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Strictly Confidential (FR) Class II FOMC

August 10, 1988

SUMMARY AND OUTLOOK

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

Recent Developments

Economic activity appears to have been expanding strongly at midyear. Growth in employment and hours worked remained brisk, with particular vigor evident in the industrial sector. In the aggregate, price inflation has remained at last year's pace, while labor costs have picked up considerably.

Nonfarm payroll employment expanded 285,000 in July, after a 530,000 gain in June. Factory hiring has proceeded at a rapid pace, with large increases in the machinery and metals industries. Employment in the trade and service sectors also has continued to advance sharply. Together with a rise in the workweek, the gains in employment pushed up aggregate production worker hours 3/4 percent in July to a level 1 percent above the second-quarter average. The civilian unemployment rate edged up to 5.4 percent in July but remained about 1/2 percentage point lower than at the turn of the year.

In addition to the strength in hours, physical product data on steel, paper, and coal point to a large advance in industrial production in July. This gain comes on the heels of a 5 percent increase (annual rate) in the second quarter. Manufacturing capacity utilization continues to trend up; the rate increased to 83.2 percent in June and rose further in July. With capacity utilization rates at relatively high levels in some basic industries, producer prices of intermediate materials and supplies excluding food and energy increased at a 7-1/2 percent annual rate in the past six months, about 2 percentage points more than in 1987.

According to the BEA's preliminary estimates, real consumer spending rose 2-1/4 percent at an annual rate in the second quarter, roughly the same pace as the average over the preceding three quarters. Outlays for services and durable goods posted strong gains, while spending for nondurable goods declined. Data on consumer spending in the third quarter are limited to purchases of cars and light trucks, which remained close to their strong first-half pace. Sales of domestically produced new cars were 7-1/2 million units last month, and dealer stocks, at a 60-days' supply, appear quite comfortable. Auto production is scheduled at 7-1/4 million units in the current quarter, about the same pace as in the second quarter.

Single-family starts rebounded in June to a level in line with the average of the first four months of the year. Some firming in this market also is suggested by the steady pickup in sales of new and existing homes, though recent sales activity may have been influenced somewhat by anticipations of higher interest rates in coming months. Building has remained depressed on the multifamily side, which has shown only a modest decline in rental vacancies.

In the business sector, spending for equipment posted another sharp rise in the second quarter. Although gains were widespread, computer purchases again were exceptional.[1] Looking ahead, new orders for nondefense capital goods excluding aircraft were up 1 percent in the

1. The recent quarterly pattern of business fixed investment was altered significantly by the Commerce Department's annual revisions, largely reflecting changes in the magnitude and timing of computer purchases. In addition to an overall strengthening of computer spending, the sharp spike that previously was estimated to have occurred in the first quarter was reduced, and spending was moved into the fourth quarter of 1987 and the second quarter of this year.

second quarter and, adjusting for the likely decline in computer prices, point to further healthy gains in real equipment spending in the current period.

Spending on nonresidential structures turned up in the second quarter, reversing about half of the first-quarter decline. Although most broad categories posted gains, the downtrend in total construction contracts since late last year suggests that the outlook for this sector remains weak. For example, the considerable overhang of vacant office space still appears to be depressing contract awards for new building, while contracts for other commercial construction may be declining in response to the slowing that has occurred in housing and consumer spending. However, the generally lackluster contracts data for industrial construction appear at odds with rising capacity utilization rates, which in the past have proven a more reliable indicator of spending in this area.

Inventory investment slowed significantly in the second quarter. In manufacturing, the slowing reflected, for the most part, the strength in shipments; inventories of finished goods were run off in a number of industries, while manufacturers added to stocks of materials and work in process. At nonauto trade establishments, where concerns about overstocking had arisen earlier this year, stocks were trimmed last quarter, and inventory-sales ratios edged down from high levels.

The consumer price index increased 0.3 percent in June, the same change as in May. Over the first half of the year, the CPI rose at a 4-1/2 percent annual pace--the same as in 1987--as softer energy prices offset some acceleration in the other components. Energy prices dropped

0.2 percent in June and appear likely to fall further in coming months; since early June, crude oil prices, on net, have reversed the brief upturn that occurred in early spring. Consumer food prices rose 0.6 percent in June, reflecting the passthrough to retail of a springtime runup in cattle prices and some drought-related increases in poultry and eggs. Food price increases are expected to remain in this range in coming months, as the effect of higher crop prices begins to show through at the retail level and is only partially offset by some weakening in meat prices. Elsewhere, increases in consumer goods prices have been more subdued recently, with apparel prices easing after the sharp spring surge. Nonenergy service prices have continued to increase at about a 5 percent annual rate, a bit above last year's pace.

Most measures of labor costs have turned up since last year. Hourly compensation, as measured by the employment cost index, increased 4-1/2 percent over the past year--about 1-1/4 percentage points more than in the preceding two years. The acceleration cuts across most broad industry and occupation groupings. Although the pickup in benefit costs has been especially sharp, wage inflation also has increased.

Outlook

The staff outlook for real GNP over the remainder of 1988 has been influenced importantly by recent reports on the labor market and on crop production. In agriculture, the drought losses now are larger than the staff was anticipating in late June. In the nonfarm sector, however, the growth in employment and production worker hours indicates considerable underlying momentum to activity and, on balance, the staff's projected growth in real GNP has been revised up in the second half.

Based on USDA crop estimates as of mid-July, the BEA has indicated to the staff that they are projecting that the drought will reduce real farm output about $11 billion in 1988 on an annual average basis. The staff has incorporated losses of a similar magnitude in the current projection--considerably more than the $4 billion that was assumed in the June Greenbook. In the GNP projection, these output losses show up primarily as a run-off of private and government farm inventories, and, to a lesser extent, as a drop in agricultural exports. All told, these effects are projected to reduce current-quarter growth about 3/4 percentage point at an annual rate and fourth-quarter growth 1 percentage point--trimming about 1/2 percentage point from the fourth-quarter growth in real GNP in 1988. In 1989, agricultural production is projected to reverse this year's decline, boosting the growth in real GNP by 1-1/2 percentage points and 3/4 percentage point in the first and second quarters respectively.[2]

Real GNP and the Drought
(Percent change, annual rate)

	1988		1989	
	Q3	Q4	Q1	Q2
Real GNP	3.1	1.8	3.6	2.5
Real GNP excluding effects of drought	3.8	2.8	2.2	1.8

2. There remains considerable uncertainty surrounding the manner in which the BEA will adjust components of farm output and income in response to emerging information about the drought. Thus, current staff estimates should be viewed as a rough attempt to lay out the dimensions of the effect of the drought on real GNP.

The staff expects that the drought will have only a minimal effect on the nonfarm economy. Most consumers are assumed to view the loss of income resulting from higher food prices as transitory, and hence the effect on spending for goods and services other than food should be slight. Moreover, farmers' cash flow is expected to be well maintained. There may be some adverse influence on purchases of agricultural equipment, but this component represents less than 3 percent of business fixed investment, limiting any aggregate consequences.

Recent data suggest that activity in the nonfarm economy is moving ahead briskly. Apart from the effects of the drought, the staff projects growth in real GNP at about 3-3/4 percent in the current quarter, about 1 percentage point more than anticipated in the previous projection. In the June Greenbook, the staff expected falling auto production and a dropoff in nonfarm inventory investment to slow production in the second half. However, auto production now is projected to be about flat rather than declining in the current quarter, as a result of stronger sales and revised BEA auto production seasonals. In addition, much of the slowing in nonfarm inventory investment that we had expected to occur over the second half of this year evidently took place in the second quarter. As a consequence, nonfarm inventories are projected to make a positive contribution rather than acting to restrain production. The near-term outlook for export growth also has improved, adding strength to domestic output.

Looking beyond the current quarter, the staff continues to anticipate that the System's efforts to restrain inflation will be associated with some pressure on financial markets. In light of recent developments, which have produced higher levels of resource utilization and suggest greater tendencies toward wage acceleration than previously anticipated, interest rates are expected to rise further and reach levels somewhat higher than assumed in the June projection. M2 is expected to slow relative to the first half of 1988, finishing the year in the middle part of the FOMC's annual target range and then running in the lower portion of the 1989 range. M3 growth follows a similar pattern but remains above the growth in M2. The exchange value of the dollar now is projected to hold near recent levels for the balance of the year and then to decline at a moderate rate in 1989. The higher average level of the dollar throughout the projection period implies less stimulus to production--and less price pressure--from the external sector than was previously projected.

Fiscal policy assumptions are unchanged and are expected to exert a mildly restraining influence on aggregate demand, owing, in part, to implementation of last fall's budget Summit agreement. Given economic conditions, however, the staff projection for the federal budget deficit is $158 billion in FY1988 and $154 billion in FY1989. Pending legislation, including the farm bill, appears to be within the limits of the Gramm-Rudman-Hollings Act and it is assumed that OMB estimates, to be released later this month, will fall below the $146 billion sequestration trigger.

Over the remainder of this year, it is on homebuilding that rising interest rates are expected to leave their clearest mark, with housing starts forecast to drop to about 1.4 million units at an annual rate in the fourth quarter. Some negative effects also are projected for consumer durables--including autos--and business fixed investment is expected to grow less rapidly over the second half, partly as rising rates begin to put some damper on the sales outlook of firms.[3]

In 1989, the external sector still provides a significant contribution to domestic production, adding about 3/4 percentage point to the growth in real GNP--though the stronger projected dollar has reduced the degree of stimulus from the external sector. Meanwhile, the restraining effects of higher interest rates on domestic demand are projected to become more pronounced. In that regard, some observable slowing in final demand by next year is expected to add to the effect of rising interest rates to further depress sales expectations; thus, both fixed and inventory investment continue to decelerate. It should be noted that, while the previous Greenbook also showed some slowing in BFI, the growth rate of investment spending is higher in this forecast. In large measure this reflects our assessment, based in part on the NIPA revisions, that the underlying trend in computer purchases is stronger than we had been projecting. In the household sector, consumer spending decelerates next year, as income growth slows and rising interest rates curb advances in household wealth. Moreover, housing starts are expected to continue to drift lower. Abstracting from the rebound in agricultural production, activity is projected to advance a bit less

3. Auto sales on a seasonally adjusted basis are projected to be flat between the third and fourth quarters. However, this results from seasonal factors that expect a large increase in sales in the third quarter, followed by "pay backs" in the fourth quarter. Such swings likely will not occur on any large scale this year, and consequently sales on a seasonally adjusted basis will appear relatively weak in the third quarter and strong in the fourth quarter. Nevertheless, in our view, the underlying sales pace should slacken in the fourth quarter.

rapidly than potential output in 1989, and the unemployment rate rises to about 5-3/4 percent by the end of the projection horizon.

As suggested above, the outlook for wage and price inflation has deteriorated somewhat since the June Greenbook. On the labor cost side, increases in hourly compensation over the past four quarters now are shown to have been larger than the staff previously had anticipated. However, only some of the recent "surprise" in compensation inflation is carried forward in the projection; in particular, costs associated with health benefits jumped sharply in the first half of the year, and we have assumed that such large increases will not continue during the second half. More prominent in our thinking has been the lower path of the unemployment rate. The degree of tightness in labor markets projected over the next six quarters increases the probability that higher price inflation will be recouped in nominal compensation. The uptrend in the unemployment rate next year does not ease pressures on labor markets enough to prevent some continuing rise in wage inflation.

The GNP fixed-weight price index is projected to pick up from a 4-1/4 percent pace this year to a 4-1/2 percent rate in 1989; consumer price inflation runs about 5 percent next year.[4] The stronger projected dollar has reduced the increase in non-oil import prices, offseting a part of the effects of the upward revised labor costs in 1989. Rising non-oil import prices continue to add a bit to price pressures in 1989 but are a diminishing influence over the course

4. In contrast to the upward revisions in our projections of the fixed-weight price measures, the expected increase in the GNP deflator was little changed. The upward adjustment to the projection of real computer purchases more than offsets the larger projected price increases.

of the year. Energy prices pick up, and food prices slow, but neither figures critically in the general inflation outlook next year. More generally, the lower path of the unemployment rate and higher projected levels of capacity utilization imply greater price inflation next year than previously forecast.

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STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
		6/22/88	8/10/88	6/22/88	8/10/88	6/22/88	8/10/88	6/22/88	8/10/88	6/22/88	8/10/88
Annual changes:											
1986	<1>	5.6	5.6	2.9	2.8	2.7	2.8	2.6	2.7	7.0	7.0
1987	<1>	6.0	6.8	2.9	3.4	3.4	3.6	3.0	3.3	6.2	6.2
1988		6.8	7.1	3.6	3.9	4.0	4.0	3.1	3.0	5.6	5.5
1989		6.3	6.7	2.2	2.7	4.4	4.7	4.1	3.9	5.8	5.6
Quarterly changes:											
1987	Q1 <1>	8.6	8.4	4.4	4.6	4.5	4.2	4.2	3.5	6.6	6.6
	Q2 <1>	6.3	8.7	2.5	5.0	4.1	4.2	3.5	3.5	6.3	6.3
	Q3 <1>	7.3	7.7	4.3	4.5	3.4	3.7	2.8	3.1	6.0	6.0
	Q4 <1>	7.6	8.6	4.8	6.1	3.6	3.8	2.7	2.4	5.9	5.9
1988	Q1 <1>	5.4	5.4	3.9	3.4	3.6	3.5	1.7	1.7	5.7	5.7
	Q2 <1>	8.2	7.2	3.3	3.1	4.7	4.7	4.7	4.1	5.6	5.5
	Q3	6.3	7.3	2.1	3.1	4.4	4.6	4.2	4.0	5.7	5.4
	Q4	6.7	6.1	2.3	1.8	4.5	4.6	4.3	4.2	5.7	5.4
	Q1	6.5	7.7	2.0	3.6	4.9	5.1	4.4	4.0	5.7	5.4
	Q2	5.5	6.4	1.7	2.5	4.1	4.6	3.7	3.8	5.8	5.5
	Q3	6.1	5.8	2.4	2.0	4.0	4.4	3.5	3.7	5.8	5.6
	Q4	6.1	5.8	2.4	2.0	4.0	4.3	3.6	3.6	5.9	5.7
Two-quarter changes: <2>											
1987	Q2 <1>	7.5	8.5	3.4	4.8	4.4	4.2	3.9	3.5	-.5	-.5
	Q4 <1>	7.4	8.1	4.6	5.3	3.6	3.7	2.8	2.7	-.4	-.4
1988	Q2 <1>	6.8	6.3	3.6	3.3	4.2	4.0	3.2	2.9	-.3	-.4
	Q4	6.5	6.7	2.2	2.4	4.5	4.6	4.2	4.1	.1	-.1
1989	Q2	6.0	7.1	1.9	3.0	4.5	4.9	4.0	3.9	.1	.1
	Q4	6.1	5.8	2.4	2.0	4.0	4.4	3.6	3.7	.1	.2
Four-quarter changes: <3>											
1986	Q4 <1>	4.5	4.8	2.2	2.0	2.3	2.7	2.2	2.8	-.3	-.3
1987	Q4 <1>	7.4	8.3	4.0	5.0	4.0	4.0	3.3	3.1	-.9	-.9
1988	Q4	6.7	6.5	2.9	2.8	4.3	4.3	3.7	3.5	-.2	-.5
1989	Q4	6.0	6.4	2.1	2.5	4.2	4.6	3.8	3.8	.2	.3

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

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

		1987		1988				Projection 1989			
	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	4568.0	4662.8	4724.5	4806.9	4892.3	4964.7	5058.1	5136.8	5209.9	5283.4
Real GNP	Billions of 82$	3865.3	3923.0	3956.1	3986.3	4016.9	4034.6	4070.1	4095.3	4116.0	4136.9
Nominal GNP	Percent change	7.7	8.6	5.4	7.2	7.3	6.1	7.7	6.4	5.8	5.8
Real GNP		4.5	6.1	3.4	3.1	3.1	1.8	3.6	2.5	2.0	2.0
Gross domestic product		4.7	5.8	4.2	3.2	3.3	1.8	3.5	2.5	2.1	2.0
Gross domestic purchases		4.8	5.4	1.6	1.1	2.3	1.4	2.7	1.7	1.2	1.2
Final sales		6.1	.4	3.6	5.4	3.5	3.0	2.8	2.3	2.4	2.6
Private dom. final purchases		6.6	-1.3	4.3	4.0	3.4	2.4	1.6	1.5	1.5	1.4
Personal consumption expend.		4.6	-2.1	4.5	2.3	2.6	2.3	1.3	1.3	1.3	1.3
Durables		16.5	-17.3	14.7	7.2	1.6	1.2	-1.8	.1	.6	.6
Nondurables		.9	-.6	1.0	-2.0	1.3	1.9	1.4	.2	.2	.2
Services		3.7	2.2	4.0	3.9	3.9	2.9	2.3	2.3	2.3	2.3
Business fixed investment		28.4	1.7	7.6	14.0	8.6	5.1	6.2	5.1	3.7	2.5
Producers' durable equipment		29.4	-2.4	21.6	14.8	12.0	7.7	7.0	6.5	5.5	4.5
Nonresidential structures		25.6	13.4	-22.4	11.8	-.4	-2.1	3.9	1.1	-1.5	-3.5
Residential structures		-10.7	1.3	-6.5	2.8	-.2	-2.3	-6.4	-5.7	-2.5	-.8
Exports		25.7	17.7	25.7	8.0	16.8	14.6	15.5	13.8	12.0	11.4
Imports		23.4	9.9	6.9	-6.2	8.6	10.1	7.6	7.0	5.5	4.6
Government purchases		5.7	5.0	-7.9	.4	-.2	3.2	3.3	1.9	2.2	3.1
Federal		12.6	6.7	-21.0	-3.0	-3.1	4.8	5.0	1.6	2.2	4.2
Defense		7.3	-1.9	-5.3	-5.5	-10.6	-.2	2.2	-1.1	-1.6	-.9
State and local		.6	3.8	3.5	2.9	1.9	2.0	2.0	2.0	2.2	2.3
in business inventories	Billions of 82$	13.0	67.1	-66.0	45.0	41.7	30.2	38.1	40.2	36.6	31.1
arm	Billions of 82$	18.3	68.2	51.9	33.9	39.1	42.1	39.0	36.2	33.0	32.3
orts	Billions of 82$	-130.7	-126.0	-109.0	-90.1	-82.7	-79.5	-71.3	-63.9	-56.0	-47.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	102.7	103.7	104.7	105.6	106.5	107.0	107.4	107.8	108.1	108.4
Unemployment rate	Percent*	6.0	5.9	5.7	5.5	5.4	5.4	5.4	5.5	5.6	5.7
Industrial production index	Percent change	8.8	7.0	3.9	4.7	6.4	4.1	2.6	2.4	2.5	2.5
Capacity utilization rate-mfg.	Percent*	81.4	82.3	82.7	83.1	83.6	83.7	83.6	83.4	83.3	83.1
Housing Starts	Millions	1.62	1.53	1.48	1.47	1.47	1.41	1.37	1.35	1.34	1.34
Auto sales	Millions	11.42	10.02	10.79	10.76	10.44	10.52	10.05	10.02	10.05	10.03
Domestic	Millions	7.84	6.63	7.64	7.57	7.36	7.39	7.05	7.05	7.10	7.10
Foreign	Millions	3.58	3.38	3.15	3.19	3.08	3.13	3.00	2.97	2.95	2.93
INCOME AND SAVING											
Nominal personal income	Percent change	7.1	11.6	4.6	6.8	7.4	7.8	8.6	6.2	5.6	6.5
Real disposable income	Percent change	4.8	6.9	5.0	-.4	4.2	2.1	3.3	.5	.6	1.3
Personal saving rate	Percent*	2.3	4.3	4.4	3.8	4.2	4.1	4.6	4.4	4.2	4.2
Corp. profits with IVA & CCAdj	Percent change	23.9	-7.1	.1	12.4	-2.9	-7.1	8.4	6.9	-2.9	.7
Profit share of GNP	Percent*	7.0	6.8	6.7	6.8	6.6	6.4	6.4	6.4	6.3	6.2
Federal govt. surplus/deficit	Billions of $	-138.3	-160.4	-155.1	-119.8	-125.7	-133.1	-139.5	-132.6	-126.8	-130.2
State and local govt. surplus		52.9	49.7	55.8	51.9	58.9	62.7	67.8	70.4	71.8	72.8
Exc. social insurance funds		-10.1	-14.8	-10.3	-15.8	-10.0	-7.4	-3.5	-2.1	-1.9	-2.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.1	2.4	1.7	4.1	4.0	4.2	4.0	3.8	3.7	3.6
GNP fixed-weight price index		3.7	3.8	3.5	4.7	4.6	4.6	5.1	4.6	4.4	4.3
Cons. & fixed invest. prices		3.9	4.3	2.5	4.9	4.3	4.9	4.9	4.9	4.7	4.6
CPI		3.6	3.9	3.2	4.9	4.3	5.1	5.3	4.9	4.8	4.8
Exc. food and energy		3.6	4.2	4.4	5.0	4.5	5.3	5.2	5.2	5.2	5.2
business sector											
ut per hour		3.7	.9	3.4	-1.7	.0	.9	.5	.8	.7	.8
ensation per hour		4.5	6.4	3.5	4.1	4.5	4.7	5.1	4.9	5.1	5.2
. labor costs		.7	5.4	.1	5.9	4.5	3.8	4.6	4.1	4.4	4.4

* Not at an annual rate.

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August 10, 1988

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1981	1982	1983	1984	1985	1986	1987	Projection 1988	1989
EXPENDITURES										
Nominal GNP	Billions of $	3052.6	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4847.1	5172.0
Real GNP	Billions of 82$	3248.8	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3998.5	4104.6
Real GNP	Percent change*	.6	-1.9	6.5	5.1	3.6	2.0	5.0	2.8	2.5
Gross domestic product		.3	-1.6	6.6	5.3	3.8	2.3	5.1	3.1	2.5
Gross domestic purchases		.8	-.8	8.4	6.4	4.3	2.4	4.4	1.6	1.7
Final sales		.1	.3	3.7	4.7	4.6	2.5	3.0	3.9	2.5
Private dom. final purchases		-.3	.8	7.7	5.6	4.6	2.8	2.4	3.5	1.5
Personal consumption expend.		.2	2.9	5.4	4.1	4.6	4.2	1.8	2.9	1.3
Durables		-3.3	9.0	14.7	10.8	7.0	11.5	-2.4	6.0	-.1
Nondurables		.5	1.8	4.4	2.3	3.3	3.1	.6	.5	.5
Services		.9	2.3	3.9	3.5	5.0	2.7	4.2	3.7	2.3
Business fixed investment		5.6	-11.3	10.8	13.8	3.7	-7.3	8.8	8.8	4.4
Producers' durable equipment		2.2	-12.5	20.9	14.9	4.6	-2.4	9.6	13.9	5.9
Nonresidential structures		11.7	-9.1	-4.8	11.8	1.9	-17.4	6.7	-4.1	-.1
Residential structures		-22.4	4.9	38.1	6.1	5.8	11.3	-3.5	-1.6	-3.9
Exports		2.4	-13.8	5.8	5.9	-2.4	5.6	18.4	16.1	13.2
Imports		4.9	-5.9	23.8	17.4	4.5	7.6	10.4	4.7	6.2
Government purchases		2.9	3.8	-2.7	7.9	8.6	2.9	2.3	-1.2	2.6
Federal		9.5	8.2	-8.1	13.0	13.3	.0	2.1	-6.1	3.2
Defense		7.6	8.8	5.1	6.5	7.1	4.8	6.0	-5.4	-.4
State and local		-1.3	.6	1.5	4.4	4.9	5.3	2.5	2.6	2.1
Change in business inventories	Billions of 82$	23.9	-24.5	-6.4	62.3	9.1	15.4	34.4	45.7	36.5
Nonfarm	Billions of 82$	19.0	-23.1	-.1	57.8	13.4	17.9	36.9	41.8	35.1
Net exports	Billions of 82$	49.4	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-90.3	-59.6
Nominal GNP	Percent change*	9.3	3.1	10.4	8.6	6.6	4.8	8.3	6.5	6.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	91.2	89.6	90.2	94.5	97.5	99.5	102.3	105.9	107.9
Unemployment rate	Percent	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.6
Industrial production index	Percent change*	-1.0	-7.7	14.3	6.6	1.7	1.0	5.8	4.8	2.5
Capacity utilization rate-mfg.	Percent	78.2	70.3	73.9	80.5	80.1	79.7	81.0	83.3	83.3
Housing Starts	Millions	1.10	1.06	1.71	1.77	1.74	1.81	1.63	1.46	1.35
Auto sales	Millions	8.56	8.00	9.18	10.43	11.09	11.52	10.34	10.63	10.04
Domestic	Millions	6.24	5.77	6.77	7.97	8.24	8.28	7.14	7.49	7.08
Foreign	Millions	2.32	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.96
INCOME AND SAVING										
Nominal personal income	Percent change*	9.2	5.3	7.8	8.4	6.6	5.9	8.5	6.7	6.7
Real disposable income	Percent change*	.7	1.0	5.1	4.3	2.7	3.4	3.0	2.7	1.4
Personal saving rate	Percent	7.5	6.8	5.4	6.1	4.4	4.0	3.2	4.1	4.3
Corp. profits with IVA & CCAdj	Percent change*	2.3	-19.1	70.1	7.4	9.2	.9	7.6	.4	3.2
Profit share of GNP	Percent	6.2	4.7	6.3	7.1	7.0	7.0	6.9	6.6	6.3
Federal govt. surplus/deficit	Billions of $	-63.8	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-133.4	-132.3
State and local govt. surplus		34.1	35.1	47.5	64.6	65.1	61.2	52.9	57.3	70.7
Exc. social insurance funds		4.1	-1.7	4.4	19.8	13.8	5.0	-9.2	-10.9	-2.4
PRICES AND COSTS										
GNP implicit deflator	Percent change*	8.7	5.2	3.6	3.4	2.9	2.8	3.1	3.5	3.8
GNP fixed-weight price index		8.5	5.0	3.9	3.7	3.3	2.7	4.0	4.3	4.6
Cons. & fixed invest. prices		8.2	4.4	3.3	3.3	3.4	2.5	4.7	4.2	4.8
CPI		9.6	4.4	3.2	4.1	3.5	1.3	4.4	4.4	5.0
Exc. food and energy		10.2	5.2	4.2	4.8	4.3	3.9	4.3	4.8	5.2
Nonfarm business sector										
Output per hour		-.6	1.0	3.6	1.5	1.5	1.2	1.9	.7	.7
Compensation per hour		8.3	7.3	3.3	4.2	4.5	4.2	4.1	4.2	5.1
Unit labor costs		9.0	6.2	-.3	2.6	2.9	3.0	2.1	3.6	4.3

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

August 10, 1988

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

					Projection								Projection	
	1987		1988				1989				1986	1987	1988	1989
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	42.3	57.7	33.1	30.2	30.6	17.7	35.6	25.2	20.7	20.9	72.3	188.3	111.6	102.3
Gross domestic product	43.6	54.3	40.3	31.1	32.6	18.1	35.2	25.4	20.9	20.0	83.3	188.3	122.1	101.5
Gross domestic purchases	47.0	53.0	16.1	11.3	23.3	14.4	27.4	17.7	12.9	12.1	89.4	171.9	65.1	70.0
Final sales	57.0	3.7	34.2	51.2	33.9	29.2	27.7	23.1	24.3	26.4	90.5	110.7	148.5	101.4
Private dom. final purchases	51.0	-10.7	33.4	31.5	27.0	19.8	13.2	12.0	12.2	11.5	85.8	76.2	111.8	48.9
Personal consumption expend.	28.6	-13.5	28.1	14.4	16.9	14.6	8.6	8.2	8.6	8.6	99.3	45.5	74.0	34.1
Durables	15.2	-18.9	13.5	7.0	1.6	1.2	-1.9	.1	.6	.6	40.9	-9.7	23.3	-.5
Nondurables	2.1	-1.4	2.2	-4.5	2.9	4.2	3.1	.5	.4	.4	27.0	5.2	4.8	4.6
Services	11.3	6.8	12.3	12.1	12.3	9.3	7.4	7.6	7.5	7.5	31.4	50.0	45.9	30.0
Business fixed investment	28.0	2.0	8.6	15.8	10.3	6.3	7.7	6.5	4.8	3.3	-33.6	37.5	41.0	22.2
Producers' durable equipment	20.9	-2.0	16.7	12.3	10.4	7.0	6.5	6.1	5.3	4.4	-7.6	29.2	46.4	22.3
Nonresidential structures	7.1	4.1	-8.1	3.5	-.1	-.7	1.2	.3	-.5	-1.1	-26.1	8.3	-5.4	-.1
Residential structures	-5.5	.6	-3.2	1.3	-.1	-1.1	-3.1	-2.7	-1.2	-.4	20.3	-7.0	-3.1	-7.4
Change in business inventories	-14.8	54.1	-1.1	-21.0	-3.3	-11.5	7.9	2.1	-3.6	-5.5	-18.2	77.6	-36.9	.9
Nonfarm	-6.7	49.9	-16.3	-18.0	5.2	3.0	-3.1	-2.8	-3.2	-.7	-22.0	67.0	-26.1	-9.8
Farm	-8.0	4.2	15.2	-3.0	-8.5	-14.5	11.0	4.9	-.4	-4.8	3.8	10.6	-10.8	10.7
Net exports	-4.7	4.7	17.0	18.9	7.4	3.3	8.2	7.5	7.8	8.8	-17.1	16.4	46.5	32.3
Exports	24.5	18.3	27.0	9.4	19.6	17.8	19.6	18.2	16.3	16.1	20.4	71.4	73.8	70.1
Imports	29.3	13.6	9.9	-9.4	12.3	14.6	11.4	10.7	8.5	7.2	37.6	55.0	27.3	37.8
Government purchases	10.7	9.7	-16.2	.8	-.5	6.1	6.3	3.6	4.3	6.0	21.8	18.1	-9.8	20.3
Federal	10.0	5.6	-19.9	-2.5	-2.6	3.8	4.0	1.3	1.8	3.4	-.1	7.2	-21.2	10.6
Defense	4.7	-1.3	-3.6	-3.7	-7.2	-.1	1.4	-.7	-1.0	-.6	11.7	15.1	-14.6	-.9
Nondefense	5.3	6.9	-16.3	1.2	4.6	3.9	2.6	2.0	2.8	4.0	-11.8	-7.9	-6.6	11.5
State and local	.7	4.1	3.8	3.2	2.1	2.3	2.3	2.3	2.5	2.6	21.9	10.9	11.4	9.7

CONFIDENTIAL FR CLASS II August 10, 1988

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1987*	FY1988e Admin[1]	FY1988e FRB Staff	FY1989e Admin[1]	FY1989e FRB Staff	CY 1987*	CY1988e FRB Staff	1987 IV*	1988 I*	1988 II*	FRB Staff Estimates 1988 III	FRB Staff Estimates 1988 IV	FRB Staff Estimates 1989 I	FRB Staff Estimates 1989 II	FRB Staff Estimates 1989 III
								Not seasonally adjusted							
Budget receipts[2]	854	913	905	974	975	869	912	205	208	268	223	212	229	285	249
Budget outlays[2]	1005	1066	1063	1097	1130	1037	1055	287	245	267	264	279	283	282	286
Surplus/deficit(-) to be financed[2]	-150	-152	-158	-123	-154	-168	-143	-82	-37	1	-40	-66	-53	3	-37
Means of financing:															
Borrowing from public	152	133	152	118	144	142	146	61	43	19	30	55	34	18	38
Cash balance decrease	-5	16	-3	0	-1	8	0	14	0	-17	0	16	8	-15	-10
Other[3]	4	3	9	5	10	16	-3	7	-5	-3	10	-5	11	-5	10
Cash operating balance, end of period	36	20	39	20	40	23	23	23	23	40	39	23	15	30	40
Memo: Sponsored agency borrowing[4]	20	n.a.	44	n.a.	32	34	30	19	11	4	10	5	5	10	12
NIPA Federal Sector								Seasonally adjusted annual rates							
Receipts	895	n.a.	968	n.a.	1041	916	983	944	951	985	990	1006	1033	1055	1069
Expenditures	1058	n.a.	1108	n.a.	1174	1074	1116	1105	1106	1105	1115	1139	1173	1188	1196
Purchases	376	n.a.	380	n.a.	394	382	378	391	378	375	378	383	394	398	401
Defense	290	n.a.	296	n.a.	298	295	294	299	298	296	290	292	299	301	301
Nondefense	86	n.a.	85	n.a.	96	37	84	92	79	80	88	92	95	97	100
All other expend.	682	n.a.	727	n.a.	780	692	738	714	728	730	738	756	779	790	795
Surplus/deficit(-)	-164	n.a.	-140	n.a.	-133	-158	-133	-160	-155	-120	-126	-133	-140	-133	-127
High-employment surplus/deficit(-) evaluated at 6 percent unemp.	-140	n.a.	-149	n.a.	-148	-144	-145	-163	-162	-131	-140	-146	-156	-149	-141

*--actual e--estimated n.a.--not available

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

1. <u>Mid-Session Review of the Fiscal 1989 Budget</u> (July 28, 1988). The Congressional Budget Office baseline estimates released March 1988 indicated receipts of $898 and $954 billion, outlays of $1059 and $1131 billion, and deficits of $161 and $177 billion in FY1988 and FY1989, respectively. Their summer update is scheduled to be published August 19.
2. Includes social security receipts and outlays, which are classified as off-budget under current law.
3. Checks issued less checks paid, accrued items, and other transactions.
4. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation (excluding participation certificates), the Federal National Mortgage Association (excluding mortgage-backed securities), Farm Credit Banks, the Student Loan Marketing Association, and the Financing Corporation. The Administration's definition of borrowing by these agencies is somewhat broader.

Recent Developments

Market interest rates rose over July and early August amid evidence of continuing strength in the economy and wage and price pressures. Further increases accompanied the announcement of the 1/2 percentage point hike in the discount rate on August 9. Overall, short-term rates have climbed 1/2 percentage point or more over the intermeeting period. Longer-term markets have been buoyed by the firming of the dollar on foreign exchange markets, which together with a falloff in long-term bond issuance, held increases in long-term interest rates--particularly on private securities--to less than those of short rates. Broad stock price indexes moved lower, but remained near post-crash highs.

M2 and M3 growth in July slowed to 4 percent and 6 percent rates respectively, putting expansion for the year to date at a little above the midpoints of their 4 to 8 percent annual ranges. The weak M2 growth mainly reflected runoffs in overnight Eurodollars and RPs; declines in the latter were attributable to reduced funding needs associated with sizable selloffs of government securities from commercial bank trading accounts around the quarter-end, possibly in anticipation of future rate increases. Growth of household-type deposits in M2 remained moderate as the recent uptrend in their opportunity costs has favored market investments, such as Treasury securities. M1 growth, at 9 percent, remained rapid last month.

Overall business borrowing apparently slowed appreciably in July from the advanced June pace. The sum of commercial paper issued by domestic nonfinancial businesses and business loans at banks grew at less than half the average rate of the second quarter, and was about flat after removing effects of mergers and financial restructurings. Gross bond offerings by nonfinancial corporations fell sharply from the elevated June level, although average issuance for the two months combined was similar to that over the preceding five months. A disproportionate share of the drop-off in bond supply was concentrated in investment-grade issues, contributing to a narrowing of their yield spreads relative to government bonds. By contrast, gross equity issuance by nonfinancial firms was fairly well maintained. Nevertheless, it appears that net equity issuance remained deeply negative, with retirements moderating only some from a record second-quarter pace.

After surging in June, municipal debt offerings subsided in July to a volume more in line with issuance over the first quarter. Refunding activity dropped to only $1 billion in July versus $5 billion the previous month. The reduced supply in this market evidently has helped offset upward pressure on tax-exempt rates, which unlike Treasury rates were little changed over the intermeeting period.

In the federal sector, seasonal declines in tax receipts are expected to raise the deficit in the third quarter to about $40 billion, after near balance in the second quarter. Marketable borrowing is expected to total about $28 billion. Nonmarketable borrowing is expected to slow considerably from the first half, as issuance of SLGS is restrained by a drop-off in refunding issues by municipalities. The usual 30-year bond auction was not included in the August mid-quarter refunding owing to congressional failure to enlarge the Treasury's long bond authority. In part to compensate for the lack of a long bond, the sizes of the three- and ten-year note auctions were raised substantially, and the Treasury will sell $7 billion of cash management bills to mature after the April 1989 tax date. In addition, the sizes of other note and bill auctions have been raised.

In the household area, growth in consumer installment credit eased somewhat in the spring relative to the first quarter, but remained faster than for 1987 as a whole. Commercial bank data for July suggest sluggish expansion of consumer loans last month. It appears that increased home sales boosted mortgage debt growth in the second quarter to a bit above the reduced first-quarter pace.

Interest rates on fixed-rate home loans are up only a few basis points over the intermeeting period, with the contract rate on conventional fixed-rate loans last week averaging somewhat below 10-1/2 percent. Spreads over comparable maturity Treasuries have narrowed in recent months and are now the smallest in nearly four years, reflecting lessened prepayment uncertainty and strong demand for fixed-rate CMO collateral in the face of borrower preferences for ARMs.

Outlook

It is assumed that the System's effort to restrain inflation will entail a further tightening of reserve availability and money market conditions between now and mid-1989. Futures rates suggest that the markets have built into the term structure a smaller rise in short rates than anticipated by the staff. The combination of Federal Reserv actions and the pickup in inflation is projected to result in a considerable increase in bond rates as well.

The growth of domestic nonfinancial debt over the balance of 1988 is expected to remain at around the reduced 8-1/2 percent pace fro the fourth quarter through June. Debt growth is projected to slow a little in 1989 as private domestic spending and credit demands are damped further by higher interest rates.

Total business borrowing is anticipated to diminish gradually over the forecast horizon. The financing gap of nonfinancial corporations is expected to widen through early next year, with higher interest payments and labor costs holding down growth of profits relative to capital spending. However, net equity retirements should abate sharply as higher interest rate levels and slower economic growth reduce the attractiveness of mergers and buyouts. With rising interest rates, businesses likely will rely more heavily on shorter-term sources of credit such as bank loans and commercial paper.

In the near term, household borrowing likely will continue at about its recent pace. Over 1989, however, household debt growth is projected to edge downward. Higher interest rates are expected to restrain housing activity and the rate of mortgage growth. Expansion c consumer credit also is likely to weaken over the year, with slower growth in consumer outlays on durables and other goods.

Growth in government debt is projected to diminish somewhat on balance through next year. Net borrowing by state and local governments is anticipated to remain subdued over the second half of 1988 and 1989, in part as advance refunding activity remains light. Meanwhile, with the federal deficit likely to decline only marginally between fiscal years 1988 and 1989, Treasury borrowing is likely to continue fairly strong over the next couple of quarters, but then could ease off slightly.

Recent developments

Since the June FOMC meeting, the trade-weighted foreign exchange value of the dollar against the other G-10 currencies has appreciated nearly 4 percent. The dollar has appreciated 1 percent against the yen and slightly more against sterling. However, the dollar has risen 5-1/4 percent against the mark, which hit a post-war low against the yen. Following the mid-July release of favorable U.S. trade data for May, the dollar rose sharply as market participants became optimistic about the pace of external adjustment.

. The dollar strengthened late in the period as additional U.S. economic data heightened expectations of a further tightening of monetary conditions in the United States ahead of the discount rate increase on August 9 and then surged further to its intermeeting high.

During the intermeeting period, short-term market interest rates rose in almost all foreign industrial countries, particularly in Europe, supported by increases in some official lending rates. In Germany, the three-month interbank rate moved up 85 basis points, and the Bundesbank raised its discount and Lombard rates 50 basis points each and increased in several stages its rate on repurchase transactions a total of 75 basis points. Three-month interbank rates in the United Kingdom rose 130 basis points; the Bank of England added a further 150 basis points to its dealing rates, bringing the total increase since early June to 350 basis points. In contrast, the Bank of France lowered its intervention rate 25 basis points early in the period. Short-term market rates moved up only slightly in Japan. During this period, U.S. CD rates climbed nearly 60 basis points. Long-term rates in the United States have risen more than 35 basis points since the June FOMC, somewhat more than in Germany, while Japanese rates have increased more than 50 basis points.

Net official sales of dollars totaled $13.5 billion during the intermeeting period, of which about $5.7 billion was against marks by the Bundesbank and several other EMS central banks. The Desk sold more than $3 billion against marks. In an off-market transaction, the Desk purchased $1-1/2 billion equivalent of yen from the Japanese Ministry of Finance, under an agreement between the MoF and the Treasury to replenish U.S. reserves of yen; purchase of an additional $1/2 billion equivalent of yen is planned during the rest of August. (The System acquired half of the yen purchased.) The Bank of Mexico on August 1 drew its full $700 million swap line with the System and its $300 million line with the U.S. Treasury's Exchange Stabilization Fund.

Economic activity appears to have slowed in most of the major foreign industrial countries in the second quarter, in part as a result of the statistical treatment of leap year and the transitory effects of weather. Industrial production declined slightly in both Japan and Germany after strong first-quarter growth. In France, the level of production through May was down slightly from its first-quarter level. In contrast, industrial production continued to expand in Canada and rose sharply in the United Kingdom through May. Inflation remains low abroad, but has increased in recent months in some countries. Based on available data for 1988, cumulative trade surpluses in Japan and Canada show declines when compared with the same period last year, while cumulative trade deficits in the United Kingdom and Italy have increased. The cumulative trade surplus in Germany has increased slightly.

After the recent IMF Executive Board approval of a new stand-by arrangement for Brazil and the completion of a Paris Club rescheduling, the syndication of Brazil's financing package among foreign creditor banks is proceeding and commitments reached 90 percent of the target $5.2 billion as of August 5. The BIS and U.S. Treasury extended at the end of July a $500 million bridge loan to the first two tranches of the IMF stand-by. Argentina recently announced a new package of economic measures aimed at reducing the public sector deficit and stemming inflation. In support of these measures, the U.S. Treasury announced on August 4 that it would help to arrange a $500 million loan by the BIS and U.S. Treasury to bridge to future World Bank policy loans. The Mexican anti-inflation program is approaching a critical stage as price and wage distortions worsen, and the peso continues to appreciate in real terms.

The seasonally adjusted U.S. merchandise trade deficit was $10.9 billion in May, slightly larger than the revised figure of $10.3 billion for April. For the combined April-May period, the trade deficit was substantially less than that recorded in the first quarter, as exports rose and non-oil imports declined. The value of exports rose 5 percent on average in April-May from the first-quarter rate, with the strongest increases in agricultural products, civilian aircraft, automotive parts and some basic materials and consumer goods. Partly offsetting these increases were declines in a wide variety of machinery exports. The 3 percent decline in non-oil imports in April-May was widespread among trade categories. Significant declines occurred in imports of foreign cars, consumer goods, non-oil industrial supplies, machinery, and foods

Foreign official reserve assets held in the United States rose $7. billion in May, after a much smaller gain in April. Approximately two-thirds of the total was accounted for by increases in the official reserves of Japan, Spain, Switzerland and Taiwan. However, partial information from FRBNY indicates substantial net sales in June and July of official assets held in the United States by G-10 countries, particularly Germany. Private foreigners made net purchases in May of both Treasury obligations and U.S. corporate securities. The strong pace of foreign net purchases of U.S. corporate bonds in May, $4.3 billion, coincided with a rise in new Eurobond issues by U.S. corporations in April and May ($3.7 billion total). However, foreigner again sold U.S. corporate stocks net, $2.2 billion, more than reversing April's net purchases, the first sizable monthly net purchases since last October.

Outlook

The staff projection continues to incorporate a moderate decline o balance in the foreign exchange value of the dollar against the other

G-10 currencies over the forecast period from its recent elevated level The value of the dollar is expected to maintain its recent level in the near term and to average over the projection period more than 8 percent higher than in the previous Greenbook.

The expansion of economic activity in the major foreign industrial countries is projected to recover during the rest of 1988 from its very recent slowing and then average about 2 percent over the forecast horizon. In the developing countries, particularly in Mexico, economic growth is expected to slow during 1988 from the 1987 pace and then to rebound partially during 1989.

Reflecting these various influences, the U.S. trade deficit is projected to narrow from $165 billion in the fourth quarter of last yea to about $100 billion at an annual rate by the end of the forecast period. In contrast with the previous Greenbook, most of the expected improvement occurs during 1988 and results from declines in non-oil imports that have already occurred in the first half of the year. The current account balance is projected to show slightly less improvement, declining from $179 billion in the fourth quarter of 1987 (excluding capital gains) to about $125 billion in the final quarter of 1989; the slower improvement in the current account results largely from the increased net service payments associated with the higher interest rate underlying this forecast.

Outlook for U.S. Net Exports and Related Items
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1987		1988				1989			
	1987-	1988-P	1989-P	Q3-	Q4-	Q1-	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-123.0	-92.4	-69.4	-125.2	-125.7	-112.1	-90.6	-84.4	-82.5	-77.4	-72.7	-66.8	-60.6
Exports of G+S	428.1	515.5	605.5	440.4	459.7	487.8	501.1	524.7	548.4	573.7	595.9	616.3	636.2
Imports of G+S	551.1	607.9	674.9	565.6	585.4	599.9	591.7	609.0	630.9	651.1	668.6	683.1	696.8
Constant 82 $, Net	-128.9	-90.3	-59.6	-130.7	-126.0	-109.0	-90.1	-82.7	-79.5	-71.3	-63.9	-56.0	-47.2
Exports of G+S	427.8	507.5	578.4	440.9	459.2	486.2	495.6	515.2	533.0	552.6	570.8	587.1	603.2
Imports of G+S	556.7	597.8	638.0	571.6	585.2	595.1	585.7	598.0	612.5	623.9	634.6	643.1	650.3
2. U.S. Merchandise Trade Balance 2/	-160.3	-126.2	-107.3	-158.7	-164.8	-143.8	-125.4	-118.4	-117.0	-113.8	-109.9	-104.7	-100.7
Exports	249.6	320.7	376.2	259.6	272.1	298.7	312.7	328.2	343.3	357.7	370.1	382.4	394.5
Agricultural	29.5	38.5	44.9	33.1	30.5	36.1	37.7	38.9	41.4	43.8	44.6	45.3	46.0
Non-Agricultural	220.1	282.2	331.2	226.5	241.6	262.6	275.0	289.3	301.9	313.9	325.5	337.0	348.4
Imports	409.9	446.9	483.4	418.3	436.8	442.5	438.1	446.6	460.4	471.5	480.0	487.1	495.1
Petroleum and Products	42.9	40.7	47.1	51.0	45.2	39.9	41.3	38.3	43.1	46.0	46.8	47.2	48.5
Non-Petroleum	367.0	406.2	436.3	367.2	391.7	402.5	396.8	408.3	417.3	425.6	433.2	439.9	446.6
3. U.S. Current Account Balance	-154.0	-149.5	-127.8	-167.9	-134.1	-159.0	-149.4	-150.1	-139.5	-132.7	-130.0	-126.2	-122.2
Of Which: Net Investment Income	20.4	-10.2	-9.9	4.3	50.2	-2.4	-10.1	-19.4	-9.1	-6.9	-9.1	-11.4	-12.2
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	2.9	3.3	2.0	5.2	3.5	4.7	1.1	2.0	2.1	1.9	2.1	2.1	2.0
Real GNP--NonOPEC LDC 5/	4.2	3.2	3.6	3.5	3.1	2.9	3.1	3.3	3.6	3.8	3.7	3.6	3.4
Consumer Prices--Ten Ind. 4/	2.1	2.5	2.8	1.7	2.4	1.5	4.0	2.3	2.9	2.3	3.3	2.5	3.4

1/ National Income and Product Account data.
2/ International accounts basis.
3/ Percent change, annual rates.
4/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.
5/ Weighted by share in NonOPEC LDC GNP.
P/ Projected