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February 2, 1983

## **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

## DOMESTIC NONFINANCIAL DEVELOPMENTS

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Recent Developments. Economic activity appears to have firmed at the turn of the year. Although real GNP declined in the fourth quarter, data received for December and January have provided some signals that a recovery is getting under way. Inventories were liquidated at a record rate in November, and this was followed in December by a leveling off of production and a slowing in the pace of job losses in the manufacturing sector. Activity in the household sector has strengthened, and orders for business equipment moved up slightly at year end. Inflation continued to slow in December, and all broad price measures rose less than 5 percent over the year.

The index of industrial production edged down just 0.1 percent in December, after significantly larger reductions in the autumn. Continued declines in output of business equipment and metal materials were largely offset by a 13 percent increase in auto assemblies and another large advance in the production of defense and space equipment. Auto assemblies rose again in January and production of raw steel advanced at the beginning of the year.

The decline in nonfarm employment in December about matched the monthly average so far in this recession. However, job losses in the manufacturing sector slowed considerably. Much of December's employment reduction was concentrated in the trade sector, where retailers apparently hired fewer seasonal workers than usual. The unemployment rate rose one-tenth of a percentage point in December to 10.8 percent.

Activity in the consumer sector has picked up in recent months. Response to interest rate concessions on domestic automobiles has remained

strong as sales in the first 20 days of January averaged 6.3 million units at an annual rate. The pace of sales has been sustained above the 6 million unit mark for 2-1/2 months for the first time since early 1981. Real personal consumption expenditures for all goods except motor vehicles and parts rose 1 percent in December, with a relatively large increase posted for sales of furniture and other household equipment. For the fourth quarter as a whole, a surge in new car sales was coupled with a rise in real spending for other goods and services, and the personal saving rate fell to 5.8 percent.

Housing market indicators generally showed continued improvement late in the year. Although total housing starts slipped to a 1.2 million unit annual pace in December, for the fourth quarter as a whole starts were 12 percent higher than their third-quarter rate. All of the recent improvement came in the single-family sector following a drop in the cost of mortgage credit to a more affordable level for many home buyers. Sales of both new and existing homes in the fourth quarter strengthened appreciably, with sales up 31 percent for new homes and 12 percent for existing homes.

Business capital spending has continued to fall, although there are some indications that the decline in outlays for producers' durable equipment is abating. Shipments of nondefense capital goods leveled off over the past two months, and sales of heavy-weight trucks have firmed a bit. Orders for nondefense capital goods increased 2-1/2 percent in the fourth quarter, narrowing the longstanding gap between orders and shipments. Nonresidential construction spending resumed its downward trend in December; reductions are expected to continue, reflecting the substantial drop in the real value of contracts for new construction over the past year.

Business inventories at manufacturing and trade establishments were liquidated at a record pace in November. While much of the drop resulted from a sharp correction in the auto industry, substantial progress in reducing stocks was made in other key industries, cutting the overall ratio of inventories to shipments and sales. Nonetheless, with sales still at depressed levels, stock-sales ratios remain relatively high in many sectors.

Inflation continued to slow at year end. Consumer prices fell 0.3 percent in December; for the year as a whole these prices rose only 3.9 percent, less than half the 1981 pace. The deceleration in producer prices of finished goods was similar, slowing from a rate of about 7 percent over 1981 to 3-1/2 percent during 1982. Labor costs also moderated over the year; hourly compensation rose at a 6-1/2 percent annual rate, the smallest four-quarter increase since 1972. Increases in wages for production workers slowed to a 4-1/2 percent rate in the fourth quarter, with deceleration particularly pronounced in the manufacturing sector. In the fourth quarter, hours worked continued to fall at a faster rate than output, and labor productivity in the nonfarm business sector increased at a 2.7 percent annual rate.

Outlook. The staff expects real GNP to rise at an annual rate of about 3-1/2 percent this quarter. Much of the increase can be attributed to a halt in the liquidation of domestic auto inventories; real final sales are projected to rise at a 1 percent annual rate, considerably less than last quarter. Consumption and housing expenditures are expected to increase in real terms, while government purchases and business fixed investment are

projected to decline. Real net exports are expected to remain about unchanged, ending the sharp decline in the last half of 1982.

The monetary policy assumptions underlying the staff projection are little changed from the last Greenbook. After this quarter, M2 is assumed to grow at around an 8 percent annual rate in both 1983 and 1984. Short-term interest rates are expected to remain at around current levels throughout the projection period, with long-term rates edging downward in a manner consistent with continued reductions in inflation and inflation expectations.

For fiscal policy, the federal deficit is now projected at about \$200 billion on a unified budget basis for both fiscal year 1983 and fiscal year 1984. It is assumed that all of the recommendations of the President's Commission on Social Security will be enacted, including the six-month delay in the cost-of-living adjustment scheduled for this July. The larger farm subsidies and \$7 billion of additional appropriations passed last December are also included for fiscal year 1983. For fiscal year 1984, it is assumed that smaller cuts in nondefense programs and deeper cuts in defense than proposed by the Administration will be enacted. In the aggregate, net deficit reductions of about \$40 billion are assumed, compared with \$46 billion in the President's Budget.

The recovery is projected to gain momentum throughout this year and next, with real GNP rising 3-1/2 percent during 1983 and 4-1/2 percent during 1984. In 1983, increased purchases of houses and automobiles, along with a reversal of the current inventory liquidation, are expected to offset declining capital spending, government purchases,

and net exports, generating a relatively slow rise in production. Next year, as capital spending and exports turn around in response to increases in output and a lower the exchange rate, the recovery is projected to strengthen. However, even this acceleration in real GNP is expected to make only modest progress in reducing the unemployment rate; after hovering just below 11 percent for most of 1983, joblessness is expected to decline only to about 9-1/2 percent at the end of the projection period.

The large amounts of slack projected for both the labor force and the capital stock are expected to continue to exert downward pressure on wages and prices. Compensation per hour, which rose 6-1/2 percent during 1982, is expected to rise about 4-3/4 percent in both 1983 and 1984. Coupled with a cyclical increase in productivity of about 2 percent per year, these relatively small wage gains are projected to generate increases in unit labor costs of less than 3 percent per year. Given these weak cost pressures and some reduction in world oil prices, the overall inflation rate is expected to slow again during 1983, with the gross domestic business product fixed-weight price index rising a little under 4 percent both this year and next. This reduction is expected despite a projected reversal of the 1981-82 dollar appreciation, which contributed to the improved price performance last year.

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

February 2, 1983

## 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			
	12/15/82	2/2/83	12/15/82	2/2/83	12/15/82	2/2/83	12/15/82	2/2/83	12/15/82	2/2/83
<b>Annual changes:</b>										
1981 <1>	11.6	11.6	1.9	1.9	9.6	9.6	9.4	9.4	7.6	7.6
1982 <1>	4.1	4.1	-1.9	-1.8	6.0	5.9	6.9	6.9	9.7	9.7
1983	6.1	6.1	1.4	1.8	4.7	4.3	4.5	4.8	11.0	10.8
1984	....	7.8	....	4.1	....	3.9	....	3.8	....	9.9
<b>Quarterly changes:</b>										
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	9.4
Q3 <1>	4.7	5.8	.0	.7	5.5	5.9	5.0	5.2	9.9	10.0
Q4 <1>	4.0	1.7	-1.8	-2.5	5.6	4.7	5.7	5.0	10.7	10.7
1983 Q1	6.4	8.2	1.9	3.5	4.3	3.3	4.4	4.9	11.1	10.9
Q2	6.3	6.3	2.0	2.6	4.8	4.2	4.0	4.5	11.1	10.9✓
Q3	8.0	7.8	3.9	3.9	4.1	4.2	3.4	4.0	11.0	10.8
Q4	8.7	7.6	4.6	3.9	3.9	3.9	3.2	3.7	10.8	10.6✓
1984 Q1	....	7.8	....	4.2	....	3.8	....	3.7	....	10.4
Q2	....	7.8	....	4.1	....	3.8	....	3.8	....	10.1✓
Q3	....	8.4	....	4.4	....	3.9	....	3.9	....	9.8
Q4	....	9.0	....	4.6	....	3.9	....	3.7	....	9.5✓
<b>Two-quarter changes: &lt;2&gt;</b>										
1982 Q2 <1>	2.8	2.8	-1.6	-1.6	4.2	4.2	5.6	5.6	1.2	1.1
Q4 <1>	4.4	3.7	-.9	-.9	5.6	5.3	5.4	5.1	1.2	1.3
1983 Q2	6.4	7.2	1.9	3.0	4.5	3.8	4.2	4.7	.4	.2
Q4	8.4	7.7	4.3	3.9	4.0	4.1	3.3	3.8	-3	-3
1984 Q2	....	7.8	....	4.2	....	3.8	....	3.8	....	-5
Q4	....	8.7	....	4.5	....	3.9	....	3.8	....	-6
<b>Four-quarter changes: &lt;3&gt;</b>										
1981 Q4 <1>	9.6	9.6	.7	.7	8.9	8.9	9.3	9.3	.8	.9
1982 Q4 <1>	3.6	3.3	-1.2	-1.2	4.9	4.8	5.5	5.4	2.4	2.4
1983 Q4	7.4	7.5	3.1	3.5	4.3	3.9	3.8	4.3	.1	-.1
1984 Q4	....	8.3	....	4.4	....	3.8	....	3.8	....	-1.1

&lt;1&gt; Actual.

&lt;2&gt; Percent change from two quarters earlier.

&lt;3&gt; Percent change from four quarters earlier.

.... Not available.



February 2, 1983

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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.)

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2864.9	2901.8	2980.9	3003.2	2995.5	3045.2	3088.2	3101.3
Final purchases	2852.7	2877.2	2949.1	2989.9	3031.1	3061.4	3083.5	3139.8
Private	2274.6	2294.0	2348.9	2363.6	2401.0	2430.5	2431.8	2464.1
Excluding net exports	2243.4	2270.3	2323.0	2340.1	2369.7	2395.6	2424.9	2471.0
Personal consumption expenditures	1799.9	1819.4	1868.8	1884.5	1919.4	1947.8	1986.3	2034.6
Goods	957.5	960.0	982.5	976.1	987.0	995.7	1008.7	1030.0
Services	842.4	859.4	886.3	908.3	932.4	952.1	977.6	1004.5
Gross private domestic investment	455.7	475.5	486.0	468.9	414.8	431.5	443.3	397.9
Residential structures	113.6	109.5	101.2	95.5	93.4	95.5	94.3	99.8
Business fixed investment	330.0	341.3	353.0	360.2	357.0	352.2	344.2	336.6
Change in business inventories	12.2	24.6	31.8	13.2	-35.6	-16.2	4.7	-38.5
Nonfarm	10.0	19.3	24.6	6.0	-36.0	-15.0	3.7	-39.0
Net exports of goods and services <1>	31.2	23.7	25.9	23.5	31.3	34.9	6.9	-6.9
Exports	365.4	368.9	367.2	367.9	359.9	365.8	349.5	323.7
Imports	334.2	345.1	341.3	344.4	328.6	330.9	342.5	330.6
Gov't. purchases of goods and services	578.1	583.2	600.2	626.3	630.1	630.9	651.7	675.7
Federal <2>	217.0	218.2	230.0	250.5	249.7	244.3	259.0	276.1
State and local	361.1	365.0	370.1	375.7	380.4	386.6	392.7	399.6
Gross national product in constant (1972) dollars	1507.8	1502.2	1510.4	1490.1	1470.7	1478.4	1481.1	1471.7
Personal income	2330.0	2380.6	2458.2	2494.6	2510.5	2552.7	2592.5	2623.2
Wage and salary disbursements	1452.8	1479.4	1512.3	1531.2	1541.6	1556.6	1570.0	1572.3
Disposable personal income	1958.7	1996.5	2060.0	2101.4	2117.1	2151.5	2198.1	2223.5
Saving rate (percent)	5.4	6.1	6.5	7.5	6.6	6.7	6.9	5.8
Corporate profits with I.V.A. and C.C. Adj.	200.3	185.1	193.1	183.9	157.1	155.4	166.2	165.7
Corporate profits before tax	253.1	225.4	233.3	216.5	171.6	171.7	180.3	178.0
Federal government surplus or deficit (-) (N.I.A. basis)	-39.7	-40.5	-58.0	-101.7	-118.4	-119.6	-156.0	-197.6
High employment surplus or deficit (-) <3>	10.4	21.9	6.0	-20.4	-16.9	-8.2	-36.9	-60.2
State and local government surplus or deficit(-) (N.I.A. basis)	31.3	32.9	33.5	29.1	27.7	32.1	32.3	35.5
Excluding social insurance funds	1.1	1.7	1.2	-4.2	-6.8	-3.6	-4.5	-2.7
Civilian labor force (millions)	108.2	108.8	108.6	109.1	109.3	110.1	110.6	111.0
Unemployment rate (percent)	7.4	7.4	7.4	8.3	8.8	9.4	10.0	10.7
Nonfarm payroll employment (millions)	90.9	91.2	91.4	91.0	90.4	90.0	89.4	88.7
Manufacturing	20.2	20.3	20.3	19.9	19.4	19.1	18.7	18.2
Industrial production (1967=100)	151.8	152.5	153.0	146.3	141.7	139.4	138.2	135.1
Capacity utilization: all manufacturing (percent)	79.9	79.8	79.2	74.8	71.6	70.3	69.7	67.6
Materials (percent)	82.2	81.2	81.2	75.2	72.0	69.6	68.1	66.0
Housing starts, private (million units, A.R.)	1.40	1.17	.96	.87	.92	.95	1.12	1.25
New auto sales (millions, A.R.)	9.96	7.89	9.04	7.36	8.12	7.53	7.78	8.57
Domestic models	7.31	5.63	6.90	5.13	5.90	5.53	5.56	6.08
Foreign models	2.66	2.25	2.14	2.23	2.22	1.99	2.22	2.49

&lt;1&gt; Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

&lt;2&gt; Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

&lt;3&gt; 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 \$43.5 billion in 1981-Q4, and a deficit of \$85.2 billion in 1982-Q4.

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

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	7.9	-1.5	2.2	-5.3	-5.1	2.1	.7	-2.5
Final purchases	5.4	-4.0	1.0	-2.3	.2	-9	-1.3	3.2
Private	5.5	-4.0	.4	-4.4	1.0	.2	-3.5	1.2
Excluding net exports	4.7	-2.8	2.2	-3.6	.9	.6	-9	3.5
Personal consumption expenditures	4.4	-2.7	2.9	-3.3	2.5	2.5	.6	5.0
Goods	6.9	-5.1	4.0	-6.2	2.0	2.5	-4	7.1
Services	1.5	.1	1.7	.0	3.0	2.4	1.7	2.7
Gross private domestic investment	25.0	14.9	6.9	-22.6	-36.5	15.0	7.9	-37.2
Residential structures	1.0	-17.4	-31.9	-25.3	-10.2	12.9	-5.3	23.7
Business fixed investment	8.0	1.1	9.3	.6	-5.0	-11.8	-7.6	-9.0
Gov't. purchases of goods and services	5.2	-4.1	3.6	7.0	-2.9	-5.3	8.4	11.3
Federal	12.2	-3.2	14.8	20.4	-5.5	-13.5	23.1	28.4
National defense	8.0	11.5	7.6	10.1	-7.9	21.4	13.0	3.2
State and local	1.3	-4.6	-2.7	-.8	-1.1	.4	-.2	1.0
Disposable personal income	3.7	.6	4.8	1.2	-1.9	3.1	1.3	-.2
<u>Current Dollars</u>								
Gross national product	19.6	5.3	11.4	3.0	-1.0	6.8	5.8	1.7
Final purchases	14.6	3.5	10.4	5.7	5.6	4.1	2.9	7.5
Private	14.8	3.5	9.9	2.5	6.5	5.0	.2	5.4
Excluding net exports	13.4	4.9	9.6	3.0	5.2	4.4	5.0	7.8
Personal consumption expenditures	13.0	4.4	11.3	3.4	7.6	6.1	8.1	10.1
Goods	14.7	1.0	9.7	-2.6	4.5	3.6	5.3	8.7
Services	11.1	8.3	13.2	10.3	11.0	8.7	11.2	11.5
Gross private domestic investment	52.2	18.5	9.2	-13.3	-38.8	17.2	11.4	-35.1
Residential structures	11.5	-13.4	-27.0	-20.8	-8.4	9.4	-4.9	25.1
Business fixed investment	16.7	14.5	14.3	8.4	-3.5	-5.3	-8.7	-8.6
Gov't. purchases of goods and services	13.7	3.6	12.2	18.6	2.4	.6	13.8	15.6
Federal	20.9	2.2	23.5	40.7	-1.4	-8.3	26.3	29.2
National defense	15.4	22.1	10.8	36.7	-1.8	26.4	15.6	14.3
State and local	9.7	4.4	5.7	6.2	5.0	6.7	6.5	7.2
Disposable personal income	12.3	7.9	13.4	8.3	3.0	6.7	8.9	4.7
Personal income	13.0	9.0	13.7	6.1	2.6	6.9	6.4	4.8
Wage and salary disbursements	12.0	7.5	9.2	5.1	2.7	3.9	3.5	.6
Corporate profits with I.V.A. and C.C. Adj.	49.3	-27.1	18.4	-17.7	-46.7	-4.3	30.8	-1.2
Corporate profits before tax	12.2	-37.1	14.8	-25.8	-60.5	.2	21.6	-5.0
Nonfarm payroll employment	1.8	1.0	.8	-1.8	-2.4	-1.7	-2.9	-3.0
Manufacturing	1.3	2.8	.1	-8.1	-9.0	-7.2	-7.8	-9.7
Nonfarm business sector								
Output per hour	4.9	-1.3	-.3	-3.5	.6	.8	3.4	2.7
Compensation per hour	11.8	7.1	9.0	7.3	7.7	6.1	6.6	6.0
Unit labor costs	6.6	8.6	9.3	11.2	7.1	5.2	3.1	3.2
GNP implicit deflator <1>	10.9	6.8	9.0	8.8	4.3	4.6	5.0	4.3
Gross domestic business product								
fixed-weighted price index <2>	10.4	8.6	9.3	7.4	4.4	3.8	5.9	4.7
Excluding food and energy	8.4	9.4	11.0	8.6	5.3	5.9	5.2	5.0
Consumer price index (all urban)	11.0	7.8	11.8	7.7	3.2	4.6	7.7	2.6
Industrial production	8.4	1.9	1.4	-16.6	-11.8	-6.5	-3.4	-8.6

<1> Excluding Federal pay increases, rates of change were: 1981-Q1, 10.8 percent; 1981-Q4, 7.8 percent; 1982-Q1, 4.2 percent; 1982-Q4, 4.0 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.)

	Projected							
	1983				1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3162.7	3211.7	3272.7	3333.5	3396.9	3461.2	3531.9	3608.9
Final purchases	3182.7	3210.7	3263.7	3317.0	3372.9	3433.2	3501.9	3576.9
Private	2500.6	2527.8	2566.3	2603.9	2650.9	2701.7	2760.1	2818.8
Excluding net exports	2507.6	2550.8	2596.4	2641.0	2692.3	2742.4	2795.9	2850.6
Personal consumption expenditures	2064.5	2099.0	2136.5	2173.0	2213.0	2251.0	2290.5	2330.0
Goods	1038.5	1051.5	1069.5	1087.0	1104.5	1121.5	1139.0	1157.0
Services	1026.0	1047.5	1067.0	1086.0	1108.5	1129.5	1151.5	1173.0
Gross private domestic investment	423.1	452.8	468.9	484.5	503.3	519.4	535.4	552.6
Residential structures	110.8	118.3	123.8	129.3	134.8	139.8	145.3	150.3
Business fixed investment	332.3	333.5	336.1	338.7	344.5	351.6	360.1	370.3
Change in business inventories	-20.0	1.0	9.0	16.5	24.0	28.0	30.0	32.0
Nonfarm	-20.0	1.0	9.0	16.5	24.0	28.0	30.0	32.0
Net exports of goods and services <1>	-7.0	-23.0	-30.1	-37.1	-41.4	-40.7	-35.8	-31.8
Exports	321.6	322.0	330.6	341.0	353.5	370.1	387.9	405.2
Imports	328.6	345.0	360.7	378.1	394.9	410.8	423.7	437.0
Gov't. purchases of goods and services	682.1	682.9	697.4	713.1	722.0	731.5	741.8	758.1
Federal <2>	278.7	274.5	284.1	294.1	297.5	301.5	306.3	316.9
State and local	403.4	408.4	413.3	419.0	424.5	430.0	435.5	441.2
Gross national product in constant (1972) dollars	1484.4	1494.0	1508.3	1522.9	1538.7	1554.3	1571.3	1589.2
Personal income	2654.6	2692.3	2739.2	2780.7	2823.8	2871.7	2919.1	2977.6
Wage and salary disbursements	1596.0	1618.4	1644.2	1673.9	1703.6	1733.8	1764.0	1803.4
Disposable personal income	2260.9	2290.2	2336.9	2378.4	2423.5	2464.9	2506.3	2555.4
Saving rate (percent)	6.0	5.7	5.9	6.0	6.0	6.0	6.0	6.2
Corporate profits with I.V.A. and C.C. Adj.	177.8	181.4	194.2	201.2	205.4	213.2	229.8	242.1
Corporate profits before tax	181.9	176.3	185.3	183.0	182.2	185.2	197.0	204.0
Federal government surplus or deficit (-) (N.I.A. basis)	-190.0	-180.6	-196.4	-206.0	-204.4	-201.0	-198.5	-201.8
High employment surplus or deficit (-) <3>	-45.7	-31.4	-48.0	-60.4	-59.7	-58.6	-61.1	-67.7
State and local government surplus or deficit (-) (N.I.A. basis)	38.0	40.8	43.8	45.3	46.9	48.6	51.0	53.8
Excluding social insurance funds	-1.2	.4	2.1	2.3	2.4	2.9	4.0	5.3
Civilian labor force (millions)	111.3	111.7	112.0	112.5	112.9	113.3	113.7	114.2
Unemployment rate (percent)	10.9	10.9	10.8	10.6	10.4	10.1	9.8	9.5
Nonfarm payroll employment (millions)	88.7	89.1	89.5	90.0	90.7	91.4	92.1	92.8
Manufacturing	18.2	18.3	18.5	18.8	19.1	19.4	19.7	20.0
Industrial production (1967=100)	135.9	138.9	141.8	145.1	147.7	150.6	153.5	156.7
Capacity utilization: all manufacturing (percent)	67.6	68.6	69.7	71.0	71.8	72.8	73.7	74.8
Materials (percent)	66.6	67.9	69.6	71.8	73.2	74.8	76.0	77.4
Housing starts, private (million units, A.R.)	1.35	1.45	1.45	1.55	1.55	1.60	1.70	1.80
New auto sales (millions, A.R.)	8.50	8.30	8.90	9.20	9.20	9.30	9.50	9.70
Domestic models	6.20	6.20	6.60	6.80	6.90	7.00	7.10	7.20
Foreign models	2.30	2.10	2.30	2.40	2.30	2.30	2.40	2.50

<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 \$86.7 billion in 1983-Q4, and a deficit of \$96.2 billion in 1984-Q4.

February 2, 1983

CLASS II FOMC

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

	1983				Projected			
	1983				1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	3.5	2.6	3.9	3.9	4.2	4.1	4.4	4.6
Final purchases	1.1	.0	2.9	3.0	3.3	3.7	4.2	4.4
Private	2.2	1.4	2.6	2.8	3.9	4.2	4.8	4.9
Excluding net exports	2.3	2.5	2.6	2.8	3.8	3.7	4.0	4.3
Personal consumption expenditures	2.3	2.1	2.4	2.6	3.3	3.1	3.1	3.2
Goods	2.8	1.8	2.9	3.0	3.3	3.3	3.1	3.2
Services	1.7	2.5	1.9	2.1	3.3	2.9	3.0	3.1
Gross private domestic investment	22.9	26.4	11.2	10.7	12.9	9.8	9.6	10.8
Residential structures	46.6	25.2	15.1	14.4	13.4	10.9	11.7	9.7
Business fixed investment	-7.5	-1.3	.3	.7	4.2	5.3	7.3	9.7
Gov't. purchases of goods and services	-3.2	-5.7	4.2	3.9	.9	1.5	1.9	2.6
Federal	-5.5	-13.4	10.4	7.8	.9	2.3	3.4	4.9
National defense	10.2	7.6	11.7	7.6	7.2	6.3	4.9	5.7
State and local	-1.6	.0	.1	1.2	.9	.9	.9	1.0
Disposable personal income	3.1	.6	3.4	2.9	3.5	3.1	2.8	4.1
<u>Current Dollars</u>								
Gross national product	8.2	6.3	7.8	7.6	7.8	7.8	8.4	9.0
Final purchases	5.6	3.6	6.8	6.7	6.9	7.3	8.3	8.8
Private	6.1	4.4	6.2	6.0	7.4	7.9	8.9	8.8
Excluding net exports	6.1	7.1	7.3	7.0	8.0	7.7	8.0	8.1
Personal consumption expenditures	6.0	6.9	7.3	7.0	7.6	7.0	7.2	7.1
Goods	3.3	5.1	7.0	6.7	6.6	6.3	6.4	6.5
Services	8.8	8.6	7.7	7.3	8.5	7.8	8.0	7.7
Gross private domestic investment	27.8	31.2	15.0	14.0	16.4	13.4	12.9	13.5
Residential structures	51.9	30.0	19.9	19.0	18.1	15.7	16.7	14.5
Business fixed investment	-3.0	3.5	3.2	3.1	7.0	8.5	10.0	11.8
Gov't. purchases of goods and services	3.8	.5	8.8	9.3	5.1	5.4	5.8	9.1
Federal	3.8	-5.9	14.7	14.8	4.7	5.5	6.5	14.6
National defense	15.9	12.4	17.0	15.5	11.3	9.3	8.7	15.6
State and local	3.9	5.1	4.9	5.6	5.4	5.3	5.2	5.3
Disposable personal income	6.9	5.3	8.4	7.3	7.8	7.0	6.9	8.1
Personal income	4.9	5.8	7.2	6.2	6.3	7.0	6.8	8.3
Wage and salary disbursements	6.2	5.7	6.5	7.4	7.3	7.3	7.2	9.2
Corporate profits with I.V.A. and C.C. Adj.	32.4	8.4	31.4	15.3	8.5	16.1	35.0	23.2
Corporate profits before tax	9.1	-11.7	22.1	-4.8	-1.8	6.8	28.0	15.0
Nonfarm payroll employment	.3	1.4	1.9	2.4	2.9	3.1	3.1	3.4
Manufacturing	-1.1	4.0	4.4	5.3	6.2	6.4	6.4	7.1
Nonfarm business sector								
Output per hour	3.3	2.0	2.4	1.8	2.0	1.1	1.1	1.3
Compensation per hour	5.7	4.5	4.4	4.5	6.2	4.1	4.1	4.3
Unit labor costs	2.3	2.5	2.0	2.7	4.1	3.0	3.0	3.0
GNP implicit deflator <1>	4.5	3.6	3.8	3.6	3.5	3.5	3.8	4.2
Gross domestic business product								
fixed-weighted price index <2>	3.3	4.2	4.2	3.9	3.8	3.8	3.9	3.9
Excluding food and energy	4.9	4.5	4.0	3.7	3.7	3.8	3.9	3.7
Consumer price index (all urban)	3.2	4.9	4.7	4.4	4.2	4.0	4.1	4.0
Industrial production	2.4	9.1	8.6	9.6	7.4	8.1	7.9	8.6

<1> Excluding Federal pay increases, the rates of change are: 1983-Q1, 4.5 percent; 1983-Q4, 3.2 percent; 1984-Q1, 3.4 percent; 1984-Q4, 3.6 percent.

<2> Uses expenditures in 1972 as weights.

February 2, 1983

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

	1977	1978	1979	1980	1981	1982	--Projected--	
							1983	1984
Gross national product	1918.3	2163.9	2417.8	2633.1	2937.7	3057.5	3245.2	3499.7
Final purchases	1895.3	2137.4	2403.5	2643.1	2917.3	3078.9	3243.5	3471.2
Private	1501.5	1705.5	1929.1	2104.7	2320.4	2431.8	2549.7	2732.9
Excluding net exports	1505.5	1706.6	1915.9	2079.5	2294.3	2415.3	2573.9	2770.3
Personal consumption expenditures	1204.4	1346.5	1507.2	1667.2	1843.2	1972.0	2118.2	2271.1
Goods	657.0	728.5	813.5	884.7	969.1	1005.4	1061.6	1130.5
Services	547.4	618.0	693.7	782.5	874.1	966.6	1056.6	1140.6
Gross private domestic investment	324.1	386.6	423.0	402.3	471.5	421.9	457.3	527.7
Residential construction	95.8	111.2	118.6	103.2	104.9	95.8	120.5	142.5
Business fixed investment	205.2	248.9	290.2	309.2	346.1	347.5	335.1	356.6
Change in business inventories	23.0	26.5	14.3	-10.0	20.5	-21.4	1.6	28.5
Nonfarm	21.9	25.4	8.6	-5.7	15.0	-21.6	1.6	28.5
Net exports of goods and services <1>	-4.0	-1.1	13.2	25.2	26.1	16.5	-24.3	-37.4
Exports	182.7	218.7	281.4	339.2	367.3	349.7	328.8	379.2
Imports	186.7	219.8	268.1	314.0	341.3	333.2	353.1	416.6
Gov't. purchases of goods and services	393.8	431.9	474.4	538.4	596.9	647.1	693.9	738.3
Federal <2>	143.4	153.6	168.3	197.2	228.9	257.3	282.8	305.5
State and local	250.4	278.3	306.0	341.2	368.0	389.8	411.0	432.8
Gross national product in constant (1972) dollars	1369.7	1438.6	1479.4	1474.0	1502.6	1475.5	1502.4	1563.4
Personal income	1540.4	1732.7	1951.2	2160.4	2415.8	2569.7	2716.7	2898.0
Wage and salary disbursements	983.2	1106.3	1237.6	1356.1	1493.9	1560.1	1633.1	1751.2
Disposable personal income	1314.0	1474.0	1650.2	1824.1	2029.1	2172.5	2316.6	2487.5
Saving rate (percent)	5.9	6.1	5.9	5.8	6.4	6.5	5.9	6.1
Corporate profits with I.V.A. and C.C.Adj.	167.3	192.4	194.8	181.6	190.6	161.1	188.6	222.6
Corporate profits before tax	194.7	229.1	252.7	242.4	232.1	175.4	181.6	192.1
Federal government surplus or deficit(-) (N.I.A. basis)	-45.9	-29.5	-16.1	-61.4	-60.0	-147.9	-193.2	-201.4
High employment surplus or deficit(-)	-20.5	-16.0	-2.0	-17.2	4.5	-30.6	-46.4	-61.8
State and local government surplus or deficit (-) (N.I.A. basis)	28.0	30.3	30.4	28.1	31.7	31.9	42.0	50.1
Excluding social insurance funds	10.1	10.0	6.6	.9	-1	-4.4	.9	3.6
Civilian labor force (millions)	99.0	102.3	105.0	106.9	108.7	110.2	111.9	113.5
Unemployment rate (percent)	7.1	6.1	5.8	7.1	7.6	9.7	10.8	9.9
Nonfarm payroll employment (millions)	82.5	86.7	89.8	90.4	91.1	89.6	89.3	91.7
Manufacturing	19.7	20.5	21.0	20.3	20.2	18.8	18.5	19.5
Industrial production (1967=100)	138.1	146.1	152.5	147.0	150.9	138.6	140.4	152.1
Capacity utilization: all manufacturing (percent)	81.9	84.4	85.6	79.1	78.4	69.8	69.2	73.3
Materials (percent)	82.7	85.6	87.4	80.0	79.9	68.9	69.0	75.4
Housing starts, private (million units, A.R.)	1.96	2.00	1.72	1.30	1.10	1.06	1.45	1.66
New auto sales (millions, A.R.)	11.13	11.29	10.68	9.04	8.56	8.00	8.72	9.42
Domestic models	9.07	9.29	8.36	6.62	6.24	5.77	6.45	7.05
Foreign models	2.06	2.00	2.32	2.42	2.32	2.23	2.27	2.37

<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.

February 2, 1983

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

	1977	1978	1979	1980	1981	1982	--Projected--	
							1983	1984
<u>Constant (1972) Dollars</u>								
Gross national product	5.5	5.0	2.8	-.4	1.9	-1.8	1.8	4.1
Final purchases	5.1	4.9	3.5	.5	1.0	-.6	1.2	3.2
Private	6.0	5.6	4.0	.0	1.0	-1.1	1.1	3.6
Excluding net exports	6.5	5.5	2.9	-1.1	1.8	-.2	2.1	3.4
Personal consumption expenditures	5.0	4.5	2.7	.3	1.8	1.0	2.6	2.9
Goods	5.1	4.2	1.9	-1.5	1.9	.3	3.0	3.1
Services	4.9	4.8	3.7	2.4	1.7	1.8	2.1	2.7
Gross private domestic investment	16.1	10.5	-.2	-11.8	8.3	-12.8	4.7	11.9
Residential structures	18.6	2.8	-5.3	-20.1	-4.9	-10.9	22.8	13.5
Business fixed investment	11.7	12.8	7.3	-2.2	3.6	-3.8	-5.5	3.6
Gov't. purchases of goods and services	1.5	2.0	1.3	2.3	.9	1.4	1.5	1.8
Federal	3.7	-.1	1.8	4.3	3.7	5.2	4.0	3.2
National defense	.8	.4	2.6	4.0	4.9	6.9	9.3	7.3
State and local	.2	3.3	1.1	1.1	-.8	-1.0	-.1	.8
Disposable personal income	4.0	4.9	2.7	.2	2.5	1.1	1.8	3.1
<u>Current Dollars</u>								
Gross national product	11.7	12.8	11.7	8.9	11.6	4.1	6.1	7.8
Final purchases	11.1	12.8	12.4	10.0	10.4	5.5	5.3	7.0
Private	11.7	13.6	13.1	9.1	10.2	4.8	4.8	7.2
Excluding net exports	13.2	13.4	12.3	8.5	10.3	5.3	6.6	7.6
Personal consumption expenditures	11.1	11.8	11.9	10.6	10.6	7.0	7.4	7.2
Goods	9.8	10.9	11.7	8.8	9.5	3.7	5.6	6.5
Services	12.7	12.9	12.2	12.8	11.7	10.6	9.3	7.9
Gross private domestic investment	25.7	19.3	9.4	-4.9	17.2	-10.5	8.4	15.4
Residential structures	33.1	16.1	6.6	-13.0	1.7	-8.8	25.9	18.2
Business fixed investment	17.9	21.3	16.6	6.5	12.0	.4	-3.6	6.4
Gov't. purchases of goods and services	8.8	9.7	9.8	13.5	10.9	8.4	7.2	6.4
Federal	11.0	7.1	9.6	17.1	16.1	12.4	9.9	8.0
National defense	8.0	8.0	11.5	17.5	17.0	16.1	15.6	12.3
State and local	7.5	11.2	9.9	11.5	7.9	5.9	5.4	5.3
Disposable personal income	10.0	12.2	12.0	10.5	11.2	7.1	6.6	7.4
Personal income	10.7	12.5	12.6	10.7	11.8	6.4	5.7	6.7
Wage and salary disbursements	10.5	12.5	11.9	9.6	10.2	4.4	4.7	7.2
Corporate profits with I.V.A. and C.C.Adj.	21.1	15.0	1.3	-6.8	5.0	-15.5	17.1	18.0
Corporate profits before tax	17.1	17.7	10.3	-4.0	-4.3	-24.4	3.5	5.8
Nonfarm payroll employment	3.9	5.1	3.6	.6	.8	-1.6	-.3	2.7
Manufacturing	3.6	4.2	2.6	-3.6	-.6	-6.6	-2.1	5.8
Nonfarm business sector								
Output per hour	2.2	.6	-1.3	-.9	1.4	.2	2.5	1.7
Compensation per hour	7.5	8.6	9.3	10.2	9.7	7.3	5.4	4.8
Unit labor costs	5.2	8.0	10.7	11.2	8.1	7.1	2.8	3.0
GNP implicit deflator	5.8	7.4	8.6	9.3	9.4	6.0	4.2	3.6
Gross domestic business product								
fixed-weighted price index <1>	6.1	8.0	9.9	10.1	9.6	6.0	4.3	3.9
Excluding food and energy	6.3	7.8	8.6	8.6	9.4	6.9	4.8	3.8
Consumer price index (all urban)	6.5	7.7	11.3	13.5	10.3	6.1	4.3	4.3
Industrial production	5.9	5.8	4.4	-3.6	2.6	-8.2	1.3	8.3

&lt;1&gt; Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS

February 2, 1983

	Fiscal Year 1982*	FY1983a		FY1984a		CY1983e/		FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board	CY 1982*	F.R. Board	Calendar quarters; unadjusted data								
								1982		1983				1984		
								III*	IV*	I	II	III	IV	I	II	III
Unified budget receipts	617.8	597.5	600.4	659.7	642.7	608.8	608.3	149.3	137.0	137.2	173.8	152.4	144.9	149.3	182.9	165.6
Unified budget outlays	728.4	803.2	801.8	848.5	847.0	739.5	808.6	185.5	205.3	198.5	195.8	202.2	212.1	211.3	221.0	202.6
Surplus/deficit(-), unified budget	-110.6	-207.7	-201.4	-188.8	-204.3	-130.7	-200.3	-36.2	-68.3	-61.3	-22.0	-49.8	-67.2	-62.0	-38.1	-37.0
Surplus/deficit(-), off-budget agencies <sup>2</sup>	-17.3	-17.0	-17.0	-14.0	-12.2	-14.9	-18.1	-6.0	-1.1	-4.4	-5.8	-5.7	-2.2	-2.8	-3.1	-4.1
Combined deficit to be financed	-127.9	-224.8	-218.4	-202.8	-216.5	-145.6	-218.4	-42.3	-69.4	-65.7	-27.8	-55.5	-69.4	-64.8	-41.2	-41.1
Means of financing combined deficit:																
Net borrowing from public	134.9	215.0	212.6	203.0	214.1	161.3	206.9	57.5	62.0	53.6	40.3	56.7	56.3	65.4	50.3	42.1
Decrease in cash operating balance	-10.7	9.4	10.3	0.0	-1.4	-7.8	7.3	-18.4	9.6	9.6	-12.5	3.6	6.6	2.5	-5.3	-5.2
Other <sup>3</sup>	3.8	0.4	-4.5	-0.2	3.8	-7.9	4.2	3.2	-2.2	2.5	0.0	-4.8	6.5	-3.1	-3.8	4.2
Cash operating balance, end of period	29.4	20.0	19.1	20.0	20.5	19.8	12.5	29.4	19.8	10.2	22.7	19.1	12.5	10.0	15.3	20.5
Memo: Sponsored agency borrowing <sup>4</sup>	20.3	18.2	7.7	21.2	20.3	16.9	11.6	5.8	-0.4	-0.7	3.5	4.5	4.3	4.0	6.0	6.0
<b>NIA Budget</b>																
								Seasonally adjusted annual rates								
Receipts	618.2	627.9	634.1	685.6	671.3	614.7	641.4	613.7	618.3	630.2	642.3	645.4	647.6	665.9	678.6	692.9
Expenditures	739.7	829.0	825.2	877.3	873.7	762.6	834.6	769.7	815.9	820.2	822.9	841.8	853.6	870.3	879.6	891.4
Purchases	250.1	279.0	278.3	302.5	299.8	257.3	282.8	259.0	276.1	278.7	274.5	284.1	294.1	297.5	301.5	306.3
Defense	173.0	199.4	199.1	229.0	225.7	178.5	206.3	182.7	188.9	196.0	201.8	209.9	217.6	223.5	228.5	233.3
Nondefense	77.1	79.6	79.2	73.5	74.1	78.8	76.5	76.3	87.2	82.7	72.7	74.2	76.5	74.0	73.0	73.0
All other expenditures	489.6	550.0	546.8	574.8	573.9	505.3	551.8	510.7	539.8	541.5	548.4	557.7	559.5	572.8	578.1	585.1
Surplus/deficit(-)	-121.5	-201.1	-191.1	-191.7	-202.5	-147.9	-193.2	-156.0	-197.6	-190.0	-180.6	-196.4	-206.0	-204.4	-201.0	-198.5
High Employment (H.E.) surplus/deficit(-)																
evaluated at H.E. unemployment rate of:																
5.1 percent	-20.6	n.a.	-46.4	n.a.	-60.0	-30.6	-46.4	-36.9	-60.2	-45.7	-31.4	-48.0	-60.4	-59.7	-58.6	-61.1
6.1 percent	-45.0	n.a.	-71.8	n.a.	-87.0	-55.4	-72.2	-61.7	-85.2	-71.0	-57.2	-74.1	-86.7	-86.5	-85.9	-88.9

\*—actual

e—estimated

n.a.—not available

1. The Budget of the United States Government, Fiscal Year 1984, January 1983.  
 2. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the Strategic Petroleum Reserve.

3. Checks issued less checks paid, accrued items and other transactions.

4. 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. M2 growth surged to about a 30 percent annual rate in January. A considerable part of this strength reflects the introduction and rapid expansion of the new money market deposit accounts (MMDAs), which reached the \$200 billion level by late January. While the great bulk of these funds was shifted out of other nontransactions components of M2, a sizable share apparently came from non-M2 assets such as large time deposits and other market instruments. M2 growth was boosted also by a pickup in M1. The new super NOWs have grown rapidly, though much less spectacularly than the MMDAs. On balance, it does not appear that M1 growth was greatly influenced by the introduction of MMDAs and super NOWs.

Despite the sizable runoff in large CDs, M3 growth, carried along by the surge of M2, also picked up sharply in January--to a 13 percent annual rate. In addition to paying down large CDs, commercial banks have used a considerable portion of the funds flowing into deposit accounts to increase loans to their foreign branches. Banks also have made substantial acquisitions of securities and increased their lending activities somewhat. Total bank credit growth accelerated to a 10-1/2 percent annual rate in December, and incoming data suggest that growth remained relatively strong in January.

Business loans at banks appear to have resumed growing in January after two months of decline. But the commercial paper indebtedness of non-financial businesses continued to decline sharply, and, on balance, businesses apparently reduced their short-term indebtedness. This paydown results, in part, from continued efforts to restructure balance sheets, as gross offerings of bonds and stocks by domestic corporations remained historically high in both December and January. In addition, business needs



for external funds continued to be small, primarily because of the sharp runoff of inventories.

Credit flows to households appear to have strengthened recently. Consumer credit growth picked up significantly in November and likely increased somewhat faster in December, responding to relatively strong auto sales that were stimulated in part by below-market interest rates offered by manufacturers. The strengthening of residential construction and of house sales, fostered by lower interest rates, is also reflected in a rising volume of mortgage loans and commitments.

Public sector demands for funds have remained strong. The Treasury raised nearly \$30 billion of new money in December and another \$8 billion in January to finance continued large budget deficits as well as a sizable net buildup of its cash balance. State and local governments borrowed record amounts in December as they endeavored to beat the passing of certain year-end deadlines, and though dropping off in January remained relatively substantial by historical standards.

Market interest rates generally tended to move down after the December FOMC meeting, but have backed up in recent weeks as market participants reportedly have concluded that the growing signs of an economic recovery, continued large prospective federal deficits, and the sharp expansion of the monetary aggregates in January all suggest that the Federal Reserve is unlikely to take actions that would encourage a further easing in credit market conditions. On balance, interest rates on most market-traded instruments show little net change for the intermeeting period. Primary mortgage rates and bank prime rates, however, declined 50 basis points over the

intermeeting period in lagged response to previous reductions in market interest rates and perhaps to the improved inflow of deposits.

Outlook. With inventory liquidation continuing and corporate cash flow improving, businesses likely will have only a moderate need to raise net new money in financial markets in the next few months. At the same time, however, they probably will continue their efforts to fund short-term debt--through continued issuance of long-term bonds and common stock--since their basic debt structures remain strained.

In the household sector, our projections of durable goods sales suggest that consumer installment credit growth will continue near the recent stronger pace. Takedowns of mortgages appear likely to increase in conjunction with a further step-up in the construction and sale of houses, and institutional lending may be bolstered as well by further refinancing of loans made by home sellers over the past few years.

The U.S. Treasury will continue to place massive demands on credit markets as it is expected to raise almost \$55 billion of new money over the current quarter. State and local government borrowing, too, is expected to remain comparatively heavy by historical standards in the months immediately ahead. Governmental units are expected to accelerate some of their debt offerings to get ahead of the federal requirement that municipal bonds be registered, now scheduled to take effect on July 1, as well as to take advantage of current interest rate levels, partly for refunding of high-rate debt. Such borrowing may also be augmented by financing undertaken to cover large shortfalls in operating budgets.

For the time being, it seems likely that credit will be available in sufficient supply to meet both the pickup in private borrowing and the

continued large financing needs of governmental units without upward pressure on market interest rates. The staff is anticipating (in its economic forecast) that short- and long-term rates will remain near current levels into the spring. The markets likely will continue sensitive to incoming economic indicators, and they could be expected to rally on any signs of decisive slowdown in monetary growth, which would be viewed as providing an opportunity for further easing actions by the System. The expected continuation of good news on inflation should, in any event, tend to buttress the intermediate- and long-term sectors of the debt markets, although the prospects for the federal budget likely will remain a burden until and unless credible and decisive action is taken to cut deficits for future years.

Recent developments. Since the December FOMC meeting the weighted average value of the dollar has appreciated by about 2-1/2 percent. From a peak value in early November the dollar depreciated about 8-1/2 percent to a trough in early January; since then the dollar has appreciated by more than 5 percent. Most of the depreciation early in the two-month period has been attributed to the widely-recognized increase in current and prospective U.S. trade and current-account deficits. There was also some expectation in the the earlier part of January that dollar interest rates would decline further. However, interest-rate expectations changed after the middle of January when the Federal Reserve discount rate was not lowered as had been expected, and when market attention returned to the prospect of large U.S. budget deficits. Also strengthening the dollar were signs of political difficulties in Germany, and the disarray of OPEC, which raised the possibility of a major decline in oil prices, adding to the uncertainties in the world economic outlook.

Much of the dollar's strength has been against sterling, which was weakened by the prospect of lower oil prices. The dollar has gained about 1-1/2 percent against the continental European countries since mid-December but, on balance, has declined 2 percent against the yen.

Interest rates in other industrial countries have declined or held steady in recent months, except for the United Kingdom, where monetary conditions were tightened to support the pound. As the mark

and the yen weakened against the dollar late in January, market expectations of some reductions in German and Japanese interest rates were side-tracked.

Real GNP of the major ten foreign industrial countries declined in the third quarter of last year, with only Japan recording positive growth in the quarter. This weakness continued into the fourth quarter, with October and November industrial production generally declining. The rate of unemployment abroad rose further in the fourth quarter, reaching 13 percent in December in Canada and the United Kingdom, and about 9 percent in Germany, France, and Italy.

Nevertheless some scattered indications that activity abroad may be moving up can be seen: residential construction has improved in Germany and Canada; new orders are up in Germany; surveys in Canada, France, and Germany show reduced pessimism by consumers and producers; and retail sales in the United Kingdom were up sharply in December.

In U.S. international transactions, the trade balance in the fourth quarter was a deficit of nearly \$50 billion, about the same as in the previous quarter. Both exports and imports declined in the quarter. On the export side, manufactured goods and coal showed the largest drops; on the import side the major decline was also in manufactures. Oil imports were down slightly in the fourth quarter as volume continued to decline while the price changed little.

In the international capital accounts there was a sizable net outflow of banking funds from December to mid-January, largely in the form of funding of foreign branches by U.S. head offices. It seems likely that this represented new funding patterns associated with the introduction of the new money market deposit accounts, although the relevant data are still incomplete. Many foreign branches lost deposits as U.S. investors holding funds in the branches, or in mutual funds that held CDs of the branches, switched into MMDAs. In turn, head offices of the banks recycled these funds to their branches. Moreover, U.S. banks may have found it advantageous to place any net new resources into Euromarket assets.

Foreign investments in U.S. corporate securities remained subdued in November, but it appears that U.S. corporations stepped up their offerings of Eurodollar bonds in January, with most of the proceeds probably intended for use in the United Kingdom.

Outlook. Activity in major industrial countries registered a small decline last year (fourth quarter to fourth quarter), but is expected to gain some momentum this year with growth of nearly 2 percent. This slow growth, and the decline in the import capacity of developing countries, are expected to lead to further declines in U.S. exports in the first half of this year, while non-oil imports are expected to rise in value, though not in volume. The value of oil imports should decline somewhat as prices fall further. The trade deficit for the year is projected at about \$65 billion -- considerably lower than the last projection, mainly because recent

data have indicated a lower volume of non-oil imports. The corresponding current account deficit is about \$37 billion. On present assumptions about economic activity and prices, these deficits are expected to increase further in the first half of next year.

Incorporated in this set of forecasts is a 13 percent decline in the value of the dollar from the January average to the average in the fourth quarter of the year, and a further relatively minor decline into 1984.

FEBRUARY 1, 1983

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

	1982 ANN.	1983-P ANN.	1984-P ANN.	1982 Q3	1982 Q4	1983-P Q1	1983-P Q2	1983-P Q3	1983-P Q4	1984-P Q1	1984-P Q2	1984-P Q3	1984-P Q4
<b>1. GNP NET EXPORTS</b>													
CURRENT \$, NET	16.6	-24.3	-37.4	7.0	-6.9	-7.0	-23.0	-30.1	-37.0	-41.4	-40.8	-35.8	-31.8
EXPORTS OF G+S	349.7	328.8	379.2	349.5	323.7	321.6	322.0	330.6	341.0	353.5	370.1	387.9	405.2
IMPORTS OF G+S	333.1	353.1	416.6	342.5	330.6	328.5	345.0	360.7	378.1	394.9	410.8	423.7	437.0
CONSTANT 72 \$, NET	30.3	18.9	21.6	27.5	21.1	21.4	18.2	18.1	18.2	18.6	20.2	22.8	24.8
EXPORTS OF G+S	147.5	135.3	147.4	147.5	136.4	134.6	133.7	135.4	137.7	140.7	145.2	149.9	154.1
IMPORTS OF G+S	117.2	116.5	125.9	120.0	115.3	113.6	115.5	117.3	119.4	122.1	125.0	127.0	129.3
TERMS OF TRADE (1972=100) 1/	83.4	80.3	77.7	83.0	82.8	82.6	80.7	79.5	78.3	77.7	77.6	77.7	77.9
<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>													
EXPORTS (EXCL. MILITARY)	211.2	192.9	225.7	209.3	192.9	189.8	189.3	192.9	199.4	207.8	218.6	231.4	245.1
AGRICULTURAL	37.4	36.3	39.7	33.6	32.1	34.6	36.1	36.9	37.7	38.6	39.3	40.1	40.9
NONAGRICULTURAL	173.8	156.5	186.0	175.7	160.9	155.2	153.2	156.0	161.7	169.1	179.3	191.3	204.3
IMPORTS	247.3	258.7	307.3	259.3	240.5	238.0	254.8	265.4	279.8	291.3	301.8	312.4	323.7
PETROLEUM AND PRODUCTS	61.2	60.6	69.8	65.8	62.8	55.4	59.0	62.3	65.9	67.4	68.5	70.3	73.0
NONPETROLEUM	186.1	198.1	237.5	193.5	177.7	182.6	192.8	203.1	213.9	223.9	233.3	242.1	250.7
<b>3. U.S. CURRENT ACCOUNT BALANCE</b>													
OF WHICH: NET INVESTMENT INCOME	-6.7	-37.3	-53.6	-17.1	-22.3 <sup>P</sup>	-20.8	-35.1	-42.5	-50.8	-56.4	-56.8	-52.4	-49.0
	28.2	27.0	29.2	29.7	24.9 <sup>P</sup>	25.7	24.8	28.4	29.2	27.8	27.4	29.9	31.5
<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/</b>													
REAL GNP, % CHANGE, ANNUAL RATES	-0.2	0.9	2.6	-2.8	0.9	1.4	1.8	1.7	3.0	2.9	2.3	2.7	3.0
CONSUMER PRICES, % CHANGE, ANNUAL RATES	8.1	6.6	6.3	6.0	6.3	7.6	6.2	5.8	5.8	6.9	6.3	6.1	6.0

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

2/ INTERNATIONAL ACCOUNTS BASIS

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES

-- PERCENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE.

GERMANY (20.8%), JAPAN (43.6%), 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