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Strictly Confidential (FR) Class II FOMC

March 22, 1989

SUMMARY AND OUTLOOK

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

Recent Developments

The economy appears to have remained buoyant through the winter. While the available spending indicators present a mixed picture, employment growth in January and February exceeded its robust 1988 pace, and the unemployment rate declined further. Inflation worsened in early 1989, in part reflecting jumps in food and energy prices.

Nonfarm payroll employment growth averaged 350,000 in January and February. The bulk of the gain was in the service-producing industries, but there were appreciable net increases in factory and construction jobs, too. Survey evidence suggests that employers' hiring plans are strong for the near term, but reports of labor shortages have proliferated. The unemployment rate dropped to 5.1 percent in February, with sizable declines among teenagers and youths; the jobless rate for Hispanics also was down sharply.

Growth in industrial production has slackened a bit this year. Reduced auto production is one cause of the slowdown: the aggressive car assembly rates of the fall clearly were unsustainable relative to sales trends. Materials production also slowed through February, primarily reflecting the reduced demand for energy materials. In contrast, the production of non-auto consumer goods remained strong, and business equipment picked up markedly from its fourth-quarter pace, led by renewed strength in office and computing equipment and solid gains in the output of manufacturing equipment. The operating rate for manufacturing edged down in February but remained relatively high.

Growth in consumer spending apparently has slowed somewhat from the rapid fourth-quarter pace. After surging in December, sales of cars and light trucks fell back appreciably in January and have yet to move back to the trend level of last year. In addition, the unusually warm weather in January depressed spending on fuel oil, natural gas, and electricity; even assuming normal heating bills in February and March, the January effect will have lowered the annualized growth of real PCE spending by 3/4 percentage point in the first quarter. Outside of these areas, consumer demand has been fairly well maintained, bolstered by further large gains in real disposable income.

Capital spending evidently has rebounded after its fourth-quarter decline. In February, shipments of nondefense capital goods excluding aircraft were 3 percent above the fourth-quarter level. Although business purchases of automobiles fell a little, sales of heavy trucks were robust in January. Real outlays for nonresidential structures also may post a large gain in the first quarter: construction put-in-place was up sharply in both December and January, and rigs in use increased in February.

Rising mortgage rates appear not to have taken a toll on residential construction to date. Although there have been considerable gyrations in housing starts because of unusual weather, the average pace of single-family starts in January and February was 1.12 million units at an annual rate, little different from the pace in the fourth quarter. Multifamily starts actually strengthened in the first two months of the year; multifamily rental vacancy rates have declined in some regions, but builder sentiment does not suggest that this is the beginning of a resurgence in construction activity. Overall, with mortgage rates having moved up significantly further in recent weeks, residential construction activity is widely expected to slow in the months ahead.

Inventory accumulation has remained moderate; and by and large, stocks appear quite lean. Inventory investment (in constant dollars) picked up at the factory level at the end of 1988, with the bulk of the rise recorded in two industries: aircraft, where the build-up was in work-in-progress inventories and reflected planned increases in production; and nonelectrical machinery, where computer demand flattened out in the fourth quarter. At the retail level, auto dealers now are faced with a 72-day supply of domestic cars, which has prompted some cutbacks in production relative to announced schedules and an expansion of sales incentive programs. Outside of autos, there are no signs of broad imbalances at retailers.[1]

Prices accelerated markedly in early 1989. The producer price index rose 1 percent in both January and February, while consumer prices were up about 1/2 percent per month. Consumer food prices rose 0.7 percent in January and another 0.4 percent in February. Rising costs for labor and other marketing inputs seem to be boosting prices for a wide array of consumer foods; and in addition, lagged effects of last summer's drought are still having an influence on the prices of some foods. Energy prices also were up sharply in January and February, as higher crude oil costs were passed through to the wholesale and retail levels. The CPI excluding food and energy rose around 1/2 percent per month in both January and February, a shade above the 0.4 percent average pace in 1988.

1. The annual benchmark revision to retail sales and inventories (in current-cost terms) eliminated the upward drift over the past year in the non-auto retail inventory-to-sales ratio that had been evident in earlier data. This ratio in 1988 now differs little from that in preceding years.

At earlier stages of processing, the PPI for intermediate materials excluding food and energy increased 1/2 percent per month in January and February--a bit less than on average last year--while spot prices of industrial commodities have continued to trend up.

Outlook

Real GNP (excluding the assumed rebound in farm output) is projected to increase at a 2-1/2 percent annual rate in the first quarter, unchanged from the February Greenbook. This is somewhat less than might be suggested by the January-February labor market data; however, the available spending indicators do not support a stronger estimate, implying that productivity may be weak again in the current quarter.

The cutback in auto production trims about 3/4 percentage point from first-quarter growth and appears in the forecast as a drop in auto sales and a less rapid accumulation of auto inventories. Outside of autos, consumer spending is expected to slow a bit from the strong fourth quarter, in part reflecting reduced energy consumption. However, business equipment spending has rebounded, and nonresidential construction activity appears to have increased considerably. Net exports also are expected to make a small positive contribution in the first quarter, after restraining real GNP growth at the end of last year.

The pattern of growth over the remainder of the forecast period is influenced importantly by the movement in interest rates and by the path of the dollar on foreign exchange markets. Interest rates have risen more rapidly of late than was anticipated in the last Greenbook, and the dollar has been firmer. As a result, in this projection economic activity slows somewhat more in the second half of this year, largely reflecting weaker growth in exports. Nonetheless, with inflationary pressures appearing to be even more intense now than previously anticipated, the forecast continues to incorporate a rise in interest rates over the remainder of this year, followed by some easing in 1990.

This rise in interest rates will tend to boost velocity, and M2 growth in 1989 is projected at around the lower end of the FOMC's 3 to 7 percent target range; M3 growth is expected to be in the middle portion of its target range. In 1990, the growth rates of both M2 and M3 pick up after the peak in interest rates at the end of 1989.

Fiscal policy is expected to become more restrictive over the coming year and the total federal deficit decreases from $161 billion in FY1989 to $118 billion in FY1990. The staff forecast continues to assume a deficit-reduction package for FY1990 of around $27 billion. The FY1990 deficit is lower than in the February forecast, however, largely because FSLIC expenditures are assumed to be moved off budget--in line with the administration proposal--and higher nominal income growth boosts receipts.

Economic activity is expected to pick up slightly in the second quarter, as a result of somewhat higher auto production and a bounceback in energy consumption. However, real GNP growth slows to less than 2 percent at an annual rate in the second half of this year, with the weakening perceptible in all major components of domestic spending. Homebuilding is the first sector to feel the impact of the more stringent financial conditions, but higher interest rates also reduce the demand for consumer durables. In an environment of weakening demand, along with some deterioration in cash flow, business capital spending slows progressively. The weakness in economic activity continues through the first half of 1990, but growth begins to pick up in the second half of next year as the more rapid decline in the dollar in 1990 induces some additional improvement in the external accounts. With GNP growing at less than the estimated trend of potential output, the unemployment rate begins to drift upward this summer, reaching 5-1/2 percent by year-end and edging above 6 percent by the end of 1990.

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

	1988	1989			1990		1988	1989
	Q4	Q1	Q2	H2	H1	H2	Q4/Q4	
Real GNP	2.0	5.2	3.0	1.8	.6	1.4	2.7	2.9
Real GNP, excluding effects of the drought	3.1	2.6	2.8	1.8	.6	1.4	3.4	2.1

The staff inflation projection has been revised upward, reflecting incoming price information and a more pessimistic outlook for labor productivity. Consumer food prices, which rose faster than the staff had expected in early 1989, still are projected to slow to a 3-1/4 percent annual pace in the second half of the year--a forecast that is contingent on a return to more normal weather conditions in the current growing season. Energy prices increase 4-3/4 percent over the year, about 1 percentage point more than in the last forecast, as a result of higher crude oil costs in the near term. The CPI excluding food and energy is forecast to increase 5-1/4 percent in 1989, only marginally above the pace projected in the February Greenbook. The GNP fixed-weight price index--a measure of the goods and services we produce rather than those we consume--now is projected to rise 4.7 percent in 1989, 1/4 percentage point more than in the February forecast. A 1/2 percentage point downward revision to labor productivity growth is expected to boost GNP prices and squeeze profit margins.

Given the anticipated tightness in labor markets, the staff expects compensation to be under continuing upward pressure. In addition, employers' costs are boosted almost 1-1/2 percentage points (annual rate) in the first quarter of 1990 by a hike in social security payroll taxes and an assumed increase in the minimum wage.[2] However, as some margin of slack emerges in labor markets, the growth of hourly compensation begins to edge lower in the second half of 1990.

Price inflation is greater in 1990 than in 1989, reflecting the increase in labor costs and an acceleration in import prices as a result of the more rapid decline in the dollar. A slowing in price inflation should be possible in 1991, however, if the margin of slack in resource markets that is projected to develop next year is maintained.

2. The staff's assumption follows the administration's proposal to raise the minimum wage from its current level of $3.35 per hour to $3.65 in the first quarter of 1990. The Bush proposal also would establish a $3.35 per hour "training wage" for all new hires that would apply in the first six months of employment. On balance, the assumed increase in the minimum wage raises the growth of compensation per hour 0.4 percentage point (annual rate) in the first quarter of 1990 and 0.1 percentage point for the year as a whole.

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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)	
	2/1/89	3/22/89	2/1/89	3/22/89	2/1/89	3/22/89	2/1/89	3/22/89	2/1/89	3/22/89
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 <1>	7.4	7.4	3.8	3.8	4.2	4.2	3.4	3.4	5.5	5.5
1989	7.5	7.8	3.0	3.1	4.5	4.7	4.3	4.6	5.4	5.3
1990	5.8	5.8	1.5	1.2	4.7	4.8	4.3	4.5	5.9	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>	7.3	7.3	2.5	2.5	5.3	5.3	4.7	4.7	5.5	5.5
Q4 <1>	6.8	7.2	2.0	2.0	4.0	4.2	4.7	5.3	5.3	5.3
1989 Q1	8.9	9.4	5.0	5.2	4.3	4.8	3.9	3.9	5.3	5.2
Q2	7.3	7.8	2.8	3.0	4.6	4.8	4.4	4.7	5.3	5.2
Q3	6.1	6.3	2.4	2.0	4.3	4.6	3.7	4.3	5.4	5.3
Q4	6.0	5.9	2.0	1.6	4.5	4.4	4.0	4.2	5.5	5.4
1990 Q1	5.7	5.6	.9	.4	5.2	5.3	4.8	5.2	5.7	5.6
Q2	5.1	5.2	.8	.8	4.6	4.7	4.3	4.4	5.9	5.8
Q3	5.7	5.6	1.3	1.2	4.5	4.6	4.3	4.4	6.0	6.0
Q4	5.9	6.0	1.6	1.7	4.5	4.5	4.3	4.3	6.1	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 <1>	7.0	7.2	2.2	2.2	4.8	4.8	4.7	5.0	-.2	-.2
1989 Q2	8.1	8.6	3.9	4.1	4.5	4.8	4.1	4.3	.0	-.1
Q4	6.1	6.1	2.2	1.8	4.4	4.5	3.8	4.2	.2	.2
1990 Q2	5.4	5.4	.8	.6	4.9	5.0	4.5	4.8	.4	.4
Q4	5.8	5.8	1.5	1.4	4.5	4.6	4.3	4.3	.2	.3
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 <1>	7.0	7.1	2.7	2.7	4.5	4.5	4.1	4.3	-.6	-.6
1989 Q4	7.1	7.3	3.0	2.9	4.4	4.7	4.0	4.3	.2	.1
1990 Q4	5.6	5.6	1.1	1.0	4.7	4.8	4.4	4.6	.6	.7

<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	1988 Q3	1988 Q4	Projection 1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4
EXPENDITURES											
Nominal GNP	Billions of $	4909.0	4995.2	5108.6	5205.2	5285.7	5361.7	5435.4	5505.2	5580.3	5662.2
Real GNP	Billions of 82$	4009.4	4029.7	4080.8	4110.8	4130.8	4147.3	4151.5	4159.8	4171.8	4189.0
Nominal GNP	Percent change	7.3	7.2	9.4	7.8	6.3	5.9	5.6	5.2	5.6	6.0
Real GNP		2.5	2.0	5.2	3.0	2.0	1.6	.4	.8	1.2	1.7
Gross domestic product		2.0	2.2	5.7	3.0	2.0	1.7	.5	.7	1.1	1.6
Gross domestic purchases		2.5	2.9	4.7	2.6	1.6	1.0	.0	.0	.3	.7
Final sales		2.0	3.1	3.2	3.3	2.9	2.0	1.3	1.4	1.4	1.8
Private dom. final purchases		3.9	2.6	3.4	3.2	2.5	1.3	.9	.6	.5	.8
Personal consumption expend.		3.9	3.5	2.6	4.1	2.7	1.3	1.0	.7	.6	.9
Durables		-.2	6.1	3.6	5.9	3.5	-3.9	-1.7	-2.3	-2.0	.0
Nondurables		5.0	2.1	1.0	2.0	2.0	1.8	1.1	.7	.6	.6
Services		4.5	3.6	3.4	4.9	3.0	2.6	1.9	1.6	1.4	1.4
Business fixed investment		4.0	-4.6	7.9	2.6	3.3	2.8	1.4	.9	.5	.2
Producers' durable equipment		4.6	-5.9	7.3	4.3	5.0	4.5	3.0	2.5	2.0	1.5
Nonresidential structures		2.6	-.3	9.4	-2.3	-1.6	-2.3	-3.2	-3.9	-4.0	-3.9
Residential structures		4.3	10.9	2.4	-6.4	-2.3	-1.6	-2.6	-2.0	-.2	.9
Exports		14.5	7.7	16.0	10.4	8.7	8.9	5.1	6.7	7.2	9.0
Imports		13.1	13.0	10.6	6.4	5.0	3.6	1.9	.9	.9	1.8
Government purchases		-5.2	9.8	.3	1.6	2.1	1.5	.7	.7	.6	.9
Federal		-13.2	16.8	-2.6	.8	2.2	.6	-1.1	-1.3	-1.5	-.9
Defense		-10.5	7.5	-7.4	-2.3	-1.4	-5.0	-2.8	-2.9	-2.9	-2.6
State and local		1.1	5.1	2.4	2.2	2.1	2.1	2.0	2.1	2.1	2.1
ange in business inventories	Billions of 82$	39.5	29.3	48.6	45.5	36.6	32.6	23.7	17.8	15.1	13.5
Nonfarm	Billions of 82$	40.4	37.7	39.8	37.1	29.5	29.2	21.7	16.4	14.0	12.9
Net exports	Billions of 82$	-93.9	-103.3	-99.4	-95.8	-92.2	-85.8	-81.7	-73.5	-64.6	-54.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	106.5	107.3	108.3	109.0	109.4	109.7	109.8	110.0	110.1	110.3
Unemployment rate	Percent*	5.5	5.3	5.2	5.2	5.3	5.4	5.6	5.8	6.0	6.1
Industrial production index	Percent change	7.1	4.7	3.6	2.2	1.9	1.6	.3	.5	1.5	2.3
Capacity utilization rate-mfg.	Percent*	84.0	84.4	84.6	84.5	84.2	83.8	83.2	82.7	82.3	82.1
Housing Starts	Millions	1.47	1.56	1.56	1.49	1.47	1.46	1.43	1.44	1.44	1.44
Auto sales	Millions	10.53	10.53	9.99	10.40	10.60	9.95	9.75	9.50	9.30	9.30
Domestic	Millions	7.41	7.42	7.15	7.40	7.60	7.00	6.90	6.80	6.70	6.70
Foreign	Millions	3.12	3.11	2.84	3.00	3.00	2.95	2.85	2.70	2.60	2.60
INCOME AND SAVING											
Nominal personal income	Percent change	7.3	9.2	12.4	7.4	6.7	7.3	7.4	5.8	5.9	6.4
Real disposable income	Percent change	5.6	4.8	6.8	1.0	1.2	1.5	1.6	.1	.1	.7
Personal saving rate	Percent*	4.2	4.5	5.4	4.7	4.4	4.4	4.5	4.4	4.2	4.2
Corp. profits with IVA & CCAdj	Percent change	4.4	3.3	-9.6	6.3	-6.8	-13.9	-28.6	-12.0	-6.8	-2.1
Profit share of GNP	Percent*	6.7	6.7	6.4	6.3	6.1	5.8	5.3	5.0	4.9	4.8
Federal govt. surplus/deficit	Billions of $	-123.5	-156.7	-154.6	-143.5	-139.0	-141.7	-134.7	-129.3	-119.0	-113.8
State and local govt. surplus		56.0	52.0	60.6	65.6	67.9	69.3	69.1	68.9	70.1	72.1
Exc. social insurance funds		-13.3	-18.9	-11.3	-7.2	-5.8	-5.2	-6.2	-7.2	-6.8	-5.6
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.7	5.3	3.9	4.7	4.3	4.2	5.2	4.4	4.4	4.3
GNP fixed-weight price index		5.3	4.2	4.8	4.8	4.6	4.4	5.3	4.7	4.6	4.5
Cons. & fixed invest. prices		4.5	4.4	4.8	5.1	4.8	4.7	5.0	5.0	5.0	4.9
CPI		4.5	4.4	5.4	5.4	5.0	4.8	5.2	5.2	5.2	5.1
Exc. food and energy		4.0	4.9	5.2	5.2	5.3	5.6	5.8	5.8	5.7	5.7
Nonfarm business sector											
Output per hour		2.0	.1	-.4	.3	.4	.4	.4	.5	.9	1.2
Compensation per hour		5.7	5.6	5.3	5.3	5.5	5.6	7.0	5.5	5.4	5.4
Unit labor costs		3.7	5.6	5.7	5.0	5.1	5.2	6.6	5.0	4.5	4.2

* Not at an annual rate.

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

	Units	1982	1983	1984	1985	1986	1987	1988	Projection 1989	Projection 1990
EXPENDITURES										
Nominal GNP	Billions of $	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4863.1	5240.3	5545.8
Real GNP	Billions of 82$	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3995.1	4117.4	4168.0
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	2.0	5.0	2.7	2.9	1.0
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.1	2.9	3.1	1.0
Gross domestic purchases		-.8	8.4	6.4	4.3	2.4	4.4	2.1	2.4	.2
Final sales		.3	3.7	4.7	4.6	2.5	3.0	3.7	2.9	1.5
Private dom. final purchases		.8	7.7	5.6	4.6	2.8	2.4	3.8	2.6	.7
Personal consumption expend.		2.9	5.4	4.1	4.6	4.2	1.8	3.7	2.7	.8
Durables		9.0	14.7	10.8	7.0	11.5	-2.4	7.5	2.2	-1.5
Nondurables		1.8	4.4	2.3	3.3	3.1	.6	2.1	1.7	.7
Services		2.3	3.9	3.5	5.0	2.7	4.2	3.7	3.5	1.6
Business fixed investment		-11.3	10.8	13.8	3.7	-7.3	8.8	5.2	4.1	.8
Producers' durable equipment		-12.5	20.9	14.9	4.6	-2.4	9.6	9.3	5.3	2.2
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.4	6.7	-4.8	.7	-3.7
Residential structures		4.9	38.1	6.1	5.8	11.3	-3.5	2.0	-2.0	-1.0
Exports		-13.8	5.8	5.9	-2.4	5.6	18.4	14.0	10.9	7.0
Imports		-5.9	23.8	17.4	4.5	7.6	10.4	7.1	6.4	1.4
Government purchases		3.8	-2.7	7.9	8.6	2.9	2.3	-.1	1.4	.7
Federal		8.2	-8.1	13.0	13.3	.0	2.1	-4.3	.3	-1.2
Defense		8.8	5.1	6.5	7.1	4.8	6.0	-2.6	-4.1	-2.8
State and local		.6	1.5	4.4	4.9	5.3	2.5	3.2	2.2	2.1
Change in business inventories	Billions of 82$	-24.5	-6.4	62.3	9.1	15.4	34.4	42.5	40.8	17.5
Nonfarm	Billions of 82$	-23.1	-.1	57.8	13.4	17.9	36.9	40.0	33.9	16.3
Net exports	Billions of 82$	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-99.7	-93.3	-68.5
Nominal GNP	Percent change*	3.1	10.4	8.6	6.6	4.8	8.3	7.1	7.3	5.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.3	106.0	109.1	110.0
Unemployment rate	Percent	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.9
Industrial production index	Percent change*	-7.7	14.3	6.6	1.7	1.0	5.8	5.1	2.3	1.1
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.1	83.5	84.3	82.6
Housing Starts	Millions	1.06	1.71	1.77	1.74	1.81	1.63	1.49	1.50	1.44
Auto sales	Millions	8.00	9.18	10.43	11.09	11.52	10.34	10.66	10.24	9.46
Domestic	Millions	5.77	6.77	7.97	8.24	8.28	7.14	7.51	7.29	6.78
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.95	2.69
INCOME AND SAVING										
Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.9	8.5	7.1	8.4	6.4
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.4	3.0	3.8	2.6	.6
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.0	3.2	4.2	4.7	4.3
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	.9	7.6	5.3	-6.3	-13.0
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.2	5.0
Federal govt. surplus/deficit	Billions of $	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-143.3	-144.7	-124.2
State and local govt. surplus		35.1	47.5	64.6	65.1	61.2	52.9	54.9	65.8	70.0
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.0	-9.2	-13.5	-7.4	-6.5
PRICES AND COSTS										
GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.8	3.1	4.3	4.3	4.6
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.7	4.8
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.9	5.0
CPI		4.4	3.2	4.2	3.5	1.3	4.4	4.3	5.2	5.2
Exc. food and energy		5.2	4.2	5.0	4.3	3.9	4.2	4.6	5.3	5.7
Nonfarm business sector										
Output per hour		1.0	3.6	1.5	1.5	1.2	1.9	.7	.2	.8
Compensation per hour		7.3	3.3	4.2	4.5	4.2	4.1	4.8	5.4	5.8
Unit labor costs		6.2	-.3	2.6	2.9	3.0	2.1	4.0	5.2	5.0

* Percent changes are from fourth quarter to fourth quarter.

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CLASS II FOMC

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

	1988		Projection 1989				1990				1987	1988	Projection 1989	1990
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	24.2	20.3	51.1	30.0	20.0	16.4	4.2	8.4	12.0	17.2	188.3	106.7	117.6	41.8
Gross domestic product	20.0	21.9	55.9	29.7	19.9	17.3	4.7	7.2	11.5	16.6	188.3	112.6	122.9	40.0
Gross domestic purchases	25.5	29.7	47.2	26.4	16.3	10.1	.1	.2	3.1	6.9	171.9	84.0	100.1	10.3
Final sales	20.0	30.4	31.9	33.1	28.9	20.4	13.1	14.3	14.7	18.8	110.7	144.4	114.4	60.9
Private dom. final purchases	31.6	21.5	27.4	26.3	21.0	11.1	7.6	4.7	4.5	6.8	76.2	122.5	85.9	23.6
Personal consumption expend.	24.8	22.2	16.8	26.4	18.1	8.4	7.0	4.5	4.0	6.1	45.5	94.3	69.7	21.6
Durables	-.2	6.1	3.7	6.1	3.7	-4.3	-1.8	-2.5	-2.1	.0	-9.7	28.9	9.2	-6.5
Nondurables	10.9	4.8	2.3	4.5	4.5	4.1	2.5	1.6	1.4	1.4	5.2	18.8	15.5	6.9
Services	14.1	11.3	10.9	15.8	9.8	8.6	6.3	5.4	4.7	4.7	50.0	46.6	45.1	21.2
Business fixed investment	4.8	-5.8	9.4	3.2	4.1	3.5	1.8	1.1	.7	.2	37.5	24.4	20.1	3.9
Producers' durable equipment	4.1	-5.6	6.4	3.9	4.6	4.2	2.8	2.4	1.9	1.5	29.2	30.9	19.2	8.6
Nonresidential structures	.8	-.1	2.9	-.7	-.5	-.7	-1.0	-1.2	-1.3	-1.2	8.3	-6.4	.9	-4.7
Residential structures	2.0	5.0	1.2	-3.2	-1.2	-.8	-1.2	-.9	-.1	.4	-7.0	3.9	-4.0	-1.9
Change in business inventories	4.2	-10.2	19.3	-3.1	-8.9	-4.0	-8.9	-5.9	-2.7	-1.6	77.6	-37.8	3.3	-19.1
Nonfarm	10.3	-2.7	2.1	-2.7	-7.6	-.3	-7.5	-5.3	-2.4	-1.1	67.0	-30.5	-8.5	-16.3
Farm	-6.1	-7.5	17.1	-.4	-1.3	-3.7	-1.4	-.6	-.3	-.5	10.6	-7.2	11.7	-2.8
Net exports	-1.3	-9.4	3.9	3.6	3.6	6.4	4.1	8.2	8.9	10.3	16.4	22.7	17.5	31.5
Exports	17.1	9.6	19.8	13.6	11.7	12.2	7.3	9.6	10.4	13.2	71.4	64.4	57.3	40.6
Imports	18.4	18.9	16.0	10.0	8.1	5.8	3.1	1.5	1.5	2.9	55.0	41.6	39.9	9.1
Government purchases	-10.3	18.3	.6	3.2	4.2	2.9	1.4	1.4	1.3	1.8	18.1	-.8	11.0	5.8
Federal	-11.5	12.7	-2.2	.7	1.8	.5	-.9	-1.1	-1.2	-.7	7.2	-14.9	.9	-4.0
Defense	-7.2	4.7	-5.0	-1.5	-.9	-3.2	-1.8	-1.8	-1.8	-1.6	15.1	-7.1	-10.6	-7.0
Nondefense	-4.2	8.0	2.8	2.2	2.7	3.7	.9	.7	.6	.9	-7.9	-7.8	11.5	3.0
State and local	1.2	5.7	2.7	2.5	2.4	2.4	2.3	2.5	2.5	2.5	10.9	14.2	10.0	9.8

CONFIDENTI[illegible] [redacted]CLASS II

March 22, 1989

FEDERAL SE[illegible]CCOUNTS
(Billions o[illegible] dollars)

	Fiscal Year 1988a	FY1989p Admin	FY1989p CBO	FY1989p FRB Staff	FY1990p Admin	FY1990p CBO	FY1990p FRB Staff	FRB Staff Projection 1988 IVa	1989 I	1989 II	1989 III	1989 IV	1990 I	1990 II	1990 III	1990 IV
BUDGET								Not seasonally adjusted								
Budget receipts	909	979	983	980	1066	1069	1071	222	218	288	252	237	251	317	267	254
Budget outlays	1064	1144	1142	1141	1157	1215	1189	289	278	291	283	299	298	301	292	303
Surplus/deficit(-) to be financed	-155	-164	-159	-161	-91	-146	-118	-68	-60	-2	-31	-62	-47	16	-25	-49
(On-budget)	-194	-220	-215	-213	-162	-214	-183	-73	-77	-20	-43	-71	-66	-6	-40	-63
(Off-budget)	39	56	56	52	69	68	66	6	17	18	12	9	19	22	15	13
Means of financing:																
Borrowing	162	n.a.	n.a.	152	n.a.	n.a.	112	54	35	21	41	44	32	11	24	36
Cash decrease	-8	n.a.	n.a.	4	n.a.	n.a.	0	11	18	-5	-19	22	3	-20	-5	22
Other	1	n.a.	n.a.	5	n.a.	n.a.	6	3	7	-14	9	-5	12	-8	6	-8
Cash operating balance, end of period	44	n.a.	n.a.	40	n.a.	n.a.	40	34	16	21	40	18	15	35	40	18
NIPA FEDERAL SECTOR								Seasonally adjusted annual rates								
Receipts	964	n.a.	1037	1029	n.a.	1133	1117	991	1020	1045	1061	1078	1112	1129	1148	1169
Expenditures	1107	n.a.	1177	1178	n.a.	1255	1248	1148	1175	1189	1200	1219	1247	1258	1267	1283
Purchases	380	n.a.	395	397	n.a.	416	410	394	394	398	401	403	411	413	414	415
Defense	298	n.a.	302	301	n.a.	311	304	301	300	301	302	300	305	305	305	305
Nondefense	82	n.a.	93	96	n.a.	105	106	94	94	97	99	103	106	108	109	110
Other expend.	727	n.a.	782	781	n.a.	839	837	753	781	791	799	816	836	845	853	868
Surplus/deficit	-142	n.a.	-140	-148	n.a.	-122	-131	-157	-155	-144	-139	-142	-135	-129	-119	-114
FISCAL INDICATORS																
High-employment (HEB) surplus/deficit(-)	-151	n.a.	n.a.	-168	n.a.	n.a.	-136	-168	-176	-167	-161	-160	-143	-130	-112	-101
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.4	n.a.	n.a.	-.6	.7	.2	-.2	-.1	0	-.3	-.3	-.3	-.2
Fiscal impetus measure (FI), percent	.1 *	n.a.	n.a.	-4.1 *	n.a.	n.a.	-6.7 *	1.2	-2.2	-.4	-.5	-2.8	-3.7	-.5	-.5	-.3

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

Notes:
1. The Administration figures are from Building a Better America (February 9, 1989), with a minor revision from the Budget Director's testimony. Budget estimates include policy proposals.
2. The CBO figures are baseline budget estimates from An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990 (February 1989).
3. Budget receipts, outlays, and surplus/deficit include 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. Other means of financing are 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.
6. Details may not add to total due to rounding.

Recent Developments

The federal funds rate has risen nearly 3/4 percentage point since the February FOMC meeting, mainly in association with the 1/2 percentage point increase in the discount rate, to 7 percent, on February 24. This additional tightening carried through to other private short-term rates, which were boosted further in mid-March by the anticipation of additional Federal Reserve firming in the aftermath of a second consecutive outsized increase in the PPI. Rates on bank CDs and commercial paper rose about 1 percentage point over the intermeeting period; Treasury bill rates increased only 50 to 60 basis points, however, evidently in part because of continued strong demand from individuals.

Interest rates on long-term government and private instruments have risen around 1/2 percentage point, reflecting developments in the money market as well as heightened concerns about inflationary pressures. Stock prices have fallen sharply on net in the past few days and are around 3 percent below their levels at the time of the last FOMC meeting.

Monetary growth rebounded in February from an exceptionally weak January, but remained subdued. M2 expanded at an annual rate of only 1-3/4 percent, as still higher opportunity costs of holding core deposits apparently induced a substantial shift into Treasury securities and other nonmonetary instruments. Within M2, depositors took advantage of yield spreads greatly favoring retail CDs and money market mutual funds over liquid deposits. With less aggressive retail deposit pricing and perhaps depositor fears, FSLIC-insured S&Ls again experienced a sizable net outflow of retail deposits. Heavy reliance by thrifts on FHLB advances to replace deposit outflows helped hold M3 expansion to only a 3-1/2 percent rate in February, despite considerable strength in commercial bank issuance of large time deposits. M1 grew at a 1-3/4 percent rate in February, as demand deposits expanded at a moderate pace following a sharp contraction in January and as outflows of OCD balances abated. Preliminary information indicates that growth of M2 and M3 will increase somewhat in March, while M1 is expected to slow.

Borrowing by nonfinancial businesses has picked up recently, but firms are avoiding locking in borrowing costs for long spans of time. Business loans at banks accelerated to around a 25 percent rate of growth in February, and expansion of commercial paper of nonfinancial firms, although down from the extremely rapid pace of recent months, remained brisk. Strong business demand for credit reflected primarily the RJR-Nabisco leveraged buyout and other merger-related deals, but lending unrelated to major mergers also rose.

Boosted by the RJR buyout, net equity retirements are expected to exceed $200 billion, at an annual rate, in the first quarter--a record. Junk bond activity over the intermeeting period has been light, but the dearth of investment-grade bond issuance ended in March, when several nonfinancial firms floated short-maturity bonds. These issues were combined with interest rate swaps to obtain floating-rate obligations.

Federal borrowing is up in the first quarter, but only on a seasonally adjusted basis. Actual borrowing has declined considerably, owing to a somewhat smaller quarterly budget deficit and a large runoff of the Treasury's cash balance. The resulting decline in marketable borrowing has been more than accounted for by a large reduction in net cash raised in bill auctions; net cash raised from coupon offerings has increased somewhat. "Other borrowing" is expected to fall to zero in the first quarter after being boosted in the fourth quarter by heavy issuance of FSLIC notes.

Rate spreads between FHLB securities and Treasury bonds have widened substantially in recent weeks, reflecting current heavy issuance of FHLB debt and expectations that the agency's borrowing will remain strong in coming months as thrift institutions continue to rely on FHLB advances to offset deposit outflows. However, spreads between FICO and 30-year Treasury bonds fell after the announcement of the administration's savings and loan resolution plan; investors apparently felt that the proposal strengthens the government's implicit commitment to back FICO's debt.

Gross issuance of municipal securities picked up in February as larger offerings of new capital issues offset a rate-related reduction in refundings. For the first quarter, however, municipal issuance is expected to fall short of its late-1988 pace.

Despite rising interest rates, there are few signs that credit demands of the household sector have abated. The limited data available suggest that growth in net mortgage debt has strengthened in the first quarter, perhaps reflecting the closing of financings on a year-end surge in home sales. The rise in rates has led to an increase in the ARM share of conventional home mortgages. ARM rates have lagged behind market rates, as evidenced by the negative spread between the initial rate on ARMs and the one-year constant maturity Treasury yield. Consumer installment credit grew in December and January within the 7 to 10 percent range observed through most of last year, keeping pace with expansion in nominal consumption.

Although rising interest rates have caused concerns about a possible deterioration in the quality of consumer credit, to date no clear pattern has emerged in loan delinquency rates.

Outlook

The staff economic forecast anticipates that short-term interest rates will rise still further before turning down in early 1990. Recent developments have continued to suggest that the response of long-term rates to firming money market conditions will be much affected by the degree to which the Federal Reserve is perceived to be ahead of the inflation curve--and we have built only a modest further rise in nominal bond yields into this projection.

Business borrowing is likely to diminish over the forecast interval. This expectation is based mainly on an assumed tapering in the pace of corporate restructuring, for the overall external funding needs of nonfinancial corporations will be expanded by weaker profits. Longer-term borrowing likely will recover a bit, as techniques are developed to protect investors against event risk, but it probably will remain relatively light until bond rates turn down.

The household sector's credit demands are expected to moderate later this year and in 1990 as expenditures on consumer durables slow and as housing activity softens--both in response to slower growth in household income and, for a time, the rising cost of credit. The staff does not anticipate any significant adverse impact on the flow of credit to the household sector stemming from the thrift crisis. Delinquency rates may rise somewhat as a result of slower income growth and rising interest payment burdens on floating-rate obligations, but credit-quality problems are not expected to mount to a point at which lenders would reduce significantly the availability of funds to consumers.

The projected decline in the federal deficit implies that the government's credit demands will be diminishing over the forecast horizon. Specifically, the rate of growth of Treasury debt is expected to decline from last year's 8 percent pace to 6-1/2 percent in 1989 and less than 5 percent in 1990. In part, the slowing in 1990 reflects an assumed shifting to agency financing for savings and loan resolutions as proposed in the administration's plan; agency financing could increase substantially later in 1989 and in 1990 if the administration's savings and loan resolution plan is adopted. Borrowing by state and local governments is expected to remain light, although it will continue to be buoyed by investment needs, notably for schools and roads.

All told, domestic nonfinancial debt is projected to grow around 8-1/2 percent this year--the same rate as in 1988--and then to slow considerably in 1990.

Recent Developments

The weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has risen about 1/2 percent since the FOMC meeting on February 8, and is up by almost 8 percent from its low point in late November and early December last year. The dollar weakened somewhat during February, but has rebounded in March. The major factors underlying the dollar's strength have been the rise in U.S. interest rates following the increase in the discount rate on February 24, and news of increased producer prices in February (which led to expectations of a further tightening of U.S. monetary policy). The dollar has appreciated only slightly overall against the mark and 1-1/2 percent against the yen since the last FOMC meeting.

U.S. short-term interest rates have risen relative to key foreign rates during the intermeeting period, as monetary authorities abroad generally have not followed the most recent tightening in the United States. Whereas U.S. short-term rates have risen by as much as 100 basis points since early February, comparable German rates are up by less than 50 basis points, on balance, and Japanese rates are about unchanged. In contrast, differentials between U.S. and German and Japanese long-term (Treasury bond) rates have remained little changed over the past six weeks, as rates here and abroad have drifted up.

. The desk sold $600 million, all against marks.

The growth of real output in other major industrial countries slackened in the fourth quarter from the vigorous pace recorded in the third quarter last year, but has not shown signs of slowing any further early this year. Industrial production rose fairly strongly in January in both Japan and Germany, and unemployment rates abroad declined further in January and February. Capacity utilization rates have reached very high levels in a number of countries. Inflation has picked up this year in the major foreign countries, but in some cases upward adjustment of prices has been the result of higher indirect taxes.

The Japanese and German current account surpluses widened in the fourth quarter and January to levels that were somewhat above their year-ago levels. The external deficits of the United Kingdom and Italy have also been widening.

Treasury Secretary Brady, in a March 10 speech, suggested some possible modifications of the debt strategy in the Baker Plan. One of the proposed innovations involves generalized waivers of clauses in international loan contracts that now prevent some forms of debt reduction operations. A second modification would allow for voluntary debt reduction operations implemented through negotiations between commercial banks and debtor countries and supported in part by the international financial institutions.

In February, Venezuela's new President introduced a comprehensive economic adjustment program that includes among other features, decontrol of exchange rates, interest rates, and most private sector prices. In mid-March, the U.S. Treasury disbursed to Venezuela a $450 million short-term loan bridged to a drawing from the IMF.

Mexican authorities are preparing for debt negotiations with commercial banks in which they will request debt reduction, along with some combination of new loans and a restructuring of upcoming principal payments. Brazil sharply reduced its inflation rate in February through the imposition of wage and price controls contained in that country's Summer Plan. In Argentina, a surge in the demand for dollars in February led the government to float the exchange rate for financial transactions.

The U.S. merchandise trade deficit narrowed to $9.5 billion in January on a seasonally adjusted customs basis, from $11.0 billion in December and $10.2 billion (at a monthly rate) for the fourth quarter. The improvement of the trade balance in January reflected a reversal of the strong increase in non-oil imports during the fourth quarter. The level of exports in January was close to its fourth-quarter average. Beginning this year, trade data are being compiled under new classification systems, and the January figures may be subject to larger revisions than usual.

BLS data on U.S. trade prices are available on a monthly basis for the first time, and show substantial increases in prices of both imports and exports in January (not seasonally adjusted). The prices of both non-oil imports and non-agricultural exports rose by 0.9 percent (at a monthly rate) from their levels in December.

Private net purchases of U.S. securities by foreigners rose by $4 billion in January, after having declined in December. Moreover, net purchases of foreign securities by private U.S. residents increased at a slower rate in January than in the preceding month. Meanwhile bank-reported transactions showed a sharp swing from a large net inflow of funds in December to an even greater net outflow in January, largely reflecting a reversal of year-end inflows from affiliated banks abroad. Foreign official reserve assets in the United States increased somewhat in January, despite net intervention sales of dollars by other G-10 countries.

Balance of payments data for the fourth quarter and the year 1988 indicate that the current account deficit narrowed by almost $20 billion last year, to $135 billion. Foreign direct investment in the United States picked up in the fourth quarter, and totaled $42 billion for the year, the same as in 1987. U.S. direct investment abroad in 1988 was somewhat below the 1987 rate, even excluding currency-translation gains and losses associated with movements in the dollar.

Outlook

With the recent rise of U.S. interest rates, the associated strengthening of the dollar, and expectations of a further increase in interest rates, the staff forecast now has the dollar remaining little changed in the near term against other G-10 currencies. The dollar is projected to drift downward in the second half of 1989, and to decline at a faster rate early next year, when U.S. GNP growth and interest rates are expected to show clear signs of weakening. As a result, the projected value of the dollar is somewhat higher over the forecast period, particularly during 1989, than in the February forecast. However, with less rapid depreciation projected in the near term and somewhat more rapid depreciation in 1990, the dollar ends up only slightly above the previously projected level by the end of 1990.

The staff assumption about oil prices has been raised somewhat, partly in response to a near-term disruption of supply in the North Sea and elsewhere, and partly because Persian Gulf OPEC producers have shown resolve in managing their market sales recently. The price of oil imports is expected to average $15.50 per barrel in the second half of 1989 and in 1990 after peaking at a slightly higher level in the next few months.

Economic activity in the major foreign industrial countries is projected to slow from the strong pace in 1988 due to greater monetary restraint abroad. Inflation rates abroad are expected to pick up this year in response to tightening capacity constraints, higher oil prices, and (in several countries) increases in excise taxes and interest rates. In 1990, inflation is expected to ease as the impact on price levels of the higher excise taxes and interest rates is completed and as economic activity slows.

The U.S. nominal merchandise trade deficit is projected to remain about unchanged through the third quarter of this year from its average level of recent months, and to narrow thereafter. The growth of imports is projected to slow substantially as the economy weakens, beginning later this year. The growth of exports will ease in the near term, as expansion abroad moderates, and as the effects of the earlier depreciation of the dollar recede. Export growth is then expected to pick up during 1990, due to gains in price competitiveness associated with the projected decline in the dollar.

Net investment income payments will continue to rise as U.S. net indebtedness to the rest of the world mounts. These increased payments will be offset only partly by increased investment income receipts. The current account deficit is projected to widen to about $140 billion this year, before narrowing next year, falling below $125 billion by the fourth quarter of 1990.

Strictly Confidential (FR)
Class II FOMC

March 21, 1989

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

	ANNUAL			1988		1989				1990			
	1988-	1989-P	1990-P	Q3-	Q4-	Q1-P	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-94.3	-94.7	-76.8	-80.0	-94.8	-98.0	-96.8	-94.2	-89.9	-87.1	-80.3	-73.8	-65.8
Exports of G+S	520.2	603.1	664.9	536.1	549.7	576.2	595.4	612.1	628.7	640.5	655.8	671.9	691.5
Imports of G+S	614.5	697.8	741.7	616.0	644.5	674.2	692.2	706.3	718.6	727.6	736.1	745.7	757.3
Constant 82 $, Net	-99.7	-93.4	-68.6	-93.9	-103.3	-99.5	-95.9	-92.3	-85.9	-81.8	-73.6	-64.7	-54.4
Exports of G+S	505.2	562.5	603.9	514.0	523.6	543.4	557.0	568.7	580.9	588.2	597.8	608.2	621.4
Imports of G+S	604.8	655.8	672.4	607.9	626.8	642.8	652.8	660.9	666.7	669.8	671.3	672.8	675.8
2. U.S. Merchandise Trade Balance 2/	-126.5	-127.9	-115.5	-116.7	-128.1	-129.1	-130.0	-128.6	-123.8	-121.6	-118.4	-113.9	-108.2
Exports	319.9	360.2	395.6	326.7	334.6	348.3	356.1	363.3	373.1	380.4	389.5	399.9	412.6
Agricultural	38.3	42.7	46.2	40.9	38.4	42.6	42.1	42.0	44.2	44.6	45.7	46.6	47.8
Non-Agricultural	281.6	317.5	349.4	285.8	296.2	305.7	314.0	321.3	328.9	335.8	343.7	353.2	364.8
Imports	446.4	488.1	511.1	443.4	462.7	477.4	486.1	492.0	496.9	502.0	507.9	513.7	520.8
Petroleum and Products	39.3	44.2	46.0	39.4	36.9	44.1	44.7	43.8	44.0	45.0	45.8	46.2	46.8
Non-Petroleum	407.1	444.0	465.2	404.0	425.7	433.3	441.5	448.1	452.9	457.0	462.1	467.5	474.1
3. U.S. Current Account Balance	-135.3	-141.5	-128.6	-130.4	-127.7	-145.8	-141.5	-138.8	-139.9	-134.9	-130.3	-126.1	-123.2
Of Which: Net Investment Income	2.6	-3.2	-7.3	-4.9	18.8	-5.3	-1.6	-1.3	-4.7	-6.0	-6.4	-7.8	-8.9
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	3.7	2.7	2.4	4.5	2.3	2.9	2.7	2.3	2.2	2.3	2.4	2.5	2.7
Real GNP--NonOPEC LDC 5/	3.9	3.4	3.7	3.7	3.5	3.3	3.3	3.3	3.3	3.4	3.9	4.5	5.0
Consumer Prices--Ten Ind. 4/	2.6	3.6	3.2	2.5	3.7	3.9	4.3	2.9	3.0	3.0	4.0	2.4	2.9

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