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Strictly Confidential (FR) Class II FOMC

December 7, 1988

SUMMARY AND OUTLOOK

This edition is dedicated to Eleanor Stockwell, who presently will retire from the Board after 52 years of distinguished service that has included many hours writing and editing portions of the Greenbook.

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

Recent Developments

Incoming information since the November FOMC meeting has failed to confirm earlier hints of a moderation in the pace of economic expansion. Real GNP appears likely to post another sizable increase in the current quarter (abstracting from output losses directly related to the drought). At the same time, while the recent data suggest a fairly stable inflation rate, owing in part to the favorable effects of earlier oil price declines, labor cost measures continue to show some acceleration from a year earlier.

Employment growth has been strong of late. Nonfarm payrolls surged more than 460,000 in November, after rising 240,000 a month earlier. Taken together, the October and November data point to an increase of more than 3-1/2 percent (annual rate) in hours worked in the current quarter. Moreover, employment also rose sharply in the November household survey, and the civilian unemployment rate has been between 5.3 and 5.4 percent in the past two months, compared with 5.5 percent during the summer.

The labor market and other data suggest that industrial activity has continued to expand briskly. Manufacturing employment posted another sizable increase of 70,000 in November, after rising 100,000 the month before. The November survey of purchasing managers also suggested strength in production. It appears that the increase in industrial production last month matched or exceeded the October gain of 0.4 percent; manufacturing capacity utilization probably is now in the vicinity of 84-1/2 percent.

Spending indicators for the current quarter, which, in most cases, are available only through October, are somewhat less robust, on balance, than the recent employment and production data. Real consumer outlays rose 0.3 percent in October, after declining 0.4 percent in September. Household expenditures for electricity and natural gas bounced back in October, but spending for nondurables was sluggish and for durables was down for a second consecutive month, owing mainly to a drop in auto sales. In November, domestic auto sales recovered somewhat to a 7-1/4 million unit rate, after falling to 6-3/4 million units in October.

Total housing starts strengthened to a 1.55 million unit annual rate in October as single-family starts moved noticeably above the range of the preceding six months. In addition, new home sales rose further in October, and sales of existing houses were off only a bit from their strong third-quarter pace. The single-family market may have been boosted by the dip in mortgage rates between August and November. But mortgage rates now have turned up again, and builders are less optimistic about market conditions than earlier in the year.

Outlays for business equipment apparently have slowed substantially in recent months. Shipments of nondefense capital goods, excluding aircraft, declined about 1-1/2 percent between August and October to a level slightly below the third-quarter average. And, new orders for these goods have fallen somewhat more sharply over the period. A slackening in bookings for computers and communications items accounts for much of the recent weakness. However, backlogs for industrial machinery are still expanding. For nonresidential construction, recent data on spending indicate a leveling off in October, after two quarters of 3 percent plus growth. Looking ahead, private surveys of planned capital spending indicate that firms expect to increase nominal outlays 5 to 6 percent in 1989. With reasonable allowance for price increases, these reports imply only moderate growth in investment spending next year, and seem to reflect, in part, caution among businesses in light of uncertainties about the sustainability of strong growth and the lower value of the dollar.

Manufacturing and trade inventories, in constant dollars, rose a little more in the third quarter than in the second. The pickup was entirely in the nonauto sector; nonetheless, this rise in stocks was about matched by the growth in sales, suggesting no developing inventory overhang. Auto dealers, however, have experienced a discomforting rise in stocks in recent months, as domestic car sales have slipped. There is a growing expectation that the current relatively limited incentive programs will be enhanced soon and that automakers' optimistic assembly schedules for the next several months will be adjusted down.

Compared with 1987, inflation at the consumer level remains little changed this year, with greater food price inflation about offset, on balance, by a deceleration in energy prices. In October, the consumer price index rose 0.4 percent, as another jump in apparel prices offset a slowing in food prices. Food prices also edged down at the finished goods level in the October PPI, and crude food prices appear likely to turn down in the PPI report for November. For energy, retail prices of petroleum products declined in October, reflecting the earlier drop in crude oil prices.

At earlier stages of processing, the PPI for intermediate materials less food and energy rose 0.5 percent in October after a 0.6 percent increase in September. Spot prices of industrial commodities, however, have been little changed, on balance, over the past several months, with copper prices reaching a new high, while prices of steel scrap and some other items have declined.

With consumer price inflation remaining around 4-1/2 percent and labor markets tightening, twelve-month changes in wages and hourly compensation continue to run from 1/2 to more than a full percentage point higher than those recorded in the prior year. Wages, per se, have shown the least acceleration. For example, the volatile hourly earnings index for wages of production and nonsupervisory workers jumped 0.7 percent in October and was unchanged in November, at a level 3-1/4 percent above a year earlier; a year ago, the twelve-month change in this index was 2-3/4 percent. Hourly compensation in the nonfarm business sector in the third quarter was 5 percent higher than a year ago, compared with a 3-3/4 percent rise over the four quarters ending in 1987-Q3. With nonfarm productivity growth this past year having slowed, much of the pickup in wage and benefit costs has been translated into faster rising labor costs.

Outlook

Growth of real GNP, excluding drought losses, is expected to be 3-1/2 percent at an annual rate in the current quarter, well above the estimated 2-1/2 percent rate of increase in potential output; as a result, levels of resource utilization have risen further. The staff continues to believe that an easing of pressures on labor and capital resources will be needed to restore a downward trend in inflation. Given that other forces appear unlikely to damp aggregate demand sufficiently, our projection is based on an assumption that the System will foster a further gradual tightening of financial conditions into 1990. Largely as a result of these policy actions, output decelerates noticeably over the next year or so, creating slack sufficient to begin an improvement in the inflation trend sometime in 1990.

Growth of M2, which likely will end this year somewhat below the midpoint of its annual target range, is expected to slow in 1989, placing it in the lower half of its tentative range, and to remain damped in 1990. Growth of M3 is projected to exceed that of M2 next year, expanding around the middle of its tentative range, and to continue at about that rate in 1990.

Although rising real U.S. interest rates should work to buoy the foreign exchange value of the dollar, the still large current account deficit likely will continue to exert downward pressure on the dollar. On balance, the staff is assuming that the dollar falls moderately during 1989 and 1990.

The fiscal policy assumptions underlying the staff forecast imply an FY1989 deficit of $156 billion and an FY1990 deficit of $126 billion. For FY1990, the staff has incorporated into its estimate $27 billion of deficit-reducing actions--about in line with what the Congress has been able to achieve, on average, in the past few years. The forecast deficit for FY1990 is significantly above the $100 billion Gramm-Rudman-Hollings target. However, we have assumed that a sequester will be avoided because the official budget projections to be made next August can be based on more optimistic economic assumptions than those of the staff.

Growth of real GNP (abstracting from the estimated rebound in farm output) is expected to slow only a bit between the fourth quarter of this year and the first quarter of 1989, when it is projected to be 3 percent. The recent firming in mortgage rates is reflected in a decline in housing starts. However, continued strong exports and some bounceback in business equipment outlays, after their lull in the fourth quarter, are expected to provide considerable impetus to domestic production. A pickup in consumption is forecast as well, but this largely reflects our assumption of more attractive incentive programs for autos; auto production actually is expected to decline, contributing to the slowing in business inventory accumulation.[1]

1. Despite more rapid growth of consumer spending, the personal saving rate increases in 1989-Q1 largely owing to a bulge in farm subsidy payments.

REAL GNP AND THE DROUGHT
(Percent change, annual rate)

	1988 Q1	1988 Q2	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 H2	1990 H1	1990 H2
	--actual--			--------projection--------					
Real GNP	3.4	3.0	2.6	2.2	5.8	2.7	2.2	0.9	1.4
Real GNP excluding effects of the drought	3.4	3.9	3.2	3.5	3.0	2.5	2.1	0.9	1.4

Inventory investment in the first quarter also is damped by a rundown of inventories of imported oil, after a surge in the fourth quarter. Although the staff has fully accounted for these large changes in oil imports in its projection of nonfarm inventories, BEA has significant problems in measuring these swings. Thus, the distinct possibility exists that reported GNP growth could turn out lower in the fourth quarter and higher in the first quarter than shown in the projection.

As 1989 progresses, rising interest rates are projected to continue to push homebuilding lower. Higher interest rates also take a toll on equity prices and other asset values, depressing the growth of consumer spending and business capital outlays. The staff projection for business fixed investment in 1989 as a whole is close to the recent survey results noted above. Increases in real net exports are sizable, although they are damped somewhat relative to the average pace in 1988 by the lagged effects of the dollar apprecition that occurred earlier this year. As a result, growth of real GNP is projected to move down to around 2 percent during the second half of the year, and the civilian unemployment rate is forecast to begin to turn up.

In 1990, consumer and investment spending are projected to decelerate further, and residential construction is expected to continue edging down. In addition, businesses are anticipated to be relatively prompt in adjusting their inventories as sales weaken. As a result, real gross domestic purchases are projected to rise only marginally over the year. Export growth also is anticipated to decelerate, but still provides most of the support for domestic production. The staff has not attempted to forecast potential shocks to economic activity over the projection period that could alter the relatively smooth pattern of deceleration that is shown in the forecast. Thus, with GNP growth expected to slow to around 1 percent in 1990, one or two quarters of negative growth--particularly in domestic demand--certainly cannot be ruled out.

The staff has raised slightly its projection of inflation for 1989, in light of an expectation of somewhat firmer oil prices than assumed in the last Greenbook. We do not expect that OPEC will achieve fully its output and price goals. Nonetheless, crude oil prices now are assumed to rise to $15 per barrel by the end of next year--about $2 per barrel more than in the last projection; thus, rather than declining, domestic energy costs are now anticipated to rise modestly. Moreover, the civilian unemployment rate is expected to average a shade lower over the next several quarters and capacity utilization to be a bit higher than in the previous forecast, generating slightly more pressure on wages and prices. The GNP fixed-weight price index is expected to increase 4-1/4 percent over the year, and the CPI is projected to rise more than 4-1/2 percent; excluding food and energy, the CPI is anticipated to be up around 5 percent.

STAFF INFLATION PROJECTION
(Percent change, annual rate)

	1988	1989		1990	
	Q4	H1	H2	H1	H2
GNP fixed-weight price index	4.3	4.3	4.2	4.7	4.3
Consumer price index	4.5	4.5	4.8	4.8	4.7
Excl. food and energy	5.1	5.0	5.3	5.3	5.1
Compensation per hour	4.7	5.3	5.2	5.7	4.9

In early 1990, an increase in Social Security taxes provides another boost to business costs; this adds about 1/4 percentage point to the rise in hourly compensation for the year. But, over the course of the year, with slack developing in labor and product markets, upward pressure on wages and prices is projected to begin to diminish. As the jobless rate moves closer to 6 percent, compensation per hour is projected to begin to decelerate. And, the GNP fixed-weight price index and the CPI are projected to slow slightly. If the levels of slack prevailing at the end of 1990 were to be maintained into 1991, the staff would expect further progress in lowering inflation.

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

December 7, 1988

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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)	
	10/26/88	12/7/88	10/26/88	12/7/88	10/26/88	12/7/88	10/26/88	12/7/88	10/26/88	12/7/88
Annual changes:										
1987 <1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2
1988	7.3	7.4	3.8	3.9	4.1	4.1	3.3	3.4	5.5	5.5
1989	7.2	7.4	2.9	3.3	4.5	4.5	4.2	4.0	5.5	5.4
1990		5.7		1.5		4.4		4.2		5.9
Quarterly changes:										
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>	8.7	8.7	3.0	3.0	5.0	5.0	5.5	5.5	5.5	5.5
Q3 <1>	6.6	7.3	2.2	2.6	5.0	5.1	4.4	4.7	5.5	5.5
Q4	6.7	7.0	1.6	2.2	4.6	4.3	5.0	4.6	5.4	5.3
1989 Q1	8.9	8.8	4.8	5.8	4.6	4.3	3.9	2.9	5.4	5.3
Q2	6.7	7.0	2.8	2.7	4.2	4.3	3.8	4.1	5.5	5.3
Q3	6.0	6.2	2.4	2.4	3.9	4.2	3.6	3.7	5.5	5.4
Q4	5.8	5.9	2.3	2.0	3.9	4.2	3.5	3.8	5.6	5.5
1990 Q1		5.9		.9		4.9		4.9		5.7
Q2		4.7		.8		4.4		3.9		5.9
Q3		5.6		1.3		4.3		4.2		6.0
Q4		5.7		1.4		4.3		4.2		6.1
Two-quarter changes: <2>										
1988 Q2 <1>	7.0	7.0	3.2	3.2	4.2	4.2	3.6	3.6	-.4	-.4
Q4	6.6	7.1	1.9	2.4	4.8	4.8	4.7	4.7	-.1	-.2
1989 Q2	7.8	7.9	3.8	4.2	4.4	4.3	3.8	3.5	.1	.0
Q4	5.9	6.1	2.3	2.2	3.9	4.2	3.5	3.8	.1	.2
1990 Q2		5.3		.9		4.6		4.4		.4
Q4		5.6		1.3		4.3		4.2		.2
Four-quarter changes: <3>										
1987 Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988 Q4	6.8	7.1	2.5	2.8	4.5	4.5	4.1	4.1	-.5	-.6
1989 Q4	6.9	7.0	3.1	3.2	4.2	4.3	3.7	3.6	.2	.2
1990 Q4		5.5		1.1		4.5		4.3		.6

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

CONFIDENTIAL - FR
CLASS II FOMC

December 7, 1988

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

	Units	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4
		Projection									
EXPENDITURES											
Nominal GNP	Billions of $	4909.2	4992.7	5099.5	5185.9	5264.4	5340.6	5417.1	5480.2	5555.2	5632.2
Real GNP	Billions of 82$	4010.9	4033.0	4089.8	4117.4	4141.8	4162.8	4172.4	4181.0	4194.5	4208.7
Nominal GNP	Percent change	7.3	7.0	8.8	7.0	6.2	5.9	5.9	4.7	5.6	5.7
Real GNP		2.6	2.2	5.8	2.7	2.4	2.0	.9	.8	1.3	1.4
Gross domestic product		2.3	2.3	5.8	2.7	2.4	2.0	.9	.8	1.3	1.4
Gross domestic purchases		2.8	2.4	4.0	2.5	1.7	1.1	.1	.0	.5	.6
Final sales		2.5	2.2	5.1	2.5	3.0	2.6	1.7	1.4	1.3	1.5
Private dom. final purchases		4.1	2.3	3.7	2.4	2.3	1.6	.6	.5	.3	.6
Personal consumption expend.		4.0	2.4	3.5	2.4	2.4	1.8	.8	.6	.4	.7
Durables		-1.1	-1.6	7.3	1.0	.8	-.5	-3.5	-2.5	-3.8	-1.6
Nondurables		5.4	1.8	2.3	2.0	2.0	1.6	1.2	.5	.5	.5
Services		4.7	4.1	3.2	3.2	3.2	2.6	1.8	1.6	1.6	1.6
Business fixed investment		4.8	.6	5.4	4.2	3.5	2.7	1.7	1.1	.4	.1
Producers' durable equipment		5.5	2.0	7.6	6.0	5.0	4.0	3.0	3.0	2.5	2.5
Nonresidential structures		3.2	-3.4	-.7	-1.1	-1.1	-1.4	-2.4	-5.0	-6.3	-7.7
Residential structures		3.2	5.4	1.5	-3.1	-2.4	-2.9	-3.6	-2.2	-1.6	-.5
Exports		11.6	12.0	14.1	12.1	11.2	12.4	10.1	9.4	9.5	8.7
Imports		11.6	11.9	1.2	9.7	5.6	4.9	3.3	3.3	3.5	3.2
Government purchases		-3.0	3.0	2.1	2.0	2.3	1.9	1.3	1.1	1.1	1.2
Federal		-9.2	4.2	2.0	1.8	2.7	1.6	.0	-.4	-.3	.1
Defense		-11.7	-.5	-1.6	-.9	-.6	-2.2	.6	-.3	-.2	-.2
State and local		1.7	2.1	2.2	2.2	2.1	2.2	2.2	2.2	2.1	2.0
ge in business inventories	Billions of 82$	36.7	37.0	44.1	46.7	41.1	35.3	27.9	21.7	22.3	21.2
nfarm	Billions of 82$	36.7	51.3	38.5	41.7	37.7	35.4	29.4	23.8	24.8	24.1
exports	Billions of 82$	-95.2	-97.8	-82.1	-80.9	-74.6	-65.4	-56.3	-47.9	-39.5	-31.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	106.5	107.4	107.9	108.4	108.8	109.2	109.4	109.5	109.8	110.0
Unemployment rate	Percent*	5.5	5.3	5.3	5.3	5.4	5.5	5.7	5.9	6.0	6.1
Industrial production index	Percent change	7.2	4.6	3.5	3.0	2.6	1.9	.4	.5	1.5	1.7
Capacity utilization rate-mfg.	Percent*	84.0	84.5	84.5	84.5	84.3	84.0	83.4	82.8	82.4	82.1
Housing Starts	Millions	1.46	1.51	1.48	1.44	1.42	1.39	1.38	1.36	1.34	1.34
Auto sales	Millions	10.53	10.13	10.40	10.31	10.22	10.05	9.68	9.40	9.20	9.20
Domestic	Millions	7.41	7.14	7.38	7.31	7.22	7.10	6.80	6.60	6.45	6.45
Foreign	Millions	3.12	2.99	3.03	3.00	3.00	2.95	2.88	2.80	2.75	2.75
INCOME AND SAVING											
Nominal personal income	Percent change	7.1	8.1	9.8	6.4	6.2	7.2	7.4	6.0	6.2	6.5
Real disposable income	Percent change	5.6	2.7	5.5	.8	1.2	1.8	1.9	.7	.8	1.2
Personal saving rate	Percent*	4.1	4.2	4.6	4.2	3.9	3.9	4.2	4.2	4.3	4.4
Corp. profits with IVA & CCAdj	Percent change	-3.4	6.0	12.0	7.7	-1.3	-11.0	-19.4	-15.8	-8.0	-7.5
Profit share of GNP	Percent*	6.6	6.6	6.6	6.6	6.5	6.2	5.8	5.5	5.3	5.2
Federal govt. surplus/deficit	Billions of $	-124.8	-138.5	-142.3	-132.6	-129.0	-131.8	-123.9	-124.0	-118.1	-119.1
State and local govt. surplus		55.9	61.5	66.4	69.6	71.8	72.6	72.5	71.0	70.6	71.6
Exc. social insurance funds		-13.3	-9.0	-5.4	-3.4	-2.4	-2.7	-3.9	-6.5	-8.0	-8.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.7	4.6	2.9	4.1	3.7	3.8	4.9	3.9	4.2	4.2
GNP fixed-weight price index		5.1	4.3	4.3	4.3	4.2	4.2	4.9	4.4	4.3	4.3
Cons. & fixed invest. prices		4.2	4.3	3.8	4.6	4.5	4.6	4.5	4.5	4.5	4.4
CPI		4.8	4.5	4.1	4.8	4.7	4.9	4.8	4.8	4.7	4.7
Exc. food and energy		4.0	5.1	4.7	5.2	5.3	5.4	5.3	5.2	5.1	5.1
arm business sector											
ut per hour		1.9	.4	.8	.8	.8	.8	.5	.6	.8	1.0
ensation per hour		5.6	4.7	5.4	5.1	5.2	5.2	6.3	5.1	5.0	4.9
t labor costs		3.7	4.3	4.6	4.3	4.4	4.4	5.8	4.5	4.2	3.9

* Not at an annual rate.

December 7, 1988

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

	Units	1982	1983	1984	1985	1986	1987	Projection 1988	1989	1990
EXPENDITURES										
Nominal GNP	Billions of $	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4862.6	5222.6	5521.2
Real GNP	Billions of 82$	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3996.3	4127.9	4189.2
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	2.0	5.0	2.8	3.2	1.1
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.1	3.0	3.2	1.1
Gross domestic purchases		-.8	8.4	6.4	4.3	2.4	4.4	2.0	2.4	.3
Final sales		.3	3.7	4.7	4.6	2.5	3.0	3.6	3.3	1.5
Private dom. final purchases		.8	7.7	5.6	4.6	2.8	2.4	3.8	2.5	.5
Personal consumption expend.		2.9	5.4	4.1	4.6	4.2	1.8	3.5	2.5	.6
Durables		9.0	14.7	10.8	7.0	11.5	-2.4	5.2	2.1	-2.9
Nondurables		1.8	4.4	2.3	3.3	3.1	.6	2.1	2.0	.7
Services		2.3	3.9	3.5	5.0	2.7	4.2	3.9	3.0	1.6
Business fixed investment		-11.3	10.8	13.8	3.7	-7.3	8.8	6.9	4.0	.8
Producers' durable equipment		-12.5	20.9	14.9	4.6	-2.4	9.6	11.8	5.6	2.8
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.4	6.7	-5.4	-1.1	-5.4
Residential structures		4.9	38.1	6.1	5.8	11.3	-3.5	.5	-1.7	-2.0
Exports		-13.8	5.8	5.9	-2.4	5.6	18.4	14.4	12.5	9.4
Imports		-5.9	23.8	17.4	4.5	7.6	10.4	6.5	5.3	3.3
Government purchases		3.8	-2.7	7.9	8.6	2.9	2.3	-1.1	2.1	1.2
Federal		8.2	-8.1	13.0	13.3	.0	2.1	-5.9	2.0	-.2
Defense		8.8	5.1	6.5	7.1	4.8	6.0	-4.8	-1.3	.0
State and local		.6	1.5	4.4	4.9	5.3	2.5	2.6	2.2	2.1
Change in business inventories	Billions of 82$	-24.5	-6.4	62.3	9.1	15.4	34.4	43.7	41.8	23.3
Nonfarm	Billions of 82$	-23.1	-.1	57.8	13.4	17.9	36.9	42.5	38.3	25.5
t exports	Billions of 82$	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-98.7	-75.8	-43.8
inal GNP	Percent change*	3.1	10.4	8.6	6.6	4.8	8.3	7.1	7.0	5.5
LOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.3	106.0	108.6	109.7
Unemployment rate	Percent	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.4	5.9
Industrial production index	Percent change*	-7.7	14.3	6.6	1.7	1.0	5.8	5.1	2.8	1.0
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.0	83.6	84.3	82.7
Housing Starts	Millions	1.06	1.71	1.77	1.74	1.81	1.63	1.48	1.43	1.36
Auto sales	Millions	8.00	9.18	10.43	11.09	11.52	10.34	10.56	10.25	9.37
Domestic	Millions	5.77	6.77	7.97	8.24	8.28	7.14	7.44	7.25	6.57
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.12	2.99	2.79
INCOME AND SAVING										
Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.9	8.5	6.8	7.4	6.5
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.4	3.0	3.3	2.3	1.1
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.0	3.2	4.1	4.2	4.3
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	.9	7.6	3.9	1.5	-12.8
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.5	5.5
Federal govt. surplus/deficit	Billions of $	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-137.9	-133.9	-121.3
State and local govt. surplus		35.1	47.5	64.6	65.1	61.2	52.9	57.4	70.1	71.4
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.0	-9.2	-11.0	-3.5	-6.6
PRICES AND COSTS										
GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.8	3.1	4.1	3.6	4.3
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.3	4.5
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.0	4.4	4.5
CPI		4.4	3.2	4.1	3.5	1.3	4.4	4.3	4.6	4.8
Exc. food and energy		5.2	4.2	4.8	4.3	3.9	4.3	4.6	5.1	5.2
arm business sector										
tput per hour		1.0	3.6	1.5	1.5	1.2	1.9	.8	.8	.7
ensation per hour		7.3	3.3	4.2	4.5	4.2	4.1	4.5	5.2	5.3
nit labor costs		6.2	-.3	2.6	2.9	3.0	2.1	3.7	4.4	4.6

* Percent changes are from fourth quarter to fourth quarter.

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December 7, 1988

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

	Projection											Projection		
	1988		1989				1990				1987	1988	1989	1990
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	25.7	22.1	56.9	27.5	24.4	21.0	9.6	8.6	13.5	14.2	188.3	110.0	129.8	46.0
Gross domestic product	22.5	23.1	56.9	27.0	24.3	20.6	9.8	8.5	13.6	14.4	188.3	116.3	128.8	46.2
Gross domestic purchases	28.3	24.7	41.2	26.3	18.1	11.7	.6	.2	5.1	6.2	171.9	81.8	97.3	12.2
Final sales	24.2	21.9	49.8	24.9	30.0	26.8	17.0	14.8	12.9	15.3	110.7	140.1	131.5	60.1
Private dom. final purchases	32.8	18.7	30.0	19.7	19.1	13.7	5.4	4.2	2.3	4.8	76.2	120.9	82.6	16.8
Personal consumption expend.	25.5	15.4	22.7	16.0	15.9	11.7	5.0	3.9	2.6	5.0	45.5	88.2	66.3	16.5
Durables	-1.1	-1.7	7.2	1.1	.8	-.5	-3.7	-2.6	-4.0	-1.6	-9.7	20.2	8.6	-11.9
Nondurables	11.9	4.0	5.2	4.5	4.6	3.7	2.8	1.2	1.2	1.2	5.2	19.0	18.0	6.3
Services	14.7	13.0	10.3	10.4	10.5	8.6	6.0	5.4	5.4	5.4	50.0	48.9	39.7	22.1
Business fixed investment	5.8	.7	6.6	5.2	4.4	3.4	2.2	1.4	.5	.1	37.5	31.9	19.6	4.1
Producers' durable equipment	4.9	1.8	6.8	5.6	4.7	3.8	2.9	2.9	2.5	2.5	29.2	39.1	21.0	10.8
Nonresidential structures	1.0	-1.1	-.2	-.3	-.3	-.4	-.8	-1.6	-2.0	-2.4	8.3	-7.2	-1.3	-6.7
Residential structures	1.5	2.5	.7	-1.5	-1.1	-1.4	-1.8	-1.1	-.8	-.2	-7.0	.9	-3.3	-3.8
Change in business inventories	1.4	.3	7.1	2.6	-5.6	-5.8	-7.4	-6.2	.6	-1.1	77.6	-30.1	-1.7	-14.1
Nonfarm	6.6	14.6	-12.8	3.2	-4.0	-2.3	-6.0	-5.6	1.0	-.7	67.0	-16.9	-15.9	-11.3
Farm	-5.3	-14.3	19.9	-.6	-1.6	-3.5	-1.4	-.6	-.4	-.4	10.6	-13.2	14.2	-2.8
Net exports	-2.6	-2.6	15.7	1.2	6.3	9.2	9.1	8.4	8.4	8.0	16.4	28.2	32.5	33.8
Exports	13.8	14.6	17.6	15.8	15.1	17.0	14.4	13.7	14.1	13.3	71.4	66.1	65.4	55.6
Imports	16.4	17.2	1.9	14.6	8.7	7.7	5.3	5.4	5.7	5.4	55.0	37.9	33.0	21.8
Government purchases	-6.0	5.8	4.1	4.0	4.6	3.8	2.5	2.2	2.2	2.5	18.1	-9.0	16.4	9.5
Federal	-7.9	3.4	1.6	1.5	2.2	1.3	.0	-.4	-.3	.1	7.2	-20.6	6.5	-.5
Defense	-8.1	-.3	-1.0	-.6	-.4	-1.4	.4	-.2	-.1	-.1	15.1	-13.0	-3.4	.0
Nondefense	.3	3.7	2.6	2.1	2.6	2.7	-.4	-.2	-.2	.2	-7.9	-7.6	9.9	-.5
State and local	1.9	2.4	2.5	2.5	2.4	2.5	2.5	2.6	2.5	2.4	10.9	11.6	9.9	10.0

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1988a	FY1989p Admin[1]	FY1989p CBO[2]	FY1989p FRB Staff	FY1990p Admin[1]	FY1990p CBO[2]	FY1990p FRB Staff	FRB Staff Projection 1988 IV	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
BUDGET								Not seasonally adjusted								
Budget receipts[3]	909	974	980	980	1054	1064	1069	217	230	284	249	236	253	315	265	253
Budget outlays[3]	1064	1097	1127	1136	1157	1200	1195	285	286	283	281	304	297	300	293	307
Surplus/deficit(-) to be financed[3]	-155	-123	-148	-156	-102	-136	-126	-69	-56	0	-32	-69	-44	15	-28	-54
(On-budget)	-194	-174	-199	-204	-166	-199	-188	-75	-70	-17	-43	-76	-61	-6	-44	-67
(Off-budget)	39	51	52	48	64	63	61	6	14	17	11	8	17	21	16	13
Means of financing:																
Borrowing	166	118	147	145	n.a.	135	125	48	35	30	33	46	37	10	32	33
Cash decrease	-8	0	n.a.	4	n.a.	n.a.	0	22	10	-23	-5	22	3	-20	-5	22
Other[4]	-3	5	n.a.	7	n.a.	n.a.	1	-1	10	-7	4	0	5	-5	1	-1
Cash operating balance, end of period	44	20	n.a.	40	n.a.	n.a.	40	22	12	35	40	18	15	35	40	18
NIPA FEDERAL SECTOR								Seasonally adjusted annual rates								
Receipts	963	1042	1037	1038	n.a.	1130	1123	999	1030	1053	1069	1086	1120	1133	1151	1170
Expenditures	1107	1147	1171	1173	n.a.	1249	1247	1137	1172	1186	1198	1217	1244	1258	1269	1289
Purchases	381	396	396	393	n.a.	416	409	382	392	397	400	403	410	412	414	416
Defense	297	295	306	298	n.a.	315	307	293	298	300	302	302	307	309	310	312
Nondefense	83	101	91	94	n.a.	101	103	88	94	97	99	101	103	103	103	104
Other expend.	726	751	776	781	n.a.	832	838	756	780	789	798	814	834	846	856	874
Surplus/deficit	-143	-105	-134	-136	n.a.	-119	-124	-138	-142	-133	-129	-132	-124	-124	-118	-119
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-151	n.a.	n.a.	-157	n.a.	n.a.	-137	-151	-166	-158	-153	-155	-140	-132	-120	-115
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.1	n.a.	n.a.	-.4	.3	.3	-.2	-.1	0	-.3	-.2	-.2	-.1
Fiscal impetus measure (FI), percent	-.2 *	n.a.	n.a.	-4.2 *	n.a.	n.a.	-4.8 *	-.5	-1.4	-.2	-.3	-2.6	-2.5	-.2	-.1	-.1

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); estimates are "baseline" (i.e. current services).
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

Interest rates have risen appreciably over the intermeeting period, against a backdrop of stronger economic news, firming oil prices, and heightened expectations of further monetary tightening. While the federal funds rate has edged up only marginally, to around 8-1/2 percent, other money market interest rates have risen 65 to 85 basis points since early November. Banks, adjusting to the higher financing costs, raised the prime lending rate 1/2 percentage point to 10-1/2 percent in late November. Long-term rates had risen about 20 to 40 basis points in November, but about half of these increases were retraced when bond markets rallied on December 6 in response to anticipated remarks by Mikhail Gorbachev concerning a cutback in military forces. Thus, on balance over the intermeeting period, long rates are up only about 20 basis points on Treasury bonds and 10 basis points on corporates. Yields on municipal bonds, which did not participate in the December rally, have increased almost 40 points.

M2 and M3 growth picked up in November, buoyed by increased inflows to money market mutual funds and a surge in savings deposits associated with a large merger-related transaction. Growth in small time deposits continued near its brisk pace of the last two months, with banks taking the lion's share of the increase and thrifts continuing to follow the less aggressive pricing practices of recent months. The strength in the nontransactions component of the broader aggregates was offset in part by flatness in M1, as demand deposits resumed their runoff and currency growth moderated. Through November, M2 remained somewhat below, and M3 a bit above, the midpoints of their 1988 target ranges.

Aggregate credit flows thus far in the fourth quarter appear to be continuing near the third-quarter pace, but business borrowing is expected to strengthen somewhat over the remainder of the year. Merger and LBO financing were the primary source of corporate credit demands in October and November, and such financing is expected to pick up as arrangements for several huge restructurings are completed.

Excluding merger-related demands, business credit growth was relatively flat last month, continuing the sluggish pattern evident over the summer and fall. Adjusted for mergers, the sum of business loans at banks and commercial paper contracted slightly in November. In addition, bond issuance by investment-grade firms diminished sharply after the announcement of the RJR Nabisco proposal produced large losses for holders of RJR bonds. Investors' growing concerns about the effect on outstanding debt of unanticipated takeovers have boosted risk premia on some investment-grade bonds by as much as 300 basis points. In efforts to reassure investors, a few higher-rated firms offering debt recently have included bond covenants which, to a greater or lesser degree, protect against such "event" risk.

Higher interest rates and continued weakness in the exchange value of the dollar have done little to bolster investor interest in U.S. equity markets. Stock prices are down about 2 percent from October highs, and average daily trading volume on the NYSE touched a two-year low in November. In this environment, new equity issues by nonfinancial firms have continued sparse and, coupled with the unprecedented amount of stock retirements this quarter, net equity retirements in the fourth quarter likely will greatly exceed previous records.

In municipal markets, the volume of new tax-exempt bond offerings continued at a moderate pace in November although refunding issues dropped off after midmonth as municipal bond rates rose. Merger-related disturbances in corporate bond markets seem to have had little net effect on municipal markets. Some tax-exempt industrial development bonds backed by corporations have been adversely affected by concerns about buyout risks. However, yields on tax-exempt bonds generally rose about in line with those on nonindustrial issues over most of the intermeeting period, though they have not yet followed the recent fallback in Treasury and corporate rates.

Net borrowing by the federal government has not increased appreciably in the fourth quarter, despite a budget deficit estimated to be almost twice that of the third quarter (not seasonally adjusted). Nearly half of the budget revenue shortfall is to be financed by an unusually large drawdown of the Treasury's cash balance. The Treasury is expected to borrow a total of $47 billion from the public, and with restraints now lifted on the long-bond authority, coupon auctions have returned to more normal amounts and likely will provide about $21 billion of this total.

In the household sector, growth in consumer installment credit expanded at a 6-1/2 percent rate in October after no growth in

September. The pattern of installment credit growth in both months, however, was distorted by seasonal adjustment problems arising from the absence this September of automotive incentive programs that were in place the three previous years. Viewed in longer perspective, installment credit growth since June has eased a bit below the first-half pace. Interest rates on new-car and personal loans, meanwhile, have increased 70 to 90 basis points since the spring.

In the home mortgage market, rates on fixed-rate loans in the primary market are up about 20 basis points since the last FOMC meeting, maintaining a narrow spread over comparable maturity Treasuries. One-year ARM rates also have risen only a few basis points over the intermeeting period. Although the initial rate advantage for adjustable-rate mortgages has narrowed steadily since spring, borrower preference for such mortgages has been strong. Total mortgage debt growth in the third quarter was somewhat higher than in the second; nonresidential mortgage lending rose substantially, and continued strength in home sales kept home mortgage borrowing near the second quarter's level. Early indicators suggest that mortgage activity in the fourth quarter is maintaining its recent growth. Expansion of real estate loans at commercial banks in October and November and acquisitions of mortgage assets by thrifts in October continued near their averages of earlier months.

Outlook

The staff anticipates that efforts to restrain wage and price pressures will involve further tightening of reserve availability and appreciably higher interest rates over the next year or so. Bond rates are expected to rise less than short rates, resulting in a flat or slightly inverted yield curve by early 1990. Growth of M2 and M3 should remain near the relatively slow pace since spring.

Rising interest rates and the associated slowing in spending are expected to damp the expansion of domestic nonfinancial debt next year and into 1990. However, borrowing patterns in the next few months will be heavily influenced by corporate needs to finance recent large mergers and buyouts. A hefty share of the initial financing of the RJR Nabisco and other large merger transactions will come from sources other than long-term securities markets, primarily banks. Down the road, such loans likely will be repaid with funds raised through bond financing or sales of assets. Nonetheless, loans and open-market paper may continue to be an important component of business debt growth next year given the rising interest rate environment.

Merger activity is expected to proceed at a less frantic pace after the announced megadeals are completed; even without restrictive legislation from Congress, higher debt costs in 1989 may reduce the attractiveness of heavily leveraged deals. Indeed, it is likely that some firms burdened with heavy debt will come under increasing stress in 1989 and 1990 as corporate profits decline. In the aggregate, the gap between capital outlays and internal funds of nonfinancial corporations is expected to jump substantially in the current quarter and continue to edge up over the projection horizon. This rise, however, may be more than offset by reduced merger activity next year, and, on balance, corporate credit growth is projected to slow in the second half of 1989 and further out.

Growth in household debt in the near term is expected to continue at around its recent pace, then taper down over 1989 and beyond as higher interest rates restrain housing and mortgage activity. Consumer credit growth also is projected to resume a downtrend after the first quarter, in line with moderating outlays for durables and other consumer goods.

Federal sector borrowing is expected to slow a bit next year, despite an increase in the calendar-year deficit, as a somewhat higher proportion of the budget outlays are funded from cash balances and other means of finance. Both the deficit and borrowing are expected to shrink in 1990. Although many state and local governments likely face deteriorating budget positions, net borrowing by this sector is expected to remain near or just below 1988 levels. Some reduction in issuance of refunding bonds, owing to higher interest rates, may be offset by increased security offerings to finance capital outlays for educational and infrastructure improvements.

Recent developments

Since the November 1 FOMC meeting, the weighted-average exchange value of the dollar in terms of other G-10 currencies has declined about 2 percent. After a pause in late October and early November, the dollar began to decline again after the U.S. election, as comments from U.S. observers and foreign officials reinforced the market's shift in focus toward the U.S. budget and trade deficits. Sentiment remained negative on the dollar through most of the intermeeting period,

. Very late in the period, however, the dollar appeared to be bolstered by expectations of tightening by the Federal Reserve and the market response to proposed cuts in Soviet armed forces.

In contrast to the situation in October, when the dollar fell without central bank support, the Desk at times intervened on a substantial scale. Early in the period, the Desk purchased dollars against yen.

. The Desk purchased a total of $1.6 billion against yen and

$600 million against marks, split evenly between Treasury and System accounts.

Interest differentials between U.S. and foreign short-term assets widened during the intermeeting period. German interest rates rose somewhat, with the German three-month rate and the average of long-term bond yields both increasing about 15 basis points. Interest rates fell in Japan, with the three-month rate decreasing 10 basis points and the yield of the bellwether bond falling 20 basis points. In the United Kingdom, the three-month rate rose more than 1 percentage point, as the Bank of England increased its money market dealing rate 1 percentage point to just below 13 percent.

Real economic activity accelerated or remained strong in most of the major foreign industrial economies in the third quarter. After declining 3.3 percent in the second quarter, real GNP rose 9.3 percent (s.a.a.r.) in Japan in the third quarter, based on 7.4 percent growth in domestic demand and a positive contribution to growth from the external sector. German real GNP rose 5.2 percent, led by exports and private investment, while the output measure of real GDP in the United Kingdom rose 5.3 percent. French GDP rose 3.2 percent, about twice the second-quarter pace, based on strength in consumer spending but with a large negative contribution from net exports. In contrast, growth slowed in Canada in the third quarter, as real GDP increased 2.6 percent compared with 4 percent growth in the second quarter. Canadian consumption remained strong, but investment spending slackened. Little information is available yet for the fourth quarter, but initial indicators suggest a slowing of growth in Japan, Canada, and France.

Reflecting the pattern of demand growth reported for the third quarter, external adjustment in Japan and Germany has slowed in recent months. Japan's trade surplus (s.a.) widened in September and October in both nominal and real terms. German trade and current account surpluses for the first 10 months of 1988 are larger than those for the comparable period in 1987. Trade deficits widened in some of the other major foreign industrial countries. In October, the U.K. trade and current account deficits reached record levels, and the French and Italian trade deficits also increased.

Since mid-October, Mexican foreign exchange reserves have fallen more than $2 billion. In his inaugural address on December 1, Mexican President Salinas called for new negotiations on Mexico's external debt in order to reduce the total debt and the burden of debt-service payments. Financing arrangements in Brazil proceeded on schedule, with Brazil repaying its remaining interest arrears. The mid-November municipal elections further weakened Brazilian President Sarney's political position. Late in October the World Bank approved $1.25 billion in loans for Argentina and in mid-November the Inter-American Development Bank approved approximately $460 million in loans. Discussions are continuing with the IMF on a new stand-by arrangement for Argentina. Peru, facing possible hyperinflation, implemented a new economic package on November 23, including a 50 percent devaluation of its currency and additional wage and price increases.

The U.S. merchandise trade deficit for September narrowed to a monthly rate of $9.0 billion on an seasonally adjusted customs value basis from the August deficit of $10.6 billion. Exports continued to grow in September, with increases recorded in industrial supplies, capital goods, and consumer goods. About one-third of the decrease in September imports was due to a fall in the value of oil imports, as both the volume and the price of imported oil declined from August levels. Declines in non-oil imports were widespread across trade categories, as only the value of automotive products increased in September. On a balance-of-payments basis, the trade balance continued to improve in the third quarter, registering a deficit of $114 billion, at a seasonally adjusted annual rate, reflecting higher prices for agricultural exports and lower prices for oil imports. In constant 1982 dollars, the third-quarter deficit was little changed from the second-quarter level.

U.S. banks reported a substantial net outflow of funds in September, primarily to related banks abroad, associated with a decline in the level of commercial bank credit in the United States. The outflow slowed in October, and available data indicate a net inflow in November. Net foreign private purchases of U.S. securities amounted to only $1 billion in September, and foreigners made small net sales of U.S. Treasury obligations. Foreign purchases of U.S. corporate bonds remained sluggish in September; new issues of Eurobonds by U.S. corporations were also small in October. U.S. purchases of foreign securities remained moderate in September, but these data do not reflect the bonds issued in September on behalf of Israel by a U.S. trust to refinance military purchases. Foreign official reserve assets held in the United States fell again in September (by $1.7 billion), but preliminary data for October and November indicate that reserves of industrial countries increased.

Outlook

On the basis of the recent OPEC agreement, oil prices are now assumed to rise somewhat after the first quarter of 1989, reaching $15 per barrel by the end of the year. Oil prices are assumed to stay at the $15 per barrel level throughout 1990.

Reflecting the dollar's weakness so far this quarter, the foreign exchange value of the dollar is now projected to be about 3 percent lower for the final quarter of this year than projected in the previous Greenbook. From that lower level, the rate of depreciation is expected to be a bit slower over the next two years than had been anticipated in the October Greenbook. However, downward pressures on the dollar could well be more significant than the staff is now projecting, especially in light of the staff's projection of only a moderate further narrowing of the U.S. trade deficit in 1989.

Economic growth in the foreign industrial countries in 1988 and early 1989 is projected to be slightly stronger than had been forecasted previously. Growth is expected to slow during the course of 1989, reflecting tighter monetary conditions abroad, higher oil prices, and the revised outlook for the U.S. economy. Projected growth in the developing countries has been shaded down a bit compared with the October Greenbook, primarily because of an anticipated tightening of macroeconomic policies in a few key countries. Foreign economic activity in 1990 is expected to increase at about the pace prevailing toward the end of next year.

The staff forecast now calls for the U.S. trade deficit to be essentially the same in the current quarter as it was in the third quarter ($114 billion at an annual rate) and to narrow only marginally in 1989 (to about $102 billion at an annual rate in the fourth quarter) before dropping more substantially in 1990 (to about $70 billion at an annual rate by the fourth quarter). The difference in the pace of adjustment in the two years reflects three factors: the strength of the dollar through most of 1988; the assumed rise in oil prices in 1989; and the slower growth of the U.S. economy in 1990. Sharp shifts in the volume of oil imports in the current quarter (up sharply) and the first quarter of next year (down sharply) owing to fluctuations in inventories mask an underlying uptrend in the volume of such imports in response to rising U.S. demand.

By the end of 1989, the current account deficit is expected to be about $110 billion (annual rate), an improvement of about $5 billion over the fourth quarter of this year (nearly $10 billion excluding the effect of exchange-rate-induced capital gains). During 1990, the current account is projected to strengthen substantially (by nearly $30 billion), with the improving trade position being offset somewhat by rising net service payments.

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

	ANNUAL			1988		1989				1990			
	1988-P	1989-P	1990-P	Q3-	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-91.5	-69.8	-39.5	-82.4	-81.1	-73.5	-72.8	-69.4	-63.5	-54.0	-45.0	-34.9	-24.2
Exports of G+S	519.1	603.7	686.9	531.5	549.8	572.4	593.2	613.4	635.8	656.7	676.4	697.0	717.3
Imports of G+S	610.6	673.5	726.4	613.9	630.9	645.9	665.9	682.8	699.4	710.7	721.4	731.9	741.5
Constant 82 $, Net	-98.7	-75.8	-43.8	-95.2	-97.8	-82.1	-80.9	-74.6	-65.4	-56.3	-47.9	-39.5	-31.6
Exports of G+S	504.8	566.5	625.8	510.7	525.3	542.9	558.7	573.8	590.7	605.1	618.8	633.0	646.3
Imports of G+S	603.4	642.3	669.6	605.9	623.1	625.0	639.6	648.4	656.1	661.4	666.7	672.5	677.9
2. U.S. Merchandise Trade Balance 2/	-122.4	-106.4	-82.1	-114.1	-114.3	-107.9	-108.6	-106.6	-102.4	-94.0	-86.9	-78.4	-69.0
Exports	321.8	367.3	415.8	329.2	338.2	351.3	361.4	371.7	384.8	397.4	408.6	421.4	435.9
Agricultural	39.0	44.9	52.0	41.6	39.8	43.5	44.2	44.5	47.3	50.0	51.2	52.5	54.1
Non-Agricultural	282.7	322.4	363.8	287.6	298.4	307.7	317.2	327.2	337.5	347.3	357.4	368.9	381.8
Imports	444.2	473.7	497.9	443.4	452.5	459.1	470.0	478.3	487.2	491.4	495.5	499.8	504.9
Petroleum and Products	39.4	39.3	44.2	39.5	37.3	35.2	38.5	40.1	43.3	43.5	43.9	44.4	45.0
Non-Petroleum	404.8	434.4	453.7	403.9	415.1	424.0	431.5	438.2	443.9	447.9	451.6	455.4	459.9
3. U.S. Current Account Balance	-131.6	-111.9	-91.8	-128.2	-115.7	-111.5	-112.9	-111.9	-111.5	-101.8	-95.5	-87.8	-82.2
Of Which: Net Investment Income	-0.1	0.3	-8.6	-6.8	9.1	2.9	1.5	-0.6	-2.4	-5.2	-7.5	-9.8	-11.8
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	3.7	2.8	2.4	4.6	3.1	2.6	2.6	2.3	2.2	2.4	2.5	2.6	2.6
Real GNP--NonOPEC LDC 5/	3.2	3.6	3.7	3.3	3.6	3.8	3.8	3.6	3.5	3.5	3.8	4.1	4.4
Consumer Prices--Ten Ind. 4/	2.6	3.2	3.0	2.5	4.1	2.7	3.7	2.6	3.4	2.6	3.4	2.4	3.3

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