credit growth, which averaged only 3 percent (annual rate) in the final quarter of last year. In particular, figures for large banks through January 16 point to a fairly brisk growth of business loans, although this partly reflects the impact on the monthly average level of a surge in late December. Issuance of commercial paper by nonfinancial firms meanwhile slowed in the first half of January, and public bond issuance remained quite moderate.

Perhaps because institutions had so drastically adjusted their lending policies earlier, the primary home mortgage market has been stable of late even though corporate bond rates have been rising to new highs. If anything, there have been signs of some easing of home mortgage credit conditions this month; interest rates on new loan commitments have been lowered slightly by S&Ls in certain areas, and surveys indicate some liberalization of nonrate terms. The federal override of usury ceilings has alleviated credit availability constraints in a number of states, but high interest rates reportedly are holding down loan demand in those markets as elsewhere. The volume of new commitments extended by S&Ls in December was down from the already sharply reduced November level, and commitments outstanding again fell substantially.

Security issuance by states and localities diminished somewhat in January owing to a drop-off in long-term debt offerings. The lighter calendar may have contributed to the relative strength of the municipal bond market--the ratio of tax-exempt to taxable bond yields is currently

around an all-time low. The Treasury, on the other hand, was a substantial borrower, raising \$4.4 billion in January through issuance of marketable debt. More than one-half of this was accomplished by additions to regular bill auctions. Sponsored agency borrowing, though sizable, was well below the record fourth quarter pace.

### Outlook

With aggregate demand apparently more bouyant than anticipated, short-term interest rates appear likely to remain close to their present levels over the next few months. Bond yields might retrace some of their recent increase, however, if there is decisive evidence of a weakening in economic activity or if there is some relaxation of current international tensions. Any fall in bond yields would, in turn, reinforce the recent tendency toward an easing of residential mortgage credit conditions.

On the whole, however, credit markets probably will remain quite taut in the near term. On the supply side, commercial banks and thrift institutions are expected to continue experiencing relatively sluggish growth of core deposits, and life insurers may face further sizable policy loan requests. Investors generally are likely to remain risk-averse, requiring relatively large quality rate-spreads and liquidity premiums.

Business borrowing may pick up a bit from the reduced fourth quarter pace; the staff's GNP projection points to some weakening in corporate cash flows, and firms face substantial tax payments. Business loan demand at banks probably will be somewhat stronger than in the fourth quarter, although any major rally in the bond markets might prompt a greater shift toward long-term debt issuance.

Household borrowing, on the other hand, most likely will decrease from the fourth quarter level. Installment credit growth should remain sluggish, in line with the weak outlook for consumer durables spending. Even with some possible easing in mortgage credit conditions, the recent drop in loan commitments and unfavorable income trends suggest that home mortgage flows will decline somewhat further.

In the government sector, state and local bond offerings probably will rebound in the next few months, with the volume of housing revenue bonds continuing large. Treasury borrowing will be fairly sizable; substantial amounts of new cash likely will be raised in regular bill auctions as well as in the quarterly refunding and other coupon financings.

## INTERNATIONAL DEVELOPMENTS

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Summary. On balance the trade-weighted average foreign exchange value of the dollar has risen slightly since the end of 1979; the dollar declined about 1 per cent in the first week of January but then recovered. Exchange market developments have been dominated by growing political tensions abroad, and those tensions have also been the prime factor in the wild gyrations of the price of gold and other precious metals. Among foreign currencies the pound showed particular strength until late in the month,

. U.S. intervention activity consisted of net sales of \$500 million, mainly against DM which was used to repay swap debt.

Economic activity in foreign industrial countries continued strong well into the fourth quarter of last year, according to most indicators, with only a few countries showing signs of an actual slowdown. However, price data continued to indicate a widespread experience of high inflation rates, reflecting the pervasive effect of high oil import prices. Larger oil imports have also been instrumental in a sharp decline in the aggregate trade surplus of the six largest foreign industrial countries, from about \$45 billion in 1978 to under \$5 billion in 1979.

A few items of new information on U.S. international transactions have become available since the last Greenbook. U.S. banks reported a net capital inflow of \$3-3/4 billion in November, about the same amount as in October, but partial data suggest that these inflows did not continue into December. For the January-November period net capital inflows reported by banks amounted to about \$25 billion, compared with a

net outflow of about \$15 billion reported for the full year 1978. The 1979 bank-reported inflow was partly offset by rising placements of funds offshore by U.S. nonbanks, with the rate of such placements slowing in the fourth quarter, according to partial data.

Official foreign assets in the United States declined again in November - assets of G-10 countries and Switzerland were down by \$8 billion,

. These swaps were reversed in December and early January. Assets of the OPEC countries in the United States rose only slightly in November and December though the OPEC current account rose to a quarterly rate of \$20 billion by the second half of 1979, double the first-half rate. U.S. reserve assets rose by \$1.3 billion in November, chiefly reflecting the proceeds of the sale of Treasury mark-denominated notes. A further sale of \$1.2 billion equivalent was made in January.

The trade deficit in December was reported at a \$37 billion annual rate (Census basis), considerably higher than the relatively low November rate, but for the fourth quarter as a whole the trade deficit was about the same as it had been since the first quarter. Exports were flat in December but up substantially for the quarter. Imports of oil were up in December and for the fourth quarter as a whole; the volume of imports was about the same in the fourth quarter - 8.7 mbd - as in the second and third quarters, but the import price reached \$25 per barrel in December, up from about \$14 per barrel in the first quarter.

Outlook. Over the past month revisions of underlying assumptions and special factors have had the effect of raising the projection of the 1980 trade deficit since the last Greenbook considerably - to about \$35 billion - but have reduced the 1981 deficit rate to about \$16 billion. The current account projection for this year is for a small deficit, but with surpluses of some size emerging by the fourth quarter and continuing through next year. The main change in the economic profile is the steeper decline in U.S. activity after mid-1980, while on the foreign side slightly more strength has been projected for 1980 and carried into 1981. Moreover, the projection of exports for 1980 has been reduced to reflect the cancellation of sales to the U.S.S.R. and the cessation of U.S. gold sales. The outlook for the trade-weighted average dollar has been shaded down in the near term compared with last month's estimate, but the dollar is projected to regain this ground toward the end of this year and early next year as the steadiness of U.S. monetary policy and the improvement in the U.S. trade and current account have their effect.

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CLASS II FOMC

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

	1979 ANN.	1980 ANN.	1981 ANN.	1980 Q I	1980 Q II	1980 Q III	1980 Q IV	1981 Q I	1981 Q II	1981 Q III	1981 Q IV
<b>1. GNP NET EXPORTS</b>											
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CURRENT \$, NET	-3.5	-6.9	12.5	-13.9	-14.1	-5.3	5.6	11.7	13.9	13.6	10.9
EXPORTS OF G&S	257.4	292.8	324.7	284.4	288.2	294.6	304.0	312.5	320.7	329.0	336.6
IMPORTS OF G&S	260.9	299.7	312.2	298.3	302.3	300.0	298.4	300.8	306.8	315.4	325.7
CONSTANT 72 \$, NET	17.7	26.2	30.6	23.8	25.2	26.8	29.1	30.5	30.9	30.9	30.3
EXPORTS OF G&S	119.8	121.7	123.7	122.8	121.5	121.0	121.6	122.5	123.4	124.2	124.7
IMPORTS OF G&S	102.1	95.5	93.0	99.0	96.3	94.2	92.5	92.0	92.5	93.3	94.4
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<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>											
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EXPORTS (EXCL. MILITARY)	182.8	210.7	236.0	202.4	207.6	212.7	220.1	226.7	232.8	239.3	245.3
AGRICULTURAL	35.3	36.9	41.1	36.7	36.6	36.3	37.9	39.4	40.4	41.7	43.0
NONAGRICULTURAL	147.5	173.8	194.9	165.7	171.0	176.4	182.2	187.3	192.4	197.6	202.3
IMPORTS	210.9	245.1	252.1	246.2	247.8	244.9	241.7	242.7	247.3	254.6	263.8
PETROLEUM AND PRODUCTS	59.4	84.1	87.4	82.2	85.0	85.1	84.0	84.8	86.3	87.9	90.5
NONPETROLEUM	151.5	161.0	164.7	164.0	162.7	159.8	157.6	157.9	161.0	166.7	173.3
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<b>3. U.S. CURRENT ACCOUNT BALANCE</b>											
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OF WHICH: NET INVESTMENT INCOME	30.9	33.0	36.4	30.9	32.6	33.9	34.4	34.9	35.9	36.9	38.0
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<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/</b>											
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REAL GNP, % CHANGE, ANNUAL RATES	3.6	1.9	2.1	0.6	0.8	1.2	1.5	2.3	2.6	2.9	3.0
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	7.9	10.0	7.8	10.4	10.0	8.3	8.0	7.9	7.4	6.8	7.0
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2/ INTERNATIONAL ACCOUNTS BASIS.

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- PER CENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE. CANADA (9.1%), JAPAN (13.6%), UNITED KINGDOM (11.9%), GERMANY (20.8%), FRANCE (13.1%), ITALY (9.0%), BELGIUM (6.4%), THE NETHERLANDS (6.3%), SWITZERLAND (3.6%), SWEDEN (4.2%).

4/ WHOLESALE PRICES FOR JAPAN.

P/ PROJECTED.