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Strictly Confidential (FR) Class II FOMC

October 26, 1988

SUMMARY AND OUTLOOK

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

NOTE: The third-quarter GNP figures cited below were released this morning and are not reflected in the projection tables that follow. Further information on BEA's advance estimates will be provided in the Supplement.

Recent Developments

Incoming data since the September FOMC meeting suggest that the pace of economic expansion may indeed be starting to slow. The Commerce Department estimates that real GNP, excluding drought losses, increased at a 2-3/4 percent annual rate in the third quarter, more than 3/4 percentage point below the first-half pace. Recent wage and price data have been mixed but, on the whole, do not indicate a significant change in inflation trends.

Nonfarm payroll employment advanced 255,000 in September and at a 215,000 monthly rate over the third quarter as a whole--strong gains, but less than those registered during the first half of the year. Hiring in all major sectors except government has moderated in recent months, and the number of manufacturing jobs actually declined in both August and September. However, claims for unemployment insurance remained low through early October, suggesting that labor demand may not have downshifted to the degree implied by the payroll employment data. Moreover, the civilian unemployment rate in September dropped back to the July level of 5.4 percent, reversing the uptick to 5.6 percent in August. After having trended down for roughly two years, the jobless rate has fluctuated in a narrow band around 5-1/2 percent since the spring.

Total industrial production increased only slightly, on balance, in August and September, after a strong surge earlier in the summer. Production of consumer goods has been sluggish recently, but output of business equipment has continued to advance fairly rapidly. The rate of capacity utilization in September, at 83.6 percent, was more than 1/2 percentage point above the June level. The continued tightness in the industrial sector has been reflected in the still-rapid rise of producer prices for intermediate materials (less food and energy), which increased another 0.6 percent in September. Nonetheless, a few items--notably steel products and memory chips--have dropped off the purchasing managers' long list of materials in short supply.

Although retail sales were soft in the advance report for September, total consumer spending is estimated by BEA to have risen at an annual rate of 3-1/2 percent in real terms in the third quarter. Outlays for nondurable goods and for services picked up, while purchases of durables were little changed. Real disposable income grew even faster than spending, and the saving rate rose a bit, to 4.0 percent. Fourth-quarter spending data are available only for motor vehicles; on the whole, sales through the first 20 days of October were down somewhat from the strong third-quarter pace.

Housing construction has been flat in recent months. Starts of single-family homes averaged 1.06 million units at an annual rate in the third quarter, unchanged from the previous quarter. Sales of new and existing homes have held at or near the highest rates recorded since early 1987, and the sluggishness of starts relative to recent sales seems to reflect concerns among builders that mortgage market conditions may not remain conducive to home purchases. In the multifamily sector, starts have remained around the 400,000 unit mark, about 20 percent below the relatively low level recorded last year.

Real outlays for business equipment are estimated by BEA to have increased at a 5-3/4 percent annual rate in the third quarter, after having risen extremely rapidly during the first half. Demand for information-processing equipment appears to have slowed, while purchases of industrial machinery have continued to post healthy gains. With the notable exception of computing equipment, new orders for nondefense capital goods continued to advance in the third quarter, indicating that equipment outlays should be a relatively strong sector in the near term. In contrast, nonresidential construction activity has been anemic. Based on data through August, BEA estimated that real outlays for structures edged up in the third quarter.

Nonfarm inventory investment in real terms was estimated by BEA to have risen a little in the third quarter relative to the second-quarter pace. At the manufacturing and wholesale levels, stocks accumulated somewhat more rapidly than in the second quarter, but these additions were about in line with the growth of sales. In contrast, retail inventories increased much less rapidly, as stocks at auto dealers were about unchanged after a sharp runup in the second quarter.

Food prices in recent months have shown further effects of this summer's drought. In the CPI, food prices rose 0.8 percent in September and at a 10 percent annual rate over the third quarter. Moreover, the PPI for crude foods increased another 1.6 percent in September, suggesting that consumer food prices may continue to rise at a relatively rapid pace in the near term. In contrast, energy prices in the CPI fell 0.6 percent in September, as earlier declines in crude oil prices began to filter through to the consumer level.

Apart from food and energy, recent price measures have sent rather mixed signals. Consumer prices excluding food and energy rose 0.4 percent in September after a 0.2 percent advance in August. On a 12-month change basis, this CPI component has consistently risen at a 4-1/2 percent annual rate since late 1987. At the producer level, however, prices of finished consumer goods excluding food and energy advanced at a 6-1/2 percent annual rate over the third quarter, a marked pickup from the 4 percent rise averaged during the first six months of the year; prices of capital goods also have accelerated in recent months.

Recent figures on wages and total compensation point to some slowing in the rate of increase this summer. However, these series are volatile; when measured on a year-over-year basis, the picture is essentially one of stability since the spring, after a sharp upward movement over the second half of 1987 and early 1988. According to the employment cost index, hourly compensation in private industry rose 4-1/2 percent over the 12 months ended in September; wages and salaries alone advanced 3-3/4 percent during this period. Similarly, the 12-month change in the hourly earnings index has run about 3-1/2 percent in recent months, compared with the 2-1/2 percent advance during 1987.

Outlook

Although recent developments in oil markets appear to have improved the near-term outlook for inflation, the staff continues to believe that restoring a downward trend to inflation over time will require some additional slowing in the pace of economic expansion. Accordingly, given our assessment of underlying demand forces, we continue to anticipate a further rise in interest rates over the forecast period. The upward movement in rates is expected to be more gradual, however, than that built into the September Greenbook.

As in the latest Greenbook, growth of M2 is expected to finish the year somewhat below the midpoint of its annual target range and then to run next year in the lower half of its range. M3 growth is projected to exceed that of M2 throughout the forecast period, finishing a little above the midpoint of its range in 1988 and 1989. In light of its recent decline, the exchange value of the dollar is now projected to fall more rapidly in the current quarter than was projected in the last Greenbook, but the anticipated level of the dollar at the end of 1989 is unchanged.

The staff has continued to assume that fiscal policy will exert a mildly restrictive influence on aggregate demand. The federal budget deficit is now estimated to have been $155 billion in FY1988 and is projected to remain around the same level in FY1989.

As noted above, the assumption for crude oil prices has changed from the September Greenbook. Given the trouble OPEC has had in enforcing meaningful production restraints, the staff now assumes that the price of imported oil will be $12.50 per barrel in the current quarter, and around $13 throughout 1989. This is a cut of about $2 to $3 per barrel from the prices assumed in September.

In coming quarters, the clearest effect of the lower oil prices will be to restrain inflation. The staff's projection of inflation has been scaled back a few tenths over the forecast period. On the output and expenditure side, the near-term effect of lower oil prices is harder to gauge. Consumer spending likely will be boosted by the rise in real income, as households benefit from the favorable change in U.S. terms of trade. On the other hand, business investment probably will be restrained in the short run by the weakened incentives for petroleum drilling, and oil imports will rise to bridge the growing gap between domestic energy consumption and domestic production. All told, this oil "shock" should be a net positive for the level of real GNP in the long run. However, over the next five quarters, its impact is ambiguous, and the staff has assumed that aggregate output growth will be little affected through the end of 1989 by the new scenario for oil prices.

For the current quarter, few indicators are yet available regarding the pace of activity. As noted above, however, the October figures on unemployment insurance point to firm labor demand, and auto manufacturers' assembly schedules imply a boost to industrial output from that sector. The staff expects that real GNP will continue to advance at about the 2-3/4 percent annual rate recorded in the third quarter (abstracting from drought losses).[1] The recent decline in mortgage rates is expected to generate a slight uptick in homebuilding, and underlying trends in new orders appear consistent with further moderate expansion of business investment. In contrast, growth in consumer spending is expected to slow sharply from the rapid third-quarter gain.

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

	1988 Q2	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 H2
	--actual--			----projection----		
Real GNP	3.0	2.2	1.6	4.8	2.8	2.3
Real GNP excluding effects of the drought	3.9	2.8	2.8	2.4	2.0	1.9

Looking ahead to 1989, past and prospective monetary restraint is expected to continue slowing the pace of economic growth. As in the last Greenbook, the staff expects real GNP to advance at about a 2 percent rate next year (excluding drought effects), down from the 3-1/2 percent gain anticipated for 1988. Although the transition to this lower growth path is somewhat more gradual than in the September

1. Including the drought-induced loss of farm output, we expect fourth-quarter GNP to rise at about a 1-1/2 percent annual rate, versus 2.2 percent in the third quarter. The latest crop report, released by the USDA in early October, indicated that the harvest for the major crops would be only marginally larger than had been estimated in the September report. This change was too modest to affect the staff projection, which still shows the drought reducing real GNP growth 1-1/4 percentage points in the current quarter.

Greenbook, the channels through which the monetary restraint operates have not changed. Most clearly, the upward tilt to interest rates limits the pace of homebuilding as housing starts are projected to decline to just under 1.4 million units by the end of 1989. In addition, the rise in interest rates tends to damp consumer outlays through wealth and financing-cost effects; however, real PCE growth is stronger in this forecast than in the September Greenbook, owing to the favorable influence of weaker energy prices on real income. Business fixed investment is expected to remain on a more moderate growth path, increasing only about half as much next year as in 1988; this pattern reflects primarily the expected response of business to the emergence of slower sales trends, but rising capital costs are an additional small damping influence. Real net exports are projected to add about 1/2 percentage point to real GNP growth next year, somewhat less than this sector's contribution in 1988.

The staff has shaded down its projection of inflation next year, and aggregate price increases now are expected to moderate a bit from the 1988 pace. In large part, this downward adjustment reflects the lower path for energy prices, which temporarily restrains inflation both directly and through its effect on the costs of other goods and services. The lower energy prices are expected to pass through partially to wages. Moreover--independent of this passthrough--incoming data on hourly compensation have caused the staff to be a touch more optimistic about underlying compensation trends. With due allowance for the statistical volatility of these numbers, we perceive them at this point as providing support for our previous judgment that the sizable shortfalls of pay increases from model predictions are likely to persist into 1989. And, we now view the risks of a substantial upside surprise as being appreciably diminished.

As a result of these adjustments, we expect the GNP fixed-weight price index to rise 4.2 percent in 1989, a downward revision of 0.3 percentage point from the latest Greenbook. The lower energy prices exercise more restraint on the CPI, which is projected to advance 4.3 percent next year, down 0.5 percent from the September Greenbook.

Staff Price Projection
(Percent change, annual rate)

	1988		1989			
	Q3	Q4	Q1	Q2	Q3	Q4
	-actual-		-----projection-----			
GNP fixed-weight price index	4.9	4.6	4.6	4.2	3.9	3.9
Consumer price index	4.8	4.5	4.3	4.3	4.2	4.4
Excl. food and energy	4.0	5.0	4.8	4.9	5.0	5.0

As in the previous forecast, two other factors temper the pace of projected inflation in 1989. Most important, the worst of the drought-related jump in food prices appears to be behind us, and the staff expects that consumer food prices will rise much less rapidly next year. Moreover, increases in non-oil import prices are expected to slow in 1989, reflecting the firmer performance of the dollar in recent quarters.

It should be noted that, apart from drought effects, the gain in real GNP next year is projected to be only marginally below the long-run potential of around 2-1/2 percent, and the unemployment rate is only a little above its current level by the end of the year. Given the continued tightness of labor markets, we expect compensation per hour to accelerate slightly next year. These underlying pressures also are visible in the projection of the CPI excluding food and energy, shown in the table above. Thus, to restore a disinflationary trend, the staff believes that continued slow economic growth may be necessary in 1990--and this is one consideration in the anticipated path of interest rates over the course of the coming year.

Details of the staff forecast are provided in the tables that follow.

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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)	
		9/14/88	10/26/88	9/14/88	10/26/88	9/14/88	10/26/88	9/14/88	10/26/88	9/14/88	10/26/88
Annual changes:											
1986	<1>	5.6	5.6	2.8	2.8	2.8	2.8	2.7	2.7	7.0	7.0
1987	<1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2
1988		7.2	7.3	3.9	3.8	4.1	4.1	3.2	3.3	5.5	5.5
1989		7.0	7.2	2.9	2.9	4.6	4.5	4.0	4.2	5.6	5.5
Quarterly changes:											
1987	Q1 <1>	8.4	8.4	4.6	4.6	4.2	4.2	3.5	3.5	6.6	6.6
	Q2 <1>	8.7	8.7	5.0	5.0	4.2	4.2	3.5	3.5	6.3	6.3
	Q3 <1>	7.7	7.7	4.5	4.5	3.7	3.7	3.1	3.1	6.0	6.0
	Q4 <1>	8.6	8.6	6.1	6.1	3.8	3.8	2.4	2.4	5.9	5.9
1988	Q1 <1>	5.4	5.4	3.4	3.4	3.5	3.5	1.7	1.7	5.7	5.7
	Q2 <1>	8.3	8.7	3.3	3.0	4.7	5.0	5.1	5.5	5.5	5.5
	Q3	6.5	6.6	2.5	2.2	5.2	5.0	3.8	4.4	5.5	5.5
	Q4	6.1	6.7	1.6	1.6	4.4	4.6	4.4	5.0	5.5	5.4
	Q1	8.5	8.9	4.4	4.8	5.0	4.6	3.9	3.9	5.5	5.4
	Q2	6.6	6.7	2.7	2.8	4.4	4.2	3.8	3.8	5.6	5.5
	Q3	6.2	6.0	2.4	2.4	4.3	3.9	3.6	3.6	5.7	5.5
	Q4	5.9	5.8	2.4	2.3	4.3	3.9	3.4	3.5	5.7	5.6
Two-quarter changes: <2>											
1987	Q2 <1>	8.5	8.5	4.8	4.8	4.2	4.2	3.5	3.5	-.5	-.5
	Q4 <1>	8.1	8.1	5.3	5.3	3.7	3.7	2.7	2.7	-.4	-.4
1988	Q2 <1>	6.8	7.0	3.3	3.2	4.0	4.2	3.4	3.6	-.4	-.4
	Q4	6.3	6.6	2.0	1.9	4.8	4.8	4.1	4.7	.0	-.1
1989	Q2	7.5	7.8	3.5	3.8	4.7	4.4	3.9	3.8	.1	.1
	Q4	6.0	5.9	2.4	2.3	4.3	3.9	3.5	3.5	.1	.1
Four-quarter changes: <3>											
1986	Q4 <1>	4.8	4.8	2.0	2.0	2.7	2.7	2.8	2.8	-.3	-.3
1987	Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988	Q4	6.6	6.8	2.7	2.5	4.4	4.5	3.8	4.1	-.4	-.5
1989	Q4	6.8	6.9	3.0	3.1	4.5	4.2	3.7	3.7	.2	.2

<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)

	Units	1987 Q3	1987 Q4	1988 Q1	1988 Q2	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4
					Projection						
EXPENDITURES											
Nominal GNP	Billions of $	4568.0	4662.8	4724.5	4823.8	4901.0	4981.0	5088.2	5171.8	5248.2	5323.0
Real GNP	Billions of 82$	3865.3	3923.0	3956.1	3985.2	4006.7	4022.9	4070.8	4098.9	4123.0	4146.4
Nominal GNP	Percent change	7.7	8.6	5.4	8.7	6.6	6.7	8.9	6.7	6.0	5.8
Real GNP		4.5	6.1	3.4	3.0	2.2	1.6	4.8	2.8	2.4	2.3
Gross domestic product		4.7	5.8	4.2	3.1	2.2	1.8	4.9	2.9	2.3	2.2
Gross domestic purchases		4.8	5.4	1.6	1.3	1.8	1.5	4.3	2.3	1.7	1.3
Final sales		6.1	.4	3.6	6.3	2.9	2.3	2.9	2.5	2.6	3.1
Private dom. final purchases		6.6	-1.3	4.3	4.5	3.2	2.3	2.4	2.0	1.8	1.8
Personal consumption expend.		4.6	-2.1	4.5	3.0	3.9	2.0	2.4	1.9	1.9	1.8
Durables		16.5	-17.3	14.7	9.8	3.2	.1	1.5	.7	.9	.7
Nondurables		.9	-.6	1.0	.4	3.4	2.4	2.3	1.3	1.2	1.0
Services		3.7	2.2	4.0	2.8	4.5	2.3	2.7	2.7	2.7	2.7
Business fixed investment		28.4	1.7	7.6	15.0	1.3	3.7	3.8	4.1	3.4	3.3
Producers' durable equipment		29.4	-2.4	21.6	19.2	4.5	6.0	6.0	6.0	5.0	5.0
Nonresidential structures		25.6	13.4	-22.4	3.3	-7.3	-3.1	-2.7	-1.8	-1.8	-1.9
Residential structures		-10.7	1.3	-6.5	.2	-1.8	3.7	.0	-2.2	-3.8	-1.6
Exports		25.7	17.7	25.7	9.1	13.0	11.1	12.6	11.4	12.5	13.3
Imports		23.4	9.9	6.9	-3.7	8.2	8.4	7.5	7.0	6.4	5.3
Government purchases		5.7	5.0	-7.9	3.9	-.6	1.3	1.9	2.1	2.4	3.0
Federal		12.6	6.7	-21.0	4.7	-3.6	.2	1.8	2.3	2.7	4.3
Defense		7.3	-1.9	-5.3	-1.5	-8.5	-5.6	-2.0	-.5	-.8	-.8
State and local		.6	3.8	3.5	3.2	1.7	2.0	2.0	2.0	2.1	2.2
Change in business inventories	Billions of 82$	13.0	67.1	66.0	35.3	28.6	22.1	41.5	44.8	42.8	35.0
farm	Billions of 82$	18.3	68.2	51.9	30.1	32.0	39.6	40.8	41.8	38.1	31.3
N orts	Billions of 82$	-130.7	-126.0	-109.0	-92.6	-88.9	-87.5	-82.9	-78.6	-71.9	-62.1
E NT AND PRODUCTION											
Nonfarm payroll employment	Millions	102.7	103.7	104.7	105.6	106.5	107.0	107.5	107.9	108.3	108.6
Unemployment rate	Percent*	6.0	5.9	5.7	5.5	5.5	5.4	5.4	5.5	5.5	5.6
Industrial production index	Percent change	8.8	7.0	3.9	4.6	6.8	2.7	3.6	3.1	2.3	2.0
Capacity utilization rate-mfg.	Percent*	81.4	82.3	82.7	83.2	83.8	84.0	84.0	84.0	83.8	83.6
Housing Starts	Millions	1.62	1.53	1.48	1.48	1.45	1.46	1.45	1.43	1.40	1.39
Auto sales	Millions	11.42	10.02	10.79	10.76	10.65	10.44	10.55	10.40	10.37	10.30
Domestic	Millions	7.84	6.63	7.64	7.57	7.59	7.33	7.45	7.35	7.35	7.30
Foreign	Millions	3.58	3.38	3.15	3.19	3.06	3.10	3.10	3.05	3.02	3.00
INCOME AND SAVING											
Nominal personal income	Percent change	7.1	11.6	4.6	7.4	6.4	8.0	9.0	6.6	5.8	6.5
Real disposable income	Percent change	4.8	6.9	5.0	.0	3.7	2.7	4.6	1.4	1.3	1.7
Personal saving rate	Percent*	2.3	4.3	4.4	3.7	3.7	3.9	4.4	4.2	4.1	4.0
Corp. profits with IVA & CCAdj	Percent change	23.9	-7.1	.1	13.7	-4.2	4.8	14.9	6.6	-1.4	1.2
Profit share of GNP	Percent*	7.0	6.8	6.7	6.8	6.6	6.6	6.6	6.6	6.5	6.5
Federal govt. surplus/deficit	Billions of $	-138.3	-160.4	-155.1	-133.3	-139.0	-147.1	-145.6	-138.5	-132.3	-136.3
State and local govt. surplus		52.9	49.7	55.8	56.2	60.9	64.4	69.6	72.5	73.4	75.2
Exc. social insurance funds		-10.1	-14.8	-10.3	-11.5	-8.0	-5.7	-1.7	.0	-.3	.3
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.1	2.4	1.7	5.5	4.4	5.0	3.9	3.8	3.6	3.5
GNP fixed-weight price index		3.7	3.8	3.5	5.0	5.0	4.6	4.6	4.2	3.9	3.9
Cons. & fixed invest. prices		3.9	4.3	2.5	5.0	4.5	4.5	4.1	4.4	4.2	4.2
CPI		3.6	3.9	3.2	4.9	4.8	4.5	4.3	4.3	4.2	4.4
Exc. food and energy		3.8	4.4	4.4	5.0	4.0	5.0	4.8	4.9	5.0	5.0
Nonfarm business sector											
per hour		3.7	.9	3.4	-1.4	.6	.6	.9	.8	.7	.9
sation per hour		4.5	6.4	3.5	4.2	4.5	4.5	4.9	4.7	4.8	4.8
abor costs		.7	5.4	.1	5.7	3.9	3.9	4.0	3.9	4.1	3.9

* Not at an annual rate.

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October 26, 1988

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

	Units	1981	1982	1983	1984	1985	1986	1987	Projection 1988	Projection 1989
EXPENDITURES										
Nominal GNP	Billions of $	3052.6	3166.0	3405.7	37?2.2	4014.9	4240.3	4526.7	4857.6	5207.8
Real GNP	Billions of 82$	3248.8	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3992.7	4109.8
Real GNP	Percent change*	.6	-1.9	6.5	5.1	3.6	2.0	5.0	2.5	3.1
Gross domestic product		.3	-1.6	6.6	5.3	3.8	2.3	5.1	2.8	3.1
Gross domestic purchases		.8	-.8	8.4	6.4	4.3	2.4	4.4	1.5	2.4
Final sales		.1	.3	3.7	4.7	4.6	2.5	3.0	3.8	2.8
Private dom. final purchases		-.3	.8	7.7	5.6	4.6	2.8	2.4	3.6	2.0
Personal consumption expend.		.2	2.9	5.4	4.1	4.6	4.2	1.8	3.4	2.0
Durables		-3.3	9.0	14.7	10.8	7.0	11.5	-2.4	6.8	1.0
Nondurables		.5	1.8	4.4	2.3	3.3	3.1	.6	1.8	1.4
Services		.9	2.3	3.9	3.5	5.0	2.7	4.2	3.4	2.7
Business fixed investment		5.6	-11.3	10.8	13.8	3.7	-7.3	8.8	6.8	3.7
Producers' durable equipment		2.2	-12.5	20.9	14.9	4.6	-2.4	9.6	12.6	5.5
Nonresidential structures		11.7	-9.1	-4.8	11.8	1.9	-17.4	6.7	-7.9	-2.0
Residential structures		-22.4	4.9	38.1	6.1	5.8	11.3	-3.5	-1.2	-1.9
Exports		2.4	-13.8	5.8	5.9	-2.4	5.6	18.4	14.5	12.4
Imports		4.9	-5.9	23.8	17.4	4.5	7.6	10.4	4.8	6.5
Government purchases		2.9	3.8	-2.7	7.9	8.6	2.9	2.3	-.9	2.4
Federal		9.5	8.2	-8.1	13.0	13.3	.0	2.1	-5.5	2.8
Defense		7.6	8.8	5.1	6.5	7.1	4.8	6.0	-5.3	-1.0
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	38.0	41.0
Nonfarm	Billions of 82$	19.0	-23.1	-.1	57.8	13.4	17.9	36.9	38.4	38.0
Net exports	Billions of 82$	49.4	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-94.5	-73.9
nal GNP	Percent change*	9.3	3.1	10.4	8.6	6.6	4.8	8.3	6.8	6.9
OYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	91.2	89.6	90.2	94.5	97.5	99.5	102.3	105.9	108.1
Unemployment rate	Percent	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.5
Industrial production index	Percent change*	-1.0	-7.7	14.3	6.6	1.7	1.0	5.8	4.5	2.8
Capacity utilization rate-mfg.	Percent	78.2	70.3	73.9	80.5	80.1	79.7	81.0	83.4	83.8
Housing Starts	Millions	1.10	1.06	1.71	1.77	1.74	1.81	1.63	1.47	1.42
Auto sales	Millions	8.56	8.00	9.18	10.43	11.09	11.52	10.34	10.66	10.41
Domestic	Millions	6.24	5.77	6.77	7.97	8.24	8.28	7.14	7.53	7.36
Foreign	Millions	2.32	2.23	2.41	2.46	2.84	3.25	3.21	3.13	3.04
INCOME AND SAVING										
Nominal personal income	Percent change*	9.2	5.3	7.8	8.4	6.6	5.9	8.5	6.6	7.0
Real disposable income	Percent change*	.7	1.0	5.1	4.3	2.7	3.4	3.0	2.8	2.2
Personal saving rate	Percent	7.5	6.8	5.4	6.1	4.4	4.0	3.2	3.9	4.2
Corp. profits with IVA & CCAdj	Percent change*	2.3	-19.1	70.1	7.4	9.2	.9	7.6	3.4	5.1
Profit share of GNP	Percent	6.2	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.6
Federal govt. surplus/deficit	Billions of $	-63.8	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-143.6	-138.2
State and local govt. surplus		34.1	35.1	47.5	64.6	65.1	61.2	52.9	59.3	72.7
Exc. social insurance funds		4.1	-1.7	4.4	19.8	13.8	5.0	-9.2	-8.9	-.4
PRICES AND COSTS										
GNP implicit deflator	Percent change*	8.7	5.2	3.6	3.4	2.9	2.8	3.1	4.1	3.7
GNP fixed-weight price index		8.5	5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.2
Cons. & fixed invest. prices		8.2	4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.2
CPI		9.6	4.4	3.2	4.1	3.5	1.3	4.4	4.4	4.3
Exc. food and energy		10.2	5.2	4.2	4.8	4.3	3.9	4.3	4.6	4.9
arm business sector										
put per hour		-.6	1.0	3.6	1.5	1.5	1.2	1.9	.8	.8
pensation per hour		8.3	7.3	3.3	4.2	4.5	4.2	4.1	4.2	4.8
.t labor costs		9.0	6.2	-.3	2.6	2.9	3.0	2.1	3.4	3.9

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

October 26, 1988

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

	1987		1988				1989				1986	1987	1988	1989
					Projection								Projection	
	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	29.1	21.5	16.3	47.8	28.2	24.1	23.4	72.3	188.3	99.9	123.4
Gross domestic product	43.6	54.3	40.3	30.4	22.1	17.8	48.1	29.1	23.6	22.6	83.3	188.3	110.7	123.4
Gross domestic purchases	47.0	53.0	16.1	12.7	17.8	14.8	43.2	23.9	17.5	13.5	89.4	171.9	61.5	98.1
Final sales	57.0	3.7	34.2	59.8	28.2	22.8	28.4	24.9	26.1	31.2	90.5	110.7	144.9	110.5
Private dom. final purchases	51.0	-10.7	33.4	36.0	25.7	18.9	20.0	16.4	14.8	15.3	85.8	76.2	114.0	66.6
Personal consumption expend.	28.6	-13.5	28.1	19.2	24.9	12.7	15.4	12.4	12.5	11.9	99.3	45.5	84.9	52.2
Durables	15.2	-18.9	13.5	9.5	3.3	.1	1.5	.8	1.0	.8	40.9	-9.7	26.3	4.0
Nondurables	2.1	-1.4	2.2	.9	7.6	5.4	5.2	2.9	2.7	2.3	27.0	5.2	16.1	13.1
Services	11.3	6.8	12.3	8.9	14.0	7.3	8.7	8.7	8.8	8.8	31.4	50.0	42.5	35.0
Business fixed investment	28.0	2.0	8.6	16.8	1.6	4.4	4.7	5.0	4.2	4.2	-33.6	37.5	31.4	18.1
Producers' durable equipment	20.9	-2.0	16.7	15.7	4.0	5.4	5.5	5.6	4.7	4.8	-7.6	29.2	41.8	20.6
Nonresidential structures	7.1	4.1	-8.1	1.0	-2.4	-1.0	-.8	-.6	-.5	-.6	-26.1	8.3	-10.4	-2.5
Residential structures	-5.5	.6	-3.2	.1	-.9	1.7	.0	-1.1	-1.8	-.8	20.3	-7.0	-2.3	-3.7
Change in business inventories	-14.8	54.1	-1.1	-30.7	-6.7	-6.5	19.4	3.3	-2.0	-7.8	-18.2	77.6	-45.0	12.9
Nonfarm	-6.7	49.9	-16.3	-21.8	1.9	7.6	1.2	1.0	-3.7	-6.8	-22.0	67.0	-28.6	-8.3
Farm	-8.0	4.2	15.2	-8.8	-8.7	-14.1	18.2	2.3	1.7	-1.0	3.8	10.6	-16.4	21.2
Net exports	-4.7	4.7	17.0	16.4	3.7	1.4	4.6	4.3	6.6	9.8	-17.1	16.4	38.5	25.4
Exports	24.5	18.3	27.0	10.7	15.4	13.6	15.8	14.9	16.6	18.1	20.4	71.4	66.7	65.4
Imports	29.3	13.6	9.9	-5.6	11.7	12.2	11.2	10.6	9.9	8.3	37.6	55.0	28.2	40.1
Government purchases	10.7	9.7	-16.2	7.4	-1.2	2.5	3.7	4.2	4.6	6.0	21.8	18.1	-7.5	18.6
Federal	10.0	5.6	-19.9	3.8	-3.1	.2	1.4	1.9	2.2	3.5	-.1	7.2	-19.0	9.1
Defense	4.7	-1.3	-3.6	-1.0	-5.8	-3.7	-1.3	-.3	-.5	-.5	11.7	15.1	-14.1	-2.6
Nondefense	5.3	6.9	-16.3	4.7	2.8	3.9	2.7	2.2	2.7	4.0	-11.8	-7.9	-4.9	11.7
State and local	.7	4.1	3.8	3.5	1.9	2.3	2.3	2.3	2.4	2.5	21.9	10.9	11.5	9.5

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1987a	FY1988p Admin[1]	FY1988p CBO[2]	FY1988p FRB Staff	FY1989p Admin[1]	FY1989p CBO[2]	FY1989p FRB Staff	1987 IVa	1988 Ia	1988 IIa	1988 III (FRB Staff Projection)	1988 IV (FRB Staff Projection)	1989 I (FRB Staff Projection)	1989 II (FRB Staff Projection)	1989 III (FRB Staff Projection)	1989 IV (FRB Staff Projection)
BUDGET								Not seasonally adjusted								
Budget receipts[3]	854	913	908	909	974	980	978	205	208	268	228	214	232	286	246	230
Budget outlays[3]	1005	1066	1063	1064	1097	1127	1134	287	245	268	264	285	283	281	285	299
Surplus/deficit(-) to be financed[3]	-150	-152	-155	-155	-123	-148	-156	-82	-37	0	-36	-70	-51	5	-39	-69
(On-budget)	-170	-192	-194	-194	-174	-199	-203	-68	-64	-18	-44	-77	-65	-13	-48	-77
(Off-budget)	20	40	39	39	51	52	47	-14	27	18	8	6	14	18	9	8
Means of financing:																
Borrowing	152	133	n.a.	165	118	n.a.	149	61	43	19	43	48	47	17	38	47
Cash decrease	-5	16	n.a.	-8	0	n.a.	8	14	0	-17	-5	27	-8	-15	-5	27
Other[4]	4	3	n.a.	-2	5	n.a.	-1	7	-5	-3	-2	-5	13	-7	7	-5
Cash operating balance, end of period	36	20	n.a.	44	20	n.a.	45	23	23	40	44	17	25	40	45	18
NIPA FEDERAL SECTOR								Seasonally adjusted annual rates								
Receipts	895	973	966	965	1042	1037	1036	944	951	983	980	1000	1028	1050	1065	1084
Expenditures	1058	1102	1103	1112	1147	1171	1177	1105	1106	1116	1119	1148	1174	1189	1197	1220
Purchases	376	375	381	383	396	396	394	391	378	382	380	384	393	398	402	407
Defense	290	289	298	298	295	306	297	299	298	299	294	292	297	299	300	301
Nondefense	86	86	83	85	101	91	98	92	79	83	86	92	97	100	103	106
Other expend.	682	727	722	729	751	775	782	714	728	734	739	764	780	791	795	813
Surplus/deficit	-164	-129	-137	-147	-105	-134	-141	-160	-155	-133	-139	-147	-146	-138	-132	-136
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-141	n.a.	n.a.	-155	n.a.	n.a.	-156	-163	-162	-144	-149	-156	-162	-156	-149	-152
Change in HEB, percent of potential GNP	-1.1	n.a.	n.a.	.3	n.a.	n.a.	0	.8	0	-.4	.1	.1	.1	-.1	-.1	.1
Fiscal impetus measure (FI), percent	4.5 *	n.a.	n.a.	.2 *	n.a.	n.a.	-3.7 *	-.5	.6	-.1	-1.5	-1.6	-1.5	-.2	-.3	-.3

a--actual p--projection *--calendar year n.a.--not available

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

1. Mid-Session Review of the Fiscal 1989 Budget (July 28, 1988).
2. The Economic and Budget Outlook: An Update (August, 1988).
3. Includes social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law.
4. Checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Recent Developments

Long-term interest rates have come down a little since the last FOMC meeting, as market participants have interpreted incoming data as pointing to a more moderate pace of economic activity and as oil price declines have lowered near-term inflation expectations. At the short end, federal funds have firmed a bit, recently trading at about 8-1/4 percent. The higher funds rate appears to reflect technical factors in the reserves market, for borrowing at the discount window actually dropped to $523 million in the most recent full maintenance period. Other short-term rates also have risen, with key Treasury bill rates up 9 to 24 basis points. Together with the declines at the long end, these rate changes have produced the flattest Treasury yield curve in two years.

M2 growth slowed further in September and continued weak in early October, evidently owing to the continuing effect of the rise in market interest rates since the spring. Apart from normal opportunity cost influences on household deposits, business holdings of compensating balances probably have been reduced by rising earnings credit rates. M1 was unchanged in September, as demand deposits contracted, and is showing no sign of a significant rebound this month. M3 grew at a 2 percent annual rate in September, but appears to be accelerating somewhat this month as issuance of CDs is strengthening further and other managed liabilities have resumed growing with a pickup in bank credit.

Total bank credit posted its first decline of the year in September. Most major components were down, the only exceptions being real estate and consumer lending. Business loans fell at a 2 percent annual rate. Commercial paper issuance by nonfinancial businesses also declined last month.

Total borrowing by nonfinancial business remained sluggish in September, as the decline in short- and intermediate-term borrowing offset an uptick in bond issuance. A pause in merger-related financing needs in the third quarter held borrowing below the growth of the previous quarter. In early October commercial paper outstanding picked up, but bond issuance remained moderate, despite the decline in bond yields since late August and the flattening of the yield curve. In recent weeks there has been a spate of announcements of merger and buyout proposals and a scramble to arrange financing, which portends brisk borrowing and share retirement activity in the period just ahead. In response to concerns about this prospective leveraging, yields on investment-grade industrial bonds have firmed in recent days.

In the stock market, most price indexes climbed to 1988 peaks last week. A year after the crash, however, stock prices still remain about 15 to 20 percent below the record highs of August 1987, and price-earnings multiples (based on past year profits) are down substantially. New issuance of equity by nonfinancial firms has been subdued since the crash, especially compared with the very high flows in the first three quarters of last year, and net retirements remained large even with the dropoff in mergers in the summer.

The federal budget deficit in the third quarter rose to $36 billion, a more-than-seasonal increase. Issuance of FSLIC notes surged to $6 billion in the quarter; these notes contribute to the deficit under budget accounting rules, even though issuance represents only a substitution of a debt instrument for a previously accrued but unrecognized liability (rather than a current-period demand for funds in U.S. capital markets). Among the federally sponsored credit agencies, rate spreads on new debt issues have remained the same or narrowed a bit. The supply of new issues has declined some, and investors apparently continue to view the creditworthiness of these agencies as effectively insulated from the difficulties of the underlying institutions, notably thrifts.

In the municipal securities market, issuance of long-term tax-exempt debt rose in September to a level slightly above the average for the first eight months of the year. Housing-related issues accounted for most of the pickup. Uncertain about congressional action to extend the tax-exempt status of housing-related bonds, some municipalities apparently decided to complete deals in advance of the deadline. Issuance of housing and other tax-exempt securities remained brisk in early October, but now that authority for these housing bonds has been extended another year the rush to market should subside.

A pickup in home mortgage borrowing supported total household sector credit growth in the third quarter. A higher volume of home sales apparently has contributed to the rise in loan originations and mortgage asset growth at thrift institutions and the continued strength in bank real estate lending. Yields on fixed-rate home mortgages have remained fairly lean relative to comparable maturity Treasuries, reflecting a still restricted supply of this product in the secondary market and the generally subdued rate volatility of recent months. The initial rate advantage of ARMs has declined to its lowest level in a year and a half, resulting from the flattening of the yield curve and perhaps less aggressive pricing by some ARM lenders. Consumer credit growth in the third quarter apparently stayed at about the level of spring and early summer. Revolving credit, of which bank cards are the largest component, has paced the growth in total consumer credit all this year. Securitization of consumer loans has accelerated in recent months.

Outlook

The staff forecast assumes that money market conditions will tighten a bit more over the coming year as the System continues to adjust policy to keep inflationary pressures from intensifying. Longer-term interest rates are expected to trend up in response, although the timing and magnitude of changes in bond yields will depend on the market's anticipation of Federal Reserve actions and view of the restraint required to contain aggregate demand.

Total borrowing by nonfinancial sectors will be boosted in the near term by a surge in the financing requirements of recently announced corporate mergers and buyouts. Some of these transactions will be financed in the bond market, although bank credit and commercial paper are sure to be tapped as well. Beyond the first part of next year, business borrowing should ease; the recently announced mega-deals will have been completed and the corporate financing gap is not expected to widen much further.

Federal government borrowing will increase, although less than seasonally, in the fourth quarter in order to finance part of the expected rise in the deficit. With passage last week of the technical tax corrections bill, the Treasury presumably will be able to include long bonds in the mid-quarter refunding; coupon issues are expected to account for most of the additional borrowing this quarter. Nearly half of the revenue shortfall for the quarter will be met by a drawdown of the Treasury's cash balance, however. Federal borrowing next year will likely be close to the 1988 total, given the outlook for an essentially unchanged budget deficit. State and local government borrowing is expected to remain moderate through next year.

In the household sector, some slight easing in total borrowing is expected through next year. Single-family housing activity and consumer spending growth in the projection are below the average levels of recent quarters, and net borrowing to finance these transactions correspondingly is projected to be moderate relative to recent experience.

To summarize the outlook for borrowing, growth in total domestic nonfinancial debt is forecast to increase in the fourth quarter owing to corporate mergers and buyouts but to ease over the course of next year as borrowing by each of the major sectors--business, households, and government--drifts down. For 1989 as a whole, debt growth is expected to be near this year's total.

Recent Developments

Since the September FOMC meeting, the trade-weighted foreign exchange value of the dollar against the other G-10 currencies has declined more than 4-1/2 percent. During the initial weeks of the intermeeting period, the dollar fluctuated narrowly. Following comments by officials that a further rise in its value could be unwelcome, the dollar began to move steadily downward. In the latter half of the period, the somewhat weaker-than-expected U.S. payroll employment report for September lessened market expectations of additional tightening by the Federal Reserve and, together with the release of data showing the U.S. trade deficit in August was larger than expected, contributed to downward pressure on the dollar. Following the release late in the period of lower-than-expected real GNP growth in the third quarter, the dollar declined further. Over the intermeeting period, the dollar fell 5 percent against the mark and 6-1/4 percent against the yen.

Yield curves in Germany and Japan have flattened, with long-term interest rates down and short-term rates up slightly, over the intermeeting period. In Japan, the yield on the bellwether bond has fallen about 45 basis points since the September meeting, while the average of yields on long-term German bonds has eased nearly 20 basis points. Three-month interest rates in Japan and Germany are up about 10 basis points each.

. Dollar sales were recorded

by the Desk ($0.2 billion). The Desk's purchases came early in the period at a time of dollar strength against the mark and were split evenly between the System and Treasury accounts.

The pace of real growth in the major foreign industrial economies appears to have rebounded somewhat in the third quarter, following a pronounced slackening of activity in the second quarter. In Germany, August data for industrial production and manufacturers' orders suggest a resumption of growth in the third quarter after a small decline in real GNP in the second. Japanese industrial production grew strongly in August and brought the average for July and August 1.6 percent above the first-quarter level, more than reversing a second-quarter decline. Stronger activity appears indicated for the third quarter in France, also, while evidence is mixed in the other major foreign industrial countries. Although the level of inflation in most foreign industrial countries remains generally low, the percent increase in consumer prices over the preceding twelve months has risen in the latest month available in each of the other G-7 countries except Italy. Through August, Germany has compiled a current account surplus that exceeds that recorded during the same interval last year. In contrast, Japan's trade surplus through September indicates some movement toward balance in the Japanese external accounts.

On October 17, the U.S. Treasury and the Federal Reserve announced that they were prepared to develop a bridge loan providing up to $3.5 billion to Mexico in support of measures taken by the Mexican government to counter the effects of recent declines in oil prices. Consumer price inflation in Brazil registered 24 percent in September, the third consecutive monthly increase in excess of 20 percent, and the increase in October is likely to be even larger. In late September, the World Bank reached agreement on $1.25 billion in policy and sector loans to Argentina. Negotiations between Argentina and the commercial banks in mid-October led to payment by Argentina of $100 million in overdue interest on new money loans made in 1985 and 1987; interest arrears to commercial banks of more than $1 billion remain. Venezuela has simplified its multiple exchange rate system and substantially devalued effective exchange rates for imports, exports, and debt/equity swaps. Peru's consumer price level more than doubled in September, reflecting the impact of a substantial devaluation of the currency and increased public sector prices, measures adopted as part of a government austerity program.

The U.S. nominal merchandise trade deficit in August was $127 billion at an annual rate on a balance-of-payments basis. This was greater than the deficit recorded in July, but smaller than that in June. For July-August combined, the deficit was slightly less than the second-quarter figure. Exports rose 1-1/2 percent in July-August from the second quarter. Most of the increase was in nonagricultural goods, particularly capital goods and durable consumer goods. Non-oil imports in July-August were marginally above the second-quarter level. Declines in imports of capital goods and automotive products were offset by increases in the value of consumer goods and food. Imports of oil fell slightly in value in July-August compared with the second quarter, as the increase in volume was more than offset by a sharp drop in price.

Foreign private net purchases of corporate stocks and bonds slowed in August from the July pace, but still registered a net inflow of $2-1/2 billion. The slowdown in bond purchases coincided with sharply lower Eurobond issuance by U.S. corporations. Private foreign net purchases of Treasury securities declined from nearly $3 billion in July to about $0.5 billion in August. The relatively wide spread between interest rates on Eurodollar deposits and Treasury bills contributed to the slower growth. U.S. residents accelerated their net purchases of private foreign securities in August, bringing the outflow for the year to $5-1/2 billion. Foreign official reserve assets in the United States declined by $1 billion in August, as a $3-1/2 billion decrease in holdings by G-10 countries was largely offset by increases by Latin American and other European countries.

The (nominal) dollar value of U.S.-chartered banks' claims on foreigners decreased by $18 billion in the second quarter of 1988. After adjustment for the effect of exchange rate changes on the value of non-dollar claims, total claims on foreigners are estimated to have declined by $10 billion. Bank claims on non-OPEC developing countries declined $2.7 billion in value in the second quarter, and preliminary and partial data indicate that large U.S. banks continued to reduce their claims on heavily indebted developing countries in the third quarter through swaps, sales, and related transactions.

Outlook

The staff projection continues to incorporate a moderate decline in the foreign exchange value of the dollar. From its current level, the dollar is expected to move downward over the remainder of the forecast horizon to a level in the fourth quarter of next year that is unchanged from that in the previous Greenbook. Real output growth in the foreign industrial countries is projected to remain strong in the near term and then to slow during 1989 to about 2-1/4 percent annual rate, slightly above the September projection. In the developing countries, the rate of growth of real output is expected to remain at about its current moderate pace throughout the forecast horizon.

The staff outlook has been adjusted to reflect the continuing weakness of oil markets and now incorporates an assumption that the U.S. import price will drop to an average of $12.50 per barrel during the current quarter and remain at the depressed price of $13 per barrel during 1989. This reduction of $2 to $3 per barrel from the assumption in the September Greenbook reflects increased rates of production by Saudi Arabia that are likely to raise year-end inventory levels and restrain prices early in 1989 and the additional production that is expected to occur as a result of the ending of the armed conflict between Iran and Iraq.

The path of the oil price over the forecast horizon is subject to considerable uncertainty. If agreement on output restraints cannot be reached at the November OPEC meetings and production is maintained at current rates, prices are likely to be driven below $10 per barrel. Conversely, if Arab Gulf producers agree to limit their production to rates consistent with an overall OPEC quota of 18.5 million barrels per day, significantly below current rates in excess of 21 million barrels per day but about 1 million barrels per day above the rate in the most recent agreement, the price of oil could rise above $15 per barrel next year.

As a result of these factors and the most recent trade data, the staff forecast now calls for oil imports to decline slightly in value, rather than expand as in the September forecast; however, the improved outlook for the value of imported oil is offset by a projected widening in the balance for non-oil trade. Non-agricultural exports are expected to expand, but at a somewhat slower pace than previously, reflecting the lower growth now forecast for business machine exports, and the projected growth of non-oil imports has been slightly increased. Over the forecast horizon, the U.S. merchandise trade balance is expected to improve by about $30 billion from the second-quarter annual rate of about $120 billion. Improvement in the current account balance will be about equal to that in merchandise trade so that by the fourth quarter of next year, the current account deficit is forecast to decline to a rate of about $107 billion.

Strictly [illegible]dential (FR)
Class II

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-	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-123.0	-90.6	-67.8	-125.2	-125.7	-112.1	-90.4	-81.3	-78.6	-74.7	-71.1	-66.6	-58.9
Exports of G+S	428.1	518.2	598.1	440.4	459.7	487.8	507.1	530.7	547.2	568.6	587.5	607.5	628.9
Imports of G+S	551.1	608.8	665.9	565.6	585.4	599.9	597.5	612.0	625.8	643.3	658.6	674.1	687.8
Constant 82 $, Net	-128.9	-94.5	-73.9	-130.7	-126.0	-109.0	-92.6	-88.9	-87.5	-82.9	-78.6	-71.9	-62.1
Exports of G+S	427.9	505.3	565.7	440.9	459.2	486.2	496.9	512.3	525.9	541.7	556.6	573.2	591.3
Imports of G+S	556.7	599.8	639.6	571.6	585.2	595.1	589.5	601.2	613.4	624.6	635.2	645.2	653.5
2. U.S. Merchandise Trade Balance 2/	-160.3	-120.1	-98.3	-158.7	-164.8	-140.7	-120.6	-111.6	-107.6	-104.2	-100.1	-97.2	-91.4
Exports	249.6	322.5	372.0	259.6	272.1	301.2	318.4	330.0	340.3	354.3	366.2	377.1	390.5
Agricultural	29.5	38.9	46.2	33.1	30.5	36.1	38.6	40.4	40.6	44.5	45.7	46.0	48.5
Non-Agricultural	220.1	283.5	325.9	226.5	241.5	265.1	279.8	289.6	299.7	309.9	320.5	331.1	342.0
Imports	409.9	442.6	470.3	418.3	436.8	441.9	439.0	441.6	447.8	458.6	466.3	474.3	481.9
Petroleum and Products	42.9	38.4	36.9	51.0	45.2	39.8	41.0	38.6	34.1	36.2	36.6	37.1	37.7
Non-Petroleum	367.0	404.2	433.4	367.2	391.7	402.1	398.0	402.9	413.8	422.4	429.7	437.3	444.2
3. U.S. Current Account Balance	-154.0	-133.4	-112.6	-167.9	-134.1	-147.8	-135.4	-131.1	-119.4	-117.0	-114.6	-112.0	-106.7
Of Which: Net Investment Income	20.4	-4.5	-6.1	4.3	50.2	4.6	-8.2	-12.9	-1.6	-3.4	-5.8	-6.9	-8.2
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	2.9	3.4	2.3	5.2	3.6	5.2	0.6	2.7	2.6	2.4	2.3	2.3	2.3
Real GNP--NonOPEC LDC 5/	4.2	3.4	3.8	3.6	3.3	3.1	3.3	3.5	3.8	3.9	3.9	3.9	3.8
Consumer Prices--Ten Ind. 4/	2.1	2.6	3.0	1.7	2.4	1.5	4.1	2.7	3.3	2.4	3.5	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