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November 10, 1982

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 slow slide in economic activity apparently continued in September and October. Employment and production declined in both months, reflecting continued weakness in sales and a desire by firms to reduce inventories further. However, housing activity has continued to trend upward. At the same time, recent news on consumer prices and labor costs indicates a further improvement in inflation.

Nonfarm payroll employment fell 265,000 in October, slightly more than the average decline in the previous four months. Job losses were registered in a wide range of industries. The largest cutbacks continued to be in durable manufacturing; layoffs in this sector have accounted for almost two-thirds of the drop in employment since the summer of 1981. Reductions in the metals, machinery, and transportation equipment industries--where inventories still are quite high in relation to sales--were sizable again in October. The unemployment rate rose to 10.4 percent last month, with nearly all of the increase in joblessness occurring among adult men and women.

Preliminary data indicate that industrial production declined about 3/4 percent in October, a little more than the reductions in August and September. Much of the drop last month was attributable to another large decline in the production of business equipment, but automobile assemblies and raw steel output were lower as well.

Disposable personal income increased slowly in real terms in the third quarter, as weakness in wages and salaries offset much of the beneficial effect of the July tax cut; labor market data for October suggest that income gains were meager last month as well. Reflecting concern over

future job prospects in addition to the weak income growth, consumer spending has grown fairly slowly since last spring. Outlays for discretionary items have been particularly disappointing, as evidenced by the small increase in spending at general merchandise, apparel, and furniture stores last summer. Sales of new domestically produced autos rose to a 6.2 million unit annual rate in September, but this was in response to a wide variety of price incentives; sales fell to a 5.3 million unit pace in October after the inducements were removed. However, automakers recently have announced new incentives on 1982 models which--in conjunction with the generally lower level of interest rates--could bolster car sales.

Business investment fell sharply in real terms in the third quarter, as outlays for equipment registered a broad-based decline and expenditures for structures dropped for the first time in this recession. Moreover, most indicators point to continued weakness in the months ahead. The backlog of orders for nondefense capital goods has been shrinking for the last eighteen months, despite a sizable rise in September bookings. Contracts for commercial and industrial building have been weak throughout 1982, indicating further declines in nonresidential construction. In addition, a number of private surveys of capital spending intentions have reported that businesses plan to cut real capital outlays substantially in 1983.

Housing activity firmed in the third quarter, as starts rose to a 1.1 million unit annual rate--almost 30 percent above the low recorded in the fourth quarter of 1981. The rise in starts last quarter was concentrated in the multifamily sector and can be attributed in part to a surge

in federally subsidized activity at the end of the fiscal year. But starts of single-family units--which have been extremely sluggish in the current upturn--increased appreciably in September.

The inventory correction appears to have resumed in September, after efforts to reduce stocks were hampered by weak sales over the summer. The book value of manufacturers' inventories declined at a \$26 billion annual rate in September, following smaller reductions in the previous two months. Nonetheless, stocks remain quite high in relation to sales in a number of durable goods industries, particularly primary metals, nonelectrical machinery, and transportation equipment. Some of the overhang at auto dealers was eliminated in September and October although there still appear to be imbalances at many other types of retail establishments.

Inflation continued to slow late in the summer, and according to most measures was at an annual rate of around 5 percent for the first nine months of the year. The consumer price index rose at a 2 percent annual rate in September, reflecting sharply lower homeownership costs and relatively small increases for most other items. Inflation for capital goods also has eased, as a widespread slowing has held the increases in this sector so far this year to only about half of last year's 9 percent rate.

Labor cost pressures have continued to moderate. Increases in hourly compensation have been trending down since early 1981, and the 6-1/2 percent annual rate of increase in the third quarter brings the four-quarter change to the lowest rate in a decade. The improvement has been particularly noticeable in the unionized sector, where wage adjustments have been held down by both smaller COLAs and lower new settlements.

At the same time, labor productivity rose sharply in the third quarter, following fractional gains in the first half.

Outlook. The staff expects real GNP to remain essentially flat in the current quarter. Inventory liquidation is likely to resume, offsetting a small increase in real final sales. Further large reductions are projected for business fixed investment and exports, while consumption spending and housing outlays are expected to increase more than they did last quarter. Substantial purchases by the Commodity Credit Corporation are likely to boost federal spending. Price increases in the fourth quarter should remain moderate, with the gross domestic business product fixed-weighted price index rising about 5 percent per year. CPI increases may be even smaller, as a result of falling mortgage rates.

With respect to monetary policy, growth in M2 in 1982 is assumed to be somewhat above its target range. For 1983, growth in the aggregates is assumed to be within the target ranges tentatively accepted by the FOMC, abstracting from the impact of the new money fund account.¹ Short-term rates are projected to rise gradually over the course of the year from around present, or somewhat lower, levels. Long-term rates are projected to move only marginally above current levels, owing to declining inflation expectations.

The fiscal policy assumptions are not changed substantially from the previous projection. For fiscal year 1983, the staff continues to

1. With the impact of the account, M2 growth would be expected to increase slightly more, placing it in the upper half of the 6 to 9 percent range. M1 growth would be expected to fall short of the tentative 2-1/2 to 5-1/2 percent range.

assume that \$45 billion of deficit-reducing measures ultimately will be implemented--about three-fourths of the savings specified in the congressional budget resolution. Our estimate of the FY1983 federal deficit has increased to \$177 billion, as a consequence of lower tax receipts, larger CCC outlays, and an extension of special unemployment benefits.

A weak recovery is projected for the first half of 1983, with real GNP growing at about a 2 percent annual rate. Housing activity should continue to improve and the current inventory liquidation is projected to end, eliminating an important influence depressing economic activity this year.

In the second half of the year, consumer spending should benefit from the third stage of the cut in personal income taxes, which will be larger than last July's reduction. If sustained, the recent increase in stock prices also could stimulate household outlays. Although spending on nonresidential structures is expected to decline throughout 1983, equipment investment is projected to improve as output rises, generating a small increase in real business fixed investment over the year. Small increases in inventories also can be expected to help boost production. A strengthening of demand for U.S. exports as foreign economic activity begins to revive should provide some slight stimulus as well; this would be a sharp reversal of the experience in 1982 when exports plunged in response to the appreciation of the dollar and weakness in activity abroad.

The slow recovery in output will generate only meager improvement in the utilization of capital and labor resources. The unemployment rate is projected to exceed 10-1/2 percent this quarter and remain close to 10

percent even at the end of next year. As a result of this extended period of slack in the labor market and lower inflation rates, wage increases are projected to continue their decline, with hourly compensation rising a little more than 5 percent during 1983. The reduction in wage growth, combined with some improvement in productivity, should reduce unit labor cost increases to about 3-1/2 percent next year.

These reduced cost pressures and continued low levels of capacity utilization should restrain the rate of growth of prices as well. During 1983, the gross domestic business product fixed-weighted price index is projected to rise 4-1/2 percent, compared with about 5 percent this year. This deceleration is small, given the historical relationship between inflation and economic activity; however, it is assumed that the dollar will depreciate in the latter half of 1983, partially reversing one of the factors in this year's disinflation.

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				
9/29/82	11/10/82	9/29/82	11/10/82	9/29/82	11/10/82	9/29/82	11/10/82	9/29/82	11/10/82	
Annual changes:										
1980 <1>	8.9	8.9	-.4	-.4	10.1	10.1	8.6	8.6	7.1	7.1
1981 <1>	11.6	11.6	1.9	1.9	9.6	9.6	9.4	9.4	7.6	7.6
1982	4.5	4.4	-1.7	-1.7	6.0	6.0	7.1	7.0	9.5	9.7
1983	6.9	6.6	2.0	1.8	5.0	4.8	5.0	4.8	9.9	10.5
Quarterly changes:										
1981 Q1 <1>	19.6	19.6	7.9	7.9	10.4	10.4	8.4	8.4	7.4	7.4
Q2 <1>	5.3	5.3	-1.5	-1.5	8.6	8.6	9.4	9.4	7.4	7.4
Q3 <1>	11.4	11.4	2.2	2.2	9.3	9.3	11.0	11.0	7.4	7.4
Q4 <1>	3.0	3.0	-5.3	-5.3	7.4	7.4	8.6	8.6	8.3	8.3
1982 Q1 <1>	-1.0	-1.0	-5.1	-5.1	4.4	4.4	5.3	5.3	8.8	8.8
Q2 <1>	6.8	6.8	2.1	2.1	3.8	3.8	5.9	5.9	9.5	9.5
Q3 <1>	6.4	6.2	.1	.8	6.3	6.1	6.1	5.8	10.0	9.9
Q4	6.4	5.4	1.0	-.6	5.2	5.4	5.3	5.6	10.2	10.6
1983 Q1	7.0	7.0	2.2	1.9	5.2	4.8	5.4	4.8	10.1	10.6
Q2	6.5	6.2	2.3	2.0	4.6	4.5	4.4	4.2	10.0	10.6
Q3	7.9	8.0	3.9	4.4	4.5	4.2	4.1	3.7	9.9	10.5
Q4	8.5	8.3	4.0	4.3	4.2	4.1	3.7	3.7	9.7	10.3
Two-quarter changes: <2>										
1981 Q2 <1>	12.2	12.2	3.1	3.1	9.5	9.5	8.9	8.9	-.1	-.1
Q4 <1>	7.1	7.1	-1.6	-1.6	8.3	8.3	9.8	9.8	.9	.9
1982 Q2 <1>	2.8	2.8	-1.6	-1.6	4.2	4.2	5.6	5.6	1.2	1.2
Q4	6.4	5.8	.5	.1	5.8	5.8	5.7	5.7	.7	1.1
1983 Q2	6.8	6.6	2.2	1.9	4.9	4.6	4.9	4.5	-.2	.0
Q4	8.2	8.2	3.9	4.4	4.3	4.2	3.9	3.7	-.3	-.3
Four-quarter changes: <3>										
1980 Q4 <1>	9.4	9.4	-.7	-.7	10.3	10.3	9.4	9.4	1.5	1.5
1981 Q4 <1>	9.6	9.6	.7	.7	8.9	8.9	9.3	9.3	.8	.8
1982 Q4	4.6	4.3	-.5	-.7	5.0	5.0	5.6	5.7	1.9	2.3
1983 Q4	7.5	7.4	3.1	3.1	4.6	4.4	4.4	4.1	-.5	-.3

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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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.)

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2575.9	2573.4	2643.7	2739.4	2864.9	2901.8	2980.9	3003.2
Final purchases	2576.6	2573.9	2664.8	2757.1	2852.7	2877.2	2949.1	2989.9
Private	2057.4	2037.9	2126.3	2197.3	2274.6	2294.0	2348.9	2363.6
Excluding net exports	2043.4	2013.7	2087.3	2173.8	2243.4	2270.3	2323.0	2340.1
Personal consumption expenditures	1618.7	1622.2	1682.0	1745.8	1799.9	1819.4	1868.8	1884.5
Goods	871.4	855.7	886.4	925.2	957.5	960.0	982.5	976.1
Services	747.3	766.6	795.6	820.6	842.4	859.4	886.3	908.3
Gross private domestic investment	424.0	391.0	384.1	410.3	455.7	475.5	486.0	468.9
Residential structures	113.5	91.2	97.6	110.5	113.6	109.5	101.2	95.5
Business fixed investment	311.2	300.2	307.8	317.5	330.0	341.3	353.0	360.2
Change in business inventories	-.7	-.4	-21.2	-17.7	12.2	24.6	31.8	13.2
Nonfarm	.7	4.0	-15.4	-12.3	10.0	19.3	24.6	6.0
Net exports of goods and services <1>	14.0	24.2	39.0	23.5	31.2	23.7	25.9	23.5
Exports	335.7	337.3	337.2	346.7	365.4	368.9	367.2	367.9
Imports	321.7	313.1	298.2	323.2	334.2	345.1	341.3	344.4
Gov't. purchases of goods and services	519.2	536.0	538.5	559.8	578.1	583.2	600.2	626.3
Federal <2>	189.6	198.8	193.3	207.0	217.0	218.2	230.0	250.5
State and local	329.6	337.2	345.2	352.8	361.1	365.0	370.1	375.7
Gross national product in constant (1972) dollars	1494.9	1457.8	1463.8	1479.4	1507.8	1502.2	1510.4	1490.1
Personal income	2086.8	2109.6	2185.3	2260.0	2330.0	2380.6	2458.2	2494.6
Wage and salary disbursements	1319.7	1332.1	1360.5	1412.2	1452.8	1479.4	1512.3	1531.2
Disposable personal income	1766.9	1781.0	1845.5	1902.9	1958.7	1996.5	2060.0	2101.4
Saving rate (percent)	3.5	6.1	6.1	5.5	5.4	6.1	6.5	7.5
Corporate profits with I.V.A. and G.C. Adj.	195.3	172.2	177.8	181.2	200.3	185.1	193.1	183.9
Corporate profits before tax	268.2	217.6	238.1	245.9	253.1	225.4	233.3	216.5
Federal government surplus or deficit (-) (M.I.A. basis)	-39.7	-67.5	-73.1	-65.2	-39.7	-40.5	-58.0	-101.7
High employment surplus or deficit (-) <3>	-18.4	-20.3	-19.3	-10.6	10.4	22.0	5.9	-20.3
State and local government surplus or deficit (-) (M.I.A. basis)	29.1	23.3	27.1	33.0	31.3	32.9	33.5	29.1
Excluding social insurance funds	3.3	-2.8	-1.0	3.9	1.1	1.7	1.2	-4.2
Civilian labor force (millions)	106.5	106.8	107.2	107.5	108.1	108.8	108.7	109.2
Unemployment rate (percent)	6.3	7.3	7.6	7.5	7.4	7.4	7.4	8.3
Nonfarm payroll employment (millions)	90.9	90.3	89.9	90.5	90.9	91.2	91.4	91.0
Manufacturing	20.9	20.3	19.9	20.1	20.2	20.3	20.3	19.9
Industrial production (1967=100)	152.7	144.5	142.3	148.8	151.8	152.5	153.0	146.3
Capacity utilization: all manufacturing (percent)	83.4	77.9	75.9	79.1	79.9	79.8	79.2	74.8
Materials (percent)	85.8	78.9	75.2	80.1	82.2	81.2	81.2	75.2
Housing starts, private (million units, A.R.)	1.25	1.06	1.39	1.50	1.40	1.17	.96	.87
New auto sales (millions, A.R.)	10.65	7.68	8.80	9.04	9.96	7.89	9.04	7.36
Domestic models	7.87	5.53	6.51	6.57	7.31	5.63	6.90	5.13
Foreign models	2.77	2.14	2.29	2.47	2.66	2.25	2.14	2.23

<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 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$30.9 billion in 1980-Q4, and a deficit of \$43.3 billion in 1981-Q4.

November 10, 1982

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

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Constant (1972) Dollars								
Gross national product	1.5	-9.6	1.6	4.3	7.9	-1.5	2.2	-5.3
Final purchases	1.6	-9.6	3.3	3.7	5.4	-4.0	1.0	-2.3
Private	.8	-12.4	5.4	4.7	5.5	-4.0	.4	-4.4
Excluding net exports	-1.3	-13.7	5.7	7.6	4.7	-2.8	2.2	-3.6
Personal consumption expenditures	-7	-8.7	5.4	5.7	4.4	-2.7	2.9	-3.3
Goods	-2.3	-16.1	5.7	8.6	6.9	-5.1	4.0	-6.2
Services	1.2	.4	5.1	2.6	1.5	.1	1.7	.0
Gross private domestic investment	-4.5	-32.5	-5.1	22.6	25.0	14.9	6.9	-22.6
Residential structures	-21.6	-61.7	20.4	59.8	1.0	-17.4	-31.9	-25.3
Business fixed investment	2.5	-20.4	3.5	6.6	8.0	1.1	9.3	.6
Gov't. purchases of goods and services	5.2	3.1	-4.7	-.3	5.2	-4.1	3.6	7.0
Federal	12.3	10.5	-12.5	-2.6	12.2	-3.2	14.8	20.4
National defense	13.2	.5	-2.5	-2.1	8.0	11.5	7.6	10.1
State and local	1.2	-1.1	.3	1.0	1.3	-4.6	-2.7	-.8
Disposable personal income	1.1	-6.6	5.2	3.0	3.7	.6	4.8	1.2
Current Dollars								
Gross national product	12.2	-.4	11.4	15.3	19.6	5.3	11.4	3.0
Final purchases	11.8	-.4	14.9	14.6	14.6	3.5	10.4	5.7
Private	10.2	-3.7	18.5	14.0	14.8	3.5	9.9	2.5
Excluding net exports	9.5	-5.7	15.4	17.6	13.4	4.9	9.6	3.0
Personal consumption expenditures	10.7	.9	15.6	16.1	13.0	4.4	11.3	3.4
Goods	9.4	-7.0	15.1	18.7	14.7	1.0	9.7	-2.6
Services	12.3	10.2	16.0	13.2	11.1	8.3	13.2	10.3
Gross private domestic investment	7.1	-27.6	-6.8	30.1	52.2	18.5	9.2	-13.3
Residential structures	-14.0	-58.2	31.0	64.5	11.5	-13.4	-27.0	-20.8
Business fixed investment	13.3	-13.3	10.4	13.3	16.7	14.5	14.3	8.4
Gov't. purchases of goods and services	18.5	13.6	1.9	16.8	13.7	3.6	12.2	18.6
Federal	29.5	20.8	-10.5	31.3	20.9	2.2	23.5	40.7
National defense	28.8	10.4	1.7	25.3	15.4	22.1	10.8	36.7
State and local	12.7	9.6	9.8	9.2	9.7	4.4	5.7	6.2
Disposable personal income	12.7	3.2	15.3	13.0	12.3	7.9	13.4	8.3
Personal income	10.7	4.4	15.1	14.4	13.0	9.0	13.7	6.1
Wage and salary disbursements	11.4	3.8	8.8	16.1	12.0	7.5	9.2	5.1
Corporate profits with I.V.A. and C.C. Adj.	29.4	-39.6	13.7	7.9	49.3	-27.1	18.4	-17.7
Corporate profits before tax	34.2	-56.7	43.4	13.8	12.2	-37.1	14.8	-25.8
Nonfarm payroll employment	1.8	-2.3	-1.8	2.7	1.8	1.0	.8	-1.8
Manufacturing	-1.2	-10.4	-7.5	4.2	1.3	2.8	.1	-8.1
Nonfarm business sector								
Output per hour	-.4	-4.6	3.4	3.1	4.9	-1.3	-.3	-3.5
Compensation per hour	11.9	10.2	10.4	9.8	11.8	7.1	9.0	7.3
Unit labor costs	12.4	15.5	6.8	6.5	6.6	8.6	9.3	11.2
GNP implicit deflator <1>	10.5	10.3	9.6	10.5	10.9	6.8	9.0	8.8
Gross domestic business product								
fixed-weighted price index <2>	11.0	10.4	9.9	10.0	10.4	8.6	9.3	7.4
Excluding food and energy	8.7	9.6	9.7	9.7	8.4	9.4	11.0	8.6
Consumer price index (all urban)	16.5	13.5	7.7	12.8	11.0	7.8	11.8	7.7
Industrial production	.4	-19.8	-5.8	19.3	8.4	1.9	1.4	-16.6

<1> Excluding Federal pay increases, rates of change were: 1980-Q1, 10.5 percent; 1980-Q4, 9.4 percent; 1981-Q1, 10.8 percent; 1981-Q4, 7.8 percent.

<2> Uses expenditures in 1972 as weights.

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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				Projected 1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2995.5	3045.2	3091.4	3132.1	3185.5	3233.9	3296.8	3363.4
Final purchases	3031.1	3061.4	3091.8	3142.9	3187.9	3227.7	3286.8	3349.4
Private	2401.0	2430.5	2441.6	2473.6	2511.4	2546.1	2593.9	2642.6
Excluding net exports	2369.7	2395.6	2428.4	2464.3	2509.4	2553.0	2605.9	2661.4
Personal consumption expenditures	1919.4	1947.8	1989.5	2027.4	2064.0	2098.3	2141.1	2184.0
Goods	987.0	995.7	1011.4	1028.8	1045.4	1060.1	1080.2	1100.1
Services	932.4	952.1	978.1	998.6	1018.6	1038.2	1060.9	1083.9
Gross private domestic investment	414.8	431.5	438.5	426.1	443.0	460.9	474.8	491.4
Residential structures	93.4	95.5	97.4	101.9	110.9	117.9	123.4	126.9
Business fixed investment	357.0	352.2	341.6	335.0	334.5	336.8	341.4	350.5
Change in business inventories	-35.6	-16.2	-.5	-10.8	-2.4	6.2	10.0	14.0
Nonfarm	-36.0	-15.0	-.5	-10.8	-2.4	6.2	10.0	14.0
Net exports of goods and services <1>	31.3	34.9	13.2	9.3	2.0	-6.9	-12.0	-18.8
Exports	359.9	365.8	356.6	342.1	338.8	344.2	355.0	367.2
Imports	328.6	330.9	343.4	332.8	336.8	351.1	367.0	386.0
Gov't. purchases of goods and services	630.1	630.9	650.2	669.3	676.5	681.6	692.9	706.8
Federal <2>	249.7	244.3	257.5	271.6	274.0	274.6	281.3	291.4
State and local	380.4	386.6	392.6	397.7	402.5	407.0	411.6	415.4
Gross national product in constant (1972) dollars	1470.7	1478.4	1481.2	1478.9	1485.8	1493.3	1509.5	1525.5
Personal income	2510.5	2552.7	2597.8	2631.3	2664.1	2702.0	2754.7	2800.4
Wage and salary disbursements	1541.6	1556.6	1569.4	1582.1	1606.1	1629.2	1656.8	1688.3
Disposable personal income	2117.1	2151.5	2202.3	2236.9	2274.1	2303.3	2355.1	2398.9
Saving rate (percent)	6.6	6.7	6.9	6.7	6.6	6.2	6.4	6.3
Corporate profits with I.V.A. and C.G. Adj.	157.1	155.4	165.7	168.8	171.8	178.9	188.6	200.5
Corporate profits before tax	171.6	171.7	181.1	176.6	173.4	173.3	176.7	180.4
Federal government surplus or deficit (-) (N.I.A. basis)	-118.4	-119.6	-154.3	-174.8	-168.9	-164.3	-184.4	-193.9
High employment surplus or deficit (-) <3>	-17.0	-8.1	-35.6	-44.8	-31.0	-21.2	-41.8	-53.1
State and local government surplus or deficit (-) (N.I.A. basis)	27.7	32.1	33.3	33.3	34.7	36.2	39.1	42.7
Excluding social insurance funds	-6.8	-3.6	-3.6	-4.8	-4.6	-4.3	-2.6	-.2
Civilian labor force (millions)	109.1	110.2	110.7	110.7	111.0	111.3	111.7	112.0
Unemployment rate (percent)	8.8	9.5	9.9	10.6	10.6	10.6	10.5	10.3
Nonfarm payroll employment (millions)	90.4	90.8	89.3	88.8	89.0	89.3	89.8	90.3
Manufacturing	19.4	19.1	18.7	18.3	18.3	18.4	18.7	18.9
Industrial production (1967=100)	141.7	139.4	138.1	136.4	137.7	138.9	142.9	146.3
Capacity utilization: all manufacturing (percent)	71.6	70.3	69.6	68.4	68.7	68.9	70.5	71.8
Materials (percent)	72.0	69.6	68.1	67.1	67.9	68.5	70.9	72.8
Housing starts, private (million units, A.R.)	.92	.95	1.11	1.20	1.30	1.35	1.40	1.40
New auto sales (millions, A.R.)	8.12	7.53	7.78	8.10	8.40	8.40	9.00	9.20
Domestic models	5.90	5.53	5.56	5.80	6.10	6.30	6.70	6.80
Foreign models	2.22	1.99	2.22	2.30	2.30	2.10	2.30	2.40

- <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 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$69.4 billion in 1982-Q4, and a deficit of \$79.2 billion in 1983-Q4.

CONFIDENTIAL - FR
CLASS II FOMC

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

	1982				Projected 1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Constant (1972) Dollars								
Gross national product	-5.1	2.1	.8	-.6	1.9	2.0	4.4	4.3
Final purchases	.2	-.9	-.6	.8	.9	1.0	4.0	3.8
Private	1.0	.2	-2.3	.0	1.3	1.6	4.5	4.4
Excluding net exports	.9	.6	-.6	.9	2.1	2.0	3.7	3.9
Personal consumption expenditures	2.5	2.5	1.4	2.5	1.9	1.6	3.4	3.2
Goods	2.0	2.5	.7	3.8	2.0	1.3	3.6	3.2
Services	3.0	2.4	2.2	1.2	1.7	1.9	3.2	3.3
Gross private domestic investment	-36.5	14.9	-.4	-15.6	10.8	11.9	8.4	10.7
Residential structures	-10.2	12.9	4.2	15.2	34.8	22.5	15.1	7.3
Business fixed investment	-5.0	-11.8	-12.9	-11.1	-4.4	-.7	2.3	7.4
Gov't. purchases of goods and services	-2.9	-5.3	6.8	3.9	-.7	-1.3	2.1	1.7
Federal	-5.5	-13.5	19.6	11.6	-.3	-2.1	5.8	5.4
National defense	-7.9	21.4	14.3	6.6	4.4	6.4	9.6	9.8
State and local	-1.1	.4	-.7	-.9	-.9	-.8	-.4	-.8
Disposable personal income	-1.9	3.1	2.3	1.2	1.3	.1	4.3	2.7
Current Dollars								
Gross national product	-1.0	6.8	6.2	5.4	7.0	6.2	8.0	8.3
Final purchases	5.6	4.1	4.0	6.8	5.9	5.1	7.5	7.8
Private	6.5	5.0	1.8	5.3	6.3	5.6	7.7	7.7
Excluding net exports	5.2	4.4	5.6	6.0	7.5	7.1	8.5	8.8
Personal consumption expenditures	7.6	6.1	8.8	7.8	7.4	6.8	8.4	8.3
Goods	4.5	-3.6	6.5	7.1	6.6	5.7	7.8	7.6
Services	11.0	8.7	11.4	8.6	8.3	7.9	9.0	9.0
Gross private domestic investment	-38.8	17.1	6.6	-10.8	16.8	17.2	12.6	14.7
Residential structures	-8.4	9.4	7.9	19.8	40.3	27.7	20.0	11.8
Business fixed investment	-3.5	-5.3	-11.5	-7.5	-.6	2.8	5.6	11.1
Gov't. purchases of goods and services	2.4	.6	12.8	12.3	4.4	3.0	6.8	8.3
Federal	-1.4	-8.3	23.5	23.7	3.6	.9	10.1	15.2
National defense	-1.8	26.4	18.1	16.8	9.5	10.6	14.7	20.0
State and local	5.0	6.7	6.4	5.3	4.9	4.5	4.6	3.7
Disposable personal income	3.0	6.7	9.8	6.4	6.8	5.2	9.3	7.7
Personal income	2.6	6.9	7.3	5.3	5.1	5.8	8.0	6.8
Wage and salary disbursements	2.7	3.9	3.3	3.3	6.2	5.9	7.0	7.8
Corporate profits with I.V.A. and G.C. Adj.	-46.7	-4.3	29.9	7.7	7.3	17.4	23.5	27.9
Corporate profits before tax	-60.5	.2	24.3	-9.6	-7.1	-.4	8.1	8.6
Nonfarm payroll employment	-2.4	-1.7	-3.0	-2.3	.7	1.4	2.0	2.5
Manufacturing	-9.0	-7.2	-7.8	-9.0	.9	3.3	4.9	5.8
Nonfarm business sector								
Output per hour	.6	.8	3.6	2.1	1.4	.8	2.4	1.7
Compensation per hour	7.7	6.1	6.6	5.8	6.0	5.0	5.0	4.8
Unit labor costs	7.1	5.2	2.9	3.6	4.6	4.2	2.5	3.0
GNP implicit deflator <1>	4.3	4.6	5.4	6.0	5.0	4.1	3.4	3.9
Gross domestic business product fixed-weighted price index <2>	4.4	3.8	6.1	5.4	4.8	4.5	4.2	4.1
Excluding food and energy	5.3	5.9	5.8	5.6	4.8	4.2	3.7	3.7
Consumer price index (all urban)	3.2	4.6	7.7	1.6	5.2	5.1	4.7	4.8
Industrial production	-11.8	-6.5	-3.7	-4.8	3.9	3.5	12.0	9.9

<1> Excluding Federal pay increases, the rates of change are: 1982-Q1, 4.2 percent; 1982-Q4, 5.5 percent; 1983-Q1, 5.0 percent; 1983-Q4, 3.4 percent.

<2> Uses expenditures in 1972 as weights.

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of current dollars.)

	1976	1977	1978	1979	1980	1981	---Projected---	
							1982	1983
Gross national product	1718.0	1918.3	2163.9	2417.8	2633.1	2937.7	3066.0	3269.9
Final purchases	1706.2	1895.3	2137.4	2403.5	2643.1	2917.3	3081.8	3262.9
Private	1344.1	1501.5	1705.5	1929.1	2104.7	2320.4	2436.7	2573.5
Excluding net exports	1330.3	1505.5	1706.6	1915.9	2079.5	2294.3	2414.5	2582.4
Personal consumption expenditures	1084.3	1204.4	1346.5	1507.2	1667.2	1843.2	1971.0	2121.8
Goods	598.5	657.0	728.5	813.5	884.7	969.1	1005.7	1071.4
Services	485.7	547.4	618.0	693.7	782.5	874.1	965.3	1050.4
Gross private domestic investment	257.9	324.1	386.6	423.0	402.3	471.5	427.7	467.5
Residential construction	72.0	95.8	111.2	118.6	103.2	104.9	97.0	119.8
Business fixed investment	174.1	205.2	248.9	290.2	309.2	346.1	346.4	340.8
Change in business inventories	11.8	23.0	26.5	14.3	-10.0	20.5	-15.8	7.0
Nonfarm	13.9	21.9	25.4	8.6	-5.7	15.0	-15.6	7.0
Net exports of goods and services <1>	13.8	-4.0	-1.1	13.2	25.2	26.1	22.2	-8.9
Exports	170.9	182.7	218.7	281.4	339.2	367.3	356.1	351.3
Imports	157.1	186.7	219.8	268.1	314.0	341.3	333.9	360.2
Gov't. purchases of goods and services	362.1	393.8	431.9	474.4	538.4	596.9	645.1	689.4
Federal <2>	129.2	143.4	153.6	168.3	197.2	228.9	255.8	280.3
State and local	232.9	250.4	278.3	306.0	341.2	368.0	389.3	409.1
Gross national product in constant (1972) dollars	1298.2	1369.7	1438.6	1479.4	1474.0	1502.6	1477.3	1503.5
Personal income	1391.2	1540.4	1732.7	1951.2	2160.4	2415.8	2573.1	2730.3
Wage and salary disbursements	889.9	983.2	1106.3	1237.6	1356.1	1493.9	1562.4	1645.1
Disposable personal income	1194.4	1314.0	1474.0	1650.2	1824.1	2029.1	2176.9	2332.8
Saving rate (percent)	6.9	5.9	6.1	5.9	5.8	6.4	6.7	6.4
Corporate profits with I.V.A. and C.C.Adj.	138.1	167.3	192.4	194.8	181.6	190.6	161.8	184.9
Corporate profits before tax	166.3	194.7	229.1	252.7	242.4	232.1	175.3	175.9
Federal government surplus or deficit(-) (N.I.A. basis)	-53.1	-45.9	-29.5	-16.1	-61.4	-60.0	-141.8	-177.8
High employment surplus or deficit(-)	-16.6	-20.5	-16.0	-2.0	-17.1	4.5	-26.4	-36.8
State and local government surplus or deficit (-) (N.I.A. basis)	16.6	28.0	30.3	30.4	28.1	31.7	31.6	38.2
Excluding social insurance funds	.9	10.1	10.0	6.6	.9	-1	-4.7	-2.9
Civilian labor force (millions)	96.2	99.0	102.3	105.0	106.9	108.7	110.2	111.5
Unemployment rate (percent)	7.7	7.1	6.1	5.8	7.1	7.6	9.7	10.5
Nonfarm payroll employment (millions)	79.4	82.5	86.7	89.8	90.4	91.1	89.7	89.6
Manufacturing	19.0	19.7	20.5	21.0	20.3	20.2	18.9	18.6
Industrial production (1967=100)	130.4	138.1	146.1	152.5	147.0	150.9	138.9	141.4
Capacity utilization: all manufacturing (percent)	79.5	81.9	84.4	85.6	79.1	78.4	70.0	70.0
Materials (percent)	81.1	82.7	85.6	87.4	80.0	79.9	69.2	70.0
Housing starts, private (million units, A.R.)	1.34	1.96	2.00	1.72	1.30	1.10	1.05	1.36
New auto sales (millions, A.R.)	10.12	11.13	11.29	10.68	9.04	8.56	7.88	8.75
Domestic models	8.63	9.07	9.29	8.36	6.62	6.24	5.70	6.48
Foreign models	1.49	2.06	2.00	2.32	2.42	2.32	2.18	2.28

<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.

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CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1976	1977	1978	1979	1980	1981	--Projected--	
							1982	1983
Constant (1972) Dollars								
Gross national product	5.4	5.5	5.0	2.8	-.4	1.9	-1.7	1.8
Final purchases	4.2	5.1	4.9	3.5	.5	1.0	-.7	1.2
Private	5.3	6.0	5.6	4.0	.0	1.0	-1.1	1.2
Excluding net exports	6.2	6.5	5.5	2.9	-1.1	1.8	-.3	1.7
Personal consumption expenditures	5.6	5.0	4.5	2.7	.3	1.8	1.0	2.2
Goods	6.7	5.1	4.2	1.9	-1.5	1.9	.3	2.4
Services	4.3	4.9	4.8	3.7	2.4	1.7	1.8	2.0
Gross private domestic investment	19.2	16.1	10.5	-.2	-11.8	8.3	-12.1	4.0
Residential structures	21.3	18.6	2.8	-5.3	-20.1	-4.9	-10.1	18.9
Business fixed investment	5.3	11.7	12.8	7.3	-2.2	3.6	-4.7	-5.2
Gov't. purchases of goods and services	.0	1.5	2.0	1.3	2.3	.9	.8	1.1
Federal	-.6	3.7	-.1	1.8	4.3	3.7	3.8	4.0
National defense	-2.3	.8	.4	2.6	4.0	4.9	7.4	8.4
State and local	.4	.2	3.3	1.1	1.1	-.8	-1.1	-.7
Disposable personal income	3.6	4.0	4.9	2.7	.2	2.5	1.3	1.7
Current Dollars								
Gross national product	10.9	11.7	12.8	11.7	8.9	11.6	4.4	6.6
Final purchases	9.6	11.1	12.8	12.4	10.0	10.4	5.6	5.9
Private	10.5	11.7	13.6	13.1	9.1	10.2	5.0	5.6
Excluding net exports	11.8	13.2	13.4	12.3	8.5	10.3	5.2	7.0
Personal consumption expenditures	11.0	11.1	11.8	11.9	10.6	10.6	6.9	7.7
Goods	10.9	9.8	10.9	11.7	8.8	9.5	3.8	6.5
Services	11.2	12.7	12.9	12.2	12.8	11.7	10.4	8.8
Gross private domestic investment	25.1	25.7	19.3	9.4	-4.9	17.2	-9.3	9.3
Residential structures	30.2	33.1	16.1	6.6	-13.0	1.7	-7.5	23.4
Business fixed investment	10.4	17.9	21.3	16.6	6.5	12.0	.1	-1.6
Gov't. purchases of goods and services	6.5	8.8	9.7	9.8	13.5	10.9	8.1	6.9
Federal	5.3	11.0	7.1	9.6	17.1	16.1	11.7	9.6
National defense	3.6	8.0	8.0	11.5	17.5	17.0	16.6	14.4
State and local	7.2	7.5	11.2	9.9	11.5	7.9	5.8	5.1
Disposable personal income	9.0	10.0	12.2	12.0	10.5	11.2	7.3	7.2
Personal income	10.0	10.7	12.5	12.6	10.7	11.8	6.5	6.1
Wage and salary disbursements	10.4	10.5	12.5	11.9	9.6	10.2	4.6	5.3
Corporate profits with I.V.A. and C.C.Adj.	25.0	21.1	15.0	1.3	-6.8	5.0	-15.0	14.3
Corporate profits before tax	25.9	17.1	17.7	10.3	-4.0	-4.3	-24.5	.3
Nonfarm payroll employment	3.2	3.9	5.1	3.6	.6	.8	-1.6	-.1
Manufacturing	3.7	3.6	4.2	2.6	-3.6	-.6	-6.5	-1.5
Nonfarm business sector								
Output per hour	3.2	2.2	.6	-1.3	-.9	1.4	.1	1.8
Compensation per hour	8.1	7.5	8.6	9.3	10.2	9.7	7.2	5.6
Unit labor costs	4.7	5.2	8.0	10.7	11.2	8.1	7.1	3.8
GNP implicit deflator	5.2	5.8	7.4	8.6	9.3	9.4	6.2	4.8
Gross domestic business product								
fixed-weighted price index <1>	5.5	6.1	8.0	9.9	10.1	9.6	6.0	4.8
Excluding food and energy	6.1	6.3	7.8	8.6	8.6	9.4	7.0	4.8
Consumer price index (all urban)	5.7	6.5	7.7	11.3	13.5	10.3	6.1	4.7
Industrial production	10.7	5.9	5.8	4.4	-3.6	2.6	-8.0	1.8

<1> Uses expenditures in 1972 as weights.

November 10, 1982

FEDERAL SECTOR ACCOUNTS

	Fiscal Year 1981*	Fiscal Year 1982*	FY1983a/2/		CY 1981*	CY1982e/ F.R. Board	FRB Staff Estimates Calendar quarters; unadjusted data								
			Admin. 1/	F.R. Board			1981			1982			1983		
							IV*	I*	II*	III*	IV	I	II	III	
Unified budget receipts	599.3	617.8	646.5	606.9	619.1	608.1	146.0	143.6	178.9	149.3	136.4	136.0	179.4	155.1	
Unified budget outlays	657.2	728.4	761.5	784.3	691.6	729.8	194.2	167.3	181.4	185.5	195.5	194.2	192.3	202.3	
Surplus/deficit(-), unified budget	-57.9	-110.7	-115.0	-177.4	-72.5	-121.7	-48.2	-23.7	-2.5	-36.2	-59.2	-58.2	-12.9	-47.2	
Surplus/deficit(-), off-budget agencies ³	-21.0	-17.3	-14.9	-14.6	-22.4	-16.2	-3.6	-2.0	-5.8	-6.0	-2.5	-2.9	-5.1	-4.1	
Combined deficit to be financed	-78.9	-128.0	-129.9	-192.0	-94.9	-137.9	-51.8	-25.7	-8.3	-42.3	-61.7	-61.1	-18.0	-51.3	
Means of financing combined deficit:															
Net borrowing from public	79.4	134.9	126.0	183.7	87.3	148.8	35.6	32.8	9.0	57.5	49.5	55.8	29.7	48.7	
Decrease in cash operating balance	2.3	-10.7		10.5	0.3	-3.0	6.7	-1.0	2.0	-18.4	14.4	4.5	-8.7	0.3	
Other ⁴	-2.8	3.8	(3.9	-2.1	7.3	-7.9	9.5	-6.1	-2.8	3.2	-2.2	0.8	-3.0	2.3	
Cash operating balance, end of period	18.7	29.4	n.a.	18.9	12.0	15.0	12.0	13.0	11.0	29.4	15.0	10.5	19.2	18.9	
Memo: Sponsored agency borrowing ⁵	35.7	20.5	50.1	17.0	30.0	17.6	4.0	1.6	9.1	5.8	1.1	3.7	6.0	6.5	
NIA Budget							Seasonally adjusted annual rates								
Receipts	615.5	617.4	n.a.	630.5	628.2	615.2	625.7	609.9	617.0	616.8	617.0	627.4	637.0	640.5	
Expenditures	666.3	740.9	n.a.	803.5	688.2	757.0	727.4	728.3	736.6	771.2	791.8	796.3	801.3	824.8	
Purchases	218.1	250.5	n.a.	275.4	228.9	255.8	250.5	249.7	244.3	257.5	271.6	274.0	274.6	281.3	
Defense	146.5	173.3	n.a.	198.5	153.7	179.3	166.9	166.2	176.2	183.7	191.0	195.4	200.4	207.4	
Nondefense	71.5	77.3	n.a.	76.8	75.2	76.6	83.6	83.5	68.2	73.9	80.6	78.6	74.2	73.9	
All other expenditures	448.2	490.4	n.a.	528.1	459.3	501.2	476.9	478.6	492.3	513.7	520.2	522.3	526.7	543.5	
Surplus/deficit(-)	-50.9	-123.5	n.a.	-173.1	-60.0	-141.8	-101.7	-118.4	-119.6	-154.3	-174.8	-168.9	-164.3	-184.4	
High Employment (H.E.) surplus/deficit(-) evaluated at H.E. unemployment rate of:															
5.1 percent	6.9	-20.3	n.a.	-34.7	4.5	-26.4	-20.3	-17.0	-8.1	-35.6	-44.8	-31.0	-21.2	-41.8	
6.1 percent	-17.7	-47.7	n.a.	-62.9	-20.8	-54.2	-43.3	-41.4	-33.4	-60.5	-69.4	-56.0	-46.6	-67.7	
	*—actual		e—estimated				n.a.—not available								

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1. OMB Mid-Session Review of the 1983 Budget, July 1982.
 2. In the First Concurrent Resolution on the Budget -- Fiscal Year 1983, the Congress recommended revenues of \$665.9 billion and outlays of \$769.8 billion.
 3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the 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.

NOTE: Quarterly figures may not add to yearly totals due to rounding.

DOMESTIC FINANCIAL DEVELOPMENTS

Recent developments. Conditions in financial markets have eased further since the October FOMC meeting. Federal funds are now trading more than 1-1/4 percentage points below their early October level, reflecting both the 1/2-point discount rate cut announced October 8 and more comfortable reserve positions. In other short-term markets, interest rates generally have fallen about 1-1/2 to 1-3/4 percentage points, except shorter-term Treasury bill rates, which are off only a little. Along with the reduced differential between yields on private and Treasury obligations, quality spreads in commercial paper and bank CD markets have narrowed somewhat.

The long-term debt and equity markets staged another impressive rally in October and early November as investors reacted favorably to what was interpreted as the adoption of a more accommodative stance by the Federal Reserve System. Since early October indexes of stock prices have advanced another 18 to 22 percent amid record trading volume, with several of these indexes touching new all-time highs in early November. Meanwhile corporate and Treasury bond rates have fallen about 1-1/4 percentage points, and home mortgage commitment rates are down more than 1 percentage point; most of these rates are at their lowest levels since the summer of 1980. In the tax-exempt sector, yields have declined somewhat less, reflecting some congestion in the market as record new issue volume met with unenthusiastic demand by traditional institutional customers.

As anticipated, the maturing of more than \$30 billion in all savers certificates (ASCs) in October has significantly altered deposit flows and therefore the performance of M1 relative to the broader monetary aggregates.

Thus far, the available data indicate that depository institutions have retained most of these funds, although very little has been rolled over into new ASCs. Apparently, most of this money has been placed at least temporarily in liquid accounts--demand deposits, other checkable deposits, and savings accounts--as depositors ponder a large and changing menu of investment alternatives at substantially lower interest rates. These transitory shifts contributed to a surge in M1 in October at nearly a 20 percent annual rate.

M2 expanded at an 8 percent rate, somewhat faster than in September but below the average rate of increase since the fourth quarter of last year. The nontransactions component of M2 accelerated as a resurgence of overnight RPs at banks and of savings deposits at both banks and thrifts more than offset the effects of ASC redemptions on small-time deposit flows. In addition, M3 growth was boosted by a resumption of CD issuance at banks--in part to fund placements at banks overseas--as well as more rapid growth of CDs at thrifts and of institutionally oriented money market mutual funds. Bank credit growth also picked up, owing largely to stepped-up acquisitions of Treasury securities.

Demands for credit by nonfinancial business firms tapered off somewhat in October after remaining strong throughout most of the year. Although corporations have taken advantage of lower bond rates to float the largest volume of long-term issues in nearly a year, they used the proceeds to pay down commercial paper obligations at a record pace, and also reduced their outstanding bank loans (aside from those related to mergers). Equity issuance has just begun to rise in response to higher stock prices.

Household borrowing remains sluggish, according to the latest available data. Consumer installment debt increased in September at only a 4 percent annual rate after virtually no gain in August. In the residential mortgage market there are indications that the volume of lending is picking up gradually. New loan commitments at S&Ls were nearly \$5-1/2 billion in September, up more than 60 percent from the cyclical low last fall and the largest volume so far this year. HUD surveys of large mortgage companies also indicate that demands for conventional and government-underwritten home mortgage credit, particularly fixed-rate contracts, have risen from exceptionally depressed levels.

Borrowing by the government sector has continued heavy. Through mid-November, the Treasury had raised \$26 billion in new cash; for the quarter as a whole the staff estimates that the Treasury will borrow \$49 billion in marketable securities to help finance a record \$61.7 billion deficit. Tax-exempt borrowers brought almost \$8 billion in long-term issues to market in October as declining interest rates and the approaching January 1 effective date for registration of all municipal bonds apparently spurred many units to accelerate their financing plans.

Outlook. The financing needs of governmental units at both the federal and state and local levels will continue to dominate credit flows over the next few months. In private markets, only mortgage lending is expected to show much of an increase, and business firms are projected to continue funding short-term debt in the bond market.

Staff projections call for the U.S. Treasury to float approximately another \$50 billion of debt in the first quarter. Borrowing by tax-exempt units is expected to remain near recent record levels throughout the

remainder of the year, after which it may fall off a bit owing to the aforementioned acceleration of offerings to avoid the new registration requirements; even so, by all but the most recent historical standards the volume of municipal offerings probably will be substantial.

Nonfinancial business firms, on the other hand, are expected to place relatively moderate demands on credit markets in the very near future as some pick-up in cash flow, renewed inventory liquidation, and further weakness in capital spending combine to reduce external financing needs. Absent a reversal in bond rates, corporations will most likely keep focusing their fund-raising in long-term markets in an effort to repair balance sheet positions.

Borrowing by the household sector should pick up somewhat, as consumers increase their purchases of durable goods. With margins between consumer loan rates and costs of funds now relatively wide, banks and finance companies appear willing to finance at least a moderate increase in installment debt. As already noted, in the residential mortgage market, where rates have dropped significantly from their peaks a year ago, institutional lending already has shown signs of revival. The volume of such activity should rise further, not only to support further moderate gains in home building but also to refinance higher-rate or short-term loans arranged during the recent period of creative financing.

On balance, the outlook for credit demands and supplies suggests that interest rates in both short- and long-term markets will fluctuate at about their current levels or a bit lower, with appreciable upward cyclical pressures unlikely to emerge for several months.

INTERNATIONAL DEVELOPMENTS

Recent Developments. Since the last FOMC meeting the exchange value of the dollar has appreciated on balance about 1 percent. The appreciation occurred despite a larger decline in dollar interest rates than in interest rates on assets denominated in other currencies and the announcement of a third-quarter trade deficit more than twice the size of the first- and second-quarter deficits.

U.S. intervention purchases of yen and German marks totaling less than \$100 million on three days in early October. The Italian lira came under pressure as a result of increasing market concerns about Italy's growing public sector deficit -- expected to be about 14 percent of GDP this year -- and concerns regarding the success of renegotiating the scala mobile wage-indexation arrangement.

. In early November market sentiment toward the yen reversed for reasons that are not clear, and the yen rose sharply against the dollar to a level about 2 percent higher than at the last FOMC meeting. In a move aimed at improving the international competitiveness of Swedish goods, the newly-elected Social Democratic government in Sweden devalued the Swedish krona against a basket of currencies by 16 percent in early October.

Latin American countries have found it increasingly difficult to borrow on international credit markets. In particular, the pace of new

medium-term Eurocredits to Latin American borrowers declined sharply in the third quarter of 1982 to only \$4 billion, about half the quarterly rate recorded in the first half of the year, and fell further in October. New credits to Mexico have come essentially to a standstill pending conclusion of negotiations with the IMF. Mexico's difficulties have exacerbated the borrowing problems of other Latin American countries. Venezuela, whose international reserves are large relative to its foreign debt, faces considerably higher spreads in refinancing its short-term public-sector foreign debt. Argentina, which built up large arrears as a result of the Falkland crisis, has been unable to secure any Eurocurrency credits since April in the face of large financing needs. Brazil's access to Eurocurrency credits has been cut back considerably at a time when its current account deficit has been rising.

Recent evidence suggests that foreign investors' net purchases of dollar-denominated assets both in the United States and in the Euro-bond market have increased since mid-summer. Net purchases of Treasury bonds and notes by private foreigners amounted to \$2 billion in September, after net purchases of only \$0.5 billion in August. The purchases of government securities would appear consistent with the view that foreigners are seeking low-risk investments. While private foreigners made small net purchases of U.S. corporate stocks in August, they made actual net sales in September. Acting to offset these capital inflows was a large increase in net advances by U.S. banking offices to their foreign branches between August and October. This outflow appears to be prompted in part by a decline in other sources of funds available to these branches; outstanding CDs at London branches of some U.S. banks

declined and so did deposits at foreign branches held by U.S. bank holding companies of the same banks.

In U.S. international trade transactions, the merchandise trade deficit in September was considerably smaller than that in August. However, for the third quarter as a whole the trade deficit -- at nearly \$53 billion (SAAR) -- was more than twice the size of the deficits in the first two quarters of the year. The deficit reflected a sharp decline in agricultural exports and a run-up in oil imports associated in part with stockbuilding. Nonagricultural exports also declined and continued to be adversely affected by sluggish demand in major trading partners and the high value of the dollar.

In major foreign industrial countries there are few signs of a recovery in economic activity. Indeed, in the third quarter, industrial production declined in Germany and France. Unemployment rates continued to move upward except in Japan, and inflation rates generally moved down. Despite evidence of persistent weakness in domestic and export demand, the budget proposals that have recently been outlined in a number of countries have not in general indicated any shift toward fiscal stimulus. On the monetary front, foreign interest rates have eased in varying degrees, partly in response to the downturn in U.S. interest rates.

Outlook. With no substantial changes likely in monetary and fiscal policies in major industrial countries and no other obvious sources of stimulus to demand, prospects for a strong recovery abroad are not bright. Expansion of real GNP in these countries is projected to be about 2 percent next year, after an increase this year estimated at 1/2 percent. The outlook in less-developed countries is also not

very bright, clouded by financing difficulties and weak demand for their exports. With slow growth in the markets for U.S. exports and the continuing impact of the high value of the dollar, the trade deficit is projected to double from about \$40 billion this year to nearly \$80 billion next year. With little change anticipated in the net surplus on non-trade transactions, the current account deficit is projected to be about \$9 billion this year and \$49 billion next year. The staff expects that the exchange value of the dollar will drop significantly as the evidence of these widening deficits becomes apparent to the market.

NOVEMBER 10, 1982

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

	1981 ANN.	1982-P ANN.	1983-P ANN.	1982 Q1	1982 Q2	1982 Q3	1982-P Q4	1983-P Q1	1983-P Q2	1983-P Q3	1983-P Q4
1. GNP NET EXPORTS											
CURRENT \$, NET	26.1	22.2	-8.9	31.3	34.9	13.2	9.3	2.0	-6.9	-12.0	-18.9
EXPORTS OF G+S	367.3	356.1	351.3	359.9	365.8	356.6	342.1	338.8	344.2	355.0	367.2
IMPORTS OF G+S	341.2	333.9	360.2	328.6	330.9	343.4	332.8	336.8	351.1	367.0	386.0
CONSTANT 72 \$, NET	42.0	32.9	26.7	37.0	35.7	30.7	28.0	25.9	24.8	27.2	28.7
EXPORTS OF G+S	158.4	150.1	144.8	151.7	154.4	150.2	144.1	141.7	142.7	145.9	148.9
IMPORTS OF G+S	116.4	117.2	118.2	114.7	118.7	119.5	116.1	115.8	117.9	118.7	120.2
TERMS OF TRADE (1972=100) 1/	79.1	83.3	79.7	82.8	85.0	82.6	82.8	82.2	81.0	78.7	76.8
2. U.S. MERCHANDISE TRADE BALANCE 2/											
EXPORTS (EXCL. MILITARY)	236.3	212.2	194.8	223.1	220.4	207.1	198.2	194.1	192.7	193.7	198.5
AGRICULTURAL	44.3	38.5	37.0	42.0	42.7	33.8	35.4	36.2	36.8	37.1	38.0
NONAGRICULTURAL	192.0	173.7	157.7	181.1	177.7	173.2	162.8	157.9	155.8	156.6	160.5
IMPORTS	264.1	251.2	273.8	246.6	243.5	259.6	255.1	257.2	266.3	278.4	293.3
PETROLEUM AND PRODUCTS	77.6	61.1	65.6	62.6	53.7	65.7	62.2	62.5	63.7	66.7	69.6
NONPETROLEUM	186.6	190.1	208.2	184.0	189.8	193.8	192.9	194.6	202.6	211.7	223.7
3. U.S. CURRENT ACCOUNT BALANCE											
OF WHICH: NET INVESTMENT INCOME	4.5	-9.3	-48.7	4.4	8.2	-23.2 ^P	-26.7	-34.7	-45.3	-53.0	-61.9
	33.0	29.5	31.3	27.4	30.7	30.4 ^P	29.4	28.5	29.2	32.9	34.6
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	.4	.4	1.6	.3	-.2	.5	1.6	1.9	1.7	1.9	2.5
CONSUMER PRICES, % CHANGE, ANNUAL RATES	9.7	8.2	7.0	7.9	9.0	6.1	7.1	7.5	6.6	6.3	6.5

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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.