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May 10, 1989

## **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

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## DOMESTIC NONFINANCIAL DEVELOPMENTS

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### Recent Developments

Economic activity has decelerated in recent months. Real GNP, excluding drought effects, was estimated to have increased at a 3 percent annual rate in the first quarter, about a half percentage point slower than the rise over 1988; available indicators for March hint that spending may have been softer than had been anticipated in the Commerce Department's calculations. Broad measures of inflation picked up in the first quarter, with much, but not all, of the acceleration of prices attributable to increases in food and energy prices; the more rapid rise in labor costs over the past year also has contributed to upward pressure on prices.

Growth in nonfarm payrolls slowed noticeably in March and April. Service industry employment accounted for virtually all of the gain last month. The increase in trade was markedly lower than earlier in the year, and elsewhere employment, on balance, was little changed. In manufacturing, employment edged down, and revised data now show a net decline since January. The unemployment rate rose to 5.3 percent in April, one-tenth above the average rate in the first quarter.

Production worker hours rose sharply in April, reflecting a jump in the average workweek, but the timing of the Easter holiday appears to have created a seasonal adjustment problem. After accounting for that problem, the hours and other available indicators point to a moderate rise in total industrial production, after two flat months. On net this year, manufacturing output has grown only modestly, with the sharp decline in auto assemblies a particular drag in the first quarter. A pickup in auto

assemblies was a factor in the upturn in industrial production last month. With the slowing in production, the capacity utilization rate has slipped since the beginning of the year; a somewhat slower rate of increase in prices of materials also seems indicative of some easing of pressures on capacity.

Growth of real consumer expenditures dwindled to an annual rate of 1-1/4 percent in the first quarter, versus 3-3/4 percent over 1988. A portion of the slowing may be transitory, as unseasonably warm weather during the first quarter appears to have reduced outlays for home heating, and automobile purchases were quite weak. Recently, enhanced incentives have rejuvenated car sales; in April, domestic autos sold at a 7-1/2 million unit rate, a half million unit improvement over the first-quarter pace. The personal saving rate jumped in the first quarter to 5-3/4 percent, owing not so much to the slowing in consumption as to an unusually large gain in disposable income. Income growth was boosted by transfers and by farm income estimates that include large subsidies and assume a return to more normal agricultural activity following last year's drought.

Business fixed investment picked up sharply in the first quarter, after declining in the fourth quarter, and near-term indicators point to further strong gains in the next few months. In the equipment area, all major components of spending except motor vehicles registered advances in the first quarter; and orders for nondefense capital goods, even excluding the strong aircraft grouping, were up 5 percent from their fourth-quarter level. Nonresidential construction advanced broadly in the first quarter; in addition, petroleum drilling appears to have turned up in response to the recent increases in oil prices.

Rising rates for home mortgages damped housing activity in the first quarter. Total starts were down 3 percent, and permits declined 10 percent. In the single-family market, housing starts dropped to just under a million unit annual rate in March; sales of both new and existing homes also have slumped in recent months. Multifamily starts were down as well in March, offsetting the unexpected strength earlier in the year.

Despite slower growth of final demand in several key sectors, there are few signs of significant inventory imbalances. The principal exception, once again, is autos; and domestic carmakers have trimmed their earlier assembly plans slightly and are using sales promotions to attempt to rectify the imbalance.

The CPI rose at a 6 percent annual rate, and the PPI advanced at a 10 percent rate over the first three months of this year. Food prices increased sharply at both retail and wholesale levels, reflecting supply problems and rising costs of labor and other inputs. The steep rise in the cost of crude oil left its mark on finished energy prices during the first quarter, and additional increases in the energy component are likely in both the PPI and CPI reports this spring. Excluding food and energy prices, CPI inflation was 5-1/4 percent over the first quarter, slightly higher than the fourth-quarter pace. The year-over-year increase in this component of the CPI has edged up only marginally since the beginning of the year--a pattern also evident in broad measures of labor compensation.

#### Outlook

Real GNP is projected to expand at about a 2-1/4 percent annual rate in the current quarter. This estimate draws heavily on the staff's reading of April's labor market surveys: Few spending data are available. Real

consumption growth is projected to be stronger than in the first quarter; while outlays on most goods and services are expected to remain sluggish, auto sales should be spurred by the incentive programs. As noted above, business capital spending is expected to register a substantial increase, with the greater portion of the rise in equipment purchases. Some rebound in homebuilding from the very low March level appears likely, but housing starts are forecast to remain below their first-quarter average. Net exports are projected to contribute little to current-quarter growth.

In the staff's view, aggregate demand will need to moderate still further to relieve cost pressures and reverse the current uptrend in inflation. Consequently, we have assumed that policy will impose additional restraint, with interest rates rising further over the remainder of this year. Some easing in rates is anticipated in 1990, as inflationary pressures begin to slacken.

The rise in interest rates will tend to boost velocity, and M2 growth in 1989 is projected to be in the lower portion of the FOMC's 3 to 7 percent target range; M3 growth is expected to be in the middle part of its target range. In 1990, the projected growth rates of both M2 and M3 pick up as interest rates turn downward.

The foreign exchange value of the dollar is expected to remain fairly firm as higher U.S. interest rates provide some support for a time. However, the dollar is projected to decline moderately in 1990, concomitantly with the decline in dollar interest rates and slower economic activity.

The staff continues to assume a moderately restrictive fiscal policy over the forecast period. Our estimates of the budget deficit have been

lowered, mostly as a result of the surprisingly large final personal tax payments and smaller refunds in April and early May. The FY1989 deficit is now estimated at \$148 billion. And although the causes underlying the higher revenues are not clear, a portion of the added receipts is assumed to carry forward into FY1990. (One possibility, for example, is that the base-broadening provisions of the Tax Reform Act of 1986 had a greater effect than previously thought.) In FY1990, the deficit is expected to be \$112 billion. This projection continues to incorporate enactment of \$27 billion in deficit-reduction actions, similar to those in the recent bipartisan budget agreement.

Real GNP growth is expected to edge below 2 percent in the second half of this year, owing largely to the lagged effects of the firming of financial conditions that already has occurred. By early next year, with the anticipated further tightening of the credit markets, the rate of economic growth is projected to slow to around 1 percent, leaving open the possibility that real GNP growth will be negative for a quarter or two. Over the next few quarters, weakening demand for consumer durables and a marked deceleration in capital spending are forecast to accompany a further drop in homebuilding. Contributions to growth from net exports, while still positive, are projected to remain small.

In the forecast, real GNP growth begins to recover in the latter part of 1990. The assumed decline in the dollar provides for a more rapid expansion of net exports, and lower interest rates lead to some firming in credit-sensitive sectors. Nonetheless, GNP growth remains below its long-run potential, and the unemployment rate is projected to drift up through the end of 1990, moving to just above 6 percent.

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

	1988	1989			1990		1988	1989
	Q4	Q1	Q2	H2	H1	H2	Q4/Q4	
Real GNP	2.4	5.5	2.3	1.8	.9	1.3	2.8	2.8
Real GNP, excluding effects of the drought <sup>1</sup>	3.5	3.0	2.3	1.8	.9	1.3	3.5	2.2

1. The staff's methodology for calculating drought effects has been altered this month in light of new information from the BEA. Previously, we had counted all of the projected rise in farm output this year as a rebound from the drought, taking account of acreage increases as well as a return to normal yields. However, the BEA is counting as drought effects only the return to normal yields and is assuming that the rebound was completed in the first quarter.

Inflation recently has been somewhat higher than projected, owing to rising food and energy prices. The staff forecasts of wage and price inflation, however, have been revised downward slightly for later this year and for 1990, reflecting the slower-than-anticipated increase in labor costs in recent months and the higher average value of the dollar. But the trend in hourly compensation is still upward, as labor markets are expected to remain tight well into 1990, and employers will be faced with additional costs early next year by the scheduled increase in social security taxes--1-1/2 percentage points at an annual rate in the first quarter--and the likely hike in the minimum wage.

The rise in consumer food prices is projected to slow from the current rate of around 6 percent to a 3-1/4 percent annual pace in the second half of 1989; this forecast assumes normal weather conditions in the current growing season. Projections of energy prices were raised slightly, increasing 5 percent over this year. The runup in crude oil costs has been

somewhat larger than anticipated, and these prices are expected to remain higher than previously thought throughout the projection. Underlying inflation, as measured by the CPI excluding food and energy, reaches the 5-1/2 percent range by early 1990, 1/2 percentage point above current levels, but should begin to edge off late in 1990 and into 1991.

May 10, 1989

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CLASS II FOMC

## STAFF GNP PROJECTIONS

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Percent changes, annual rate  
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		Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
		3/22/89	5/10/89	3/22/89	5/10/89	3/22/89	5/10/89	3/22/89	5/10/89	3/22/89	5/10/89
<b>Annual changes:</b>											
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	7.5	3.8	3.9	4.2	4.2	3.4	3.4	5.5	5.5
1989		7.8	7.8	3.1	3.1	4.7	4.8	4.6	4.6	5.3	5.3
1990		5.8	5.9	1.2	1.3	4.8	4.6	4.5	4.5	5.9	5.8
<b>Quarterly changes:</b>											
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>	7.2	7.6	2.0	2.4	4.2	4.2	5.3	5.3	5.3	5.3
1989	Q1 <1>	9.4	9.7	5.2	5.5	4.8	5.0	3.9	3.9	5.2	5.2
	Q2	7.8	7.3	3.0	2.3	4.8	5.2	4.7	4.8	5.2	5.3
	Q3	6.3	6.2	2.0	2.0	4.6	4.3	4.3	4.1	5.3	5.3
	Q4	5.9	5.6	1.6	1.6	4.4	4.1	4.2	3.9	5.4	5.4
	Q1	5.6	6.4	.4	1.2	5.3	5.1	5.2	5.1	5.6	5.5
	Q2	5.2	5.2	.8	.6	4.7	4.6	4.4	4.5	5.8	5.7
	Q3	5.6	5.5	1.2	1.0	4.6	4.6	4.4	4.5	6.0	5.9
	Q4	6.0	5.9	1.7	1.6	4.5	4.4	4.3	4.3	6.1	6.1
<b>Two-quarter changes: &lt;2&gt;</b>											
1988	Q2 <1>	7.0	7.0	3.2	3.2	4.2	4.2	3.6	3.6	-.4	-.4
	Q4 <1>	7.2	7.4	2.2	2.4	4.8	4.8	5.0	5.0	-.2	-.2
1989	Q2	8.6	8.5	4.1	3.9	4.8	5.2	4.3	4.4	-.1	.0
	Q4	6.1	5.9	1.8	1.8	4.5	4.2	4.2	4.0	.2	.1
1990	Q2	5.4	5.8	.6	.9	5.0	4.9	4.8	4.8	.4	.3
	Q4	5.8	5.7	1.4	1.3	4.6	4.5	4.3	4.4	.3	.4
<b>Four-quarter changes: &lt;3&gt;</b>											
1987	Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988	Q4 <1>	7.1	7.2	2.7	2.8	4.5	4.5	4.3	4.3	-.6	-.6
1989	Q4	7.3	7.2	2.9	2.8	4.7	4.7	4.3	4.2	.1	.1
1990	Q4	5.6	5.8	1.0	1.1	4.8	4.7	4.6	4.6	.7	.7

&lt;1&gt; Actual.

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

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

May 10, 1989

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

	Units	Projection									
		1988		1989				1990			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	4909.0	4999.7	5116.8	5207.6	5286.3	5358.4	5442.5	5511.3	5585.8	5666.6
Real GNP	Billions of 82\$	4009.4	4033.4	4088.2	4111.2	4131.7	4148.3	4160.8	4167.4	4178.0	4194.4
Nominal GNP	Percent change	7.3	7.6	9.7	7.3	6.2	5.6	6.4	5.2	5.5	5.9
Real GNP		2.5	2.4	5.5	2.3	2.0	1.6	1.2	.6	1.0	1.6
Gross domestic product		2.0	2.3	5.8	2.3	1.9	1.5	1.3	.7	.9	1.5
Gross domestic purchases		2.5	3.5	4.4	2.0	1.5	1.2	1.1	.4	.3	.8
Final sales		2.0	3.5	3.0	2.8	2.8	1.8	1.4	1.1	1.4	1.9
Private dom. final purchases		3.9	2.9	2.2	2.7	2.4	1.4	1.4	.9	.8	1.1
Personal consumption expend.		3.9	3.5	1.3	3.1	2.4	1.4	1.6	.9	.8	1.1
Durables		-2	6.1	-3.2	7.3	2.5	-3.4	-2	-1.5	-1.4	.9
Nondurables		5.0	1.3	2.0	1.1	1.7	1.8	1.2	.8	.7	.7
Services		4.5	4.2	2.4	3.1	2.8	2.7	2.5	1.7	1.5	1.4
Business fixed investment		4.0	-2.9	9.6	6.6	5.5	3.0	1.9	1.5	.8	.5
Producers' durable equipment		4.6	-3.5	10.2	7.5	6.4	4.5	3.3	2.7	2.0	1.5
Nonresidential structures		2.6	-1.0	7.9	3.9	2.9	-1.5	-2.1	-2.1	-2.8	-2.8
Residential structures		4.3	10.9	-3.6	-11.6	-4.6	-2.9	-2.5	-.2	1.0	2.8
Exports		14.5	6.5	10.6	14.2	6.5	7.4	5.3	4.4	6.2	8.2
Imports		13.1	13.5	2.3	10.2	2.7	4.1	4.0	2.3	1.2	2.1
Government purchases		-5.2	11.9	1.1	1.9	1.7	1.3	.6	.6	.5	.8
Federal		-13.2	20.7	-2.7	1.3	1.1	.4	-1.2	-1.3	-1.6	-.7
Defense		-10.5	9.9	-9.7	-3.1	-1.7	-5.0	-2.9	-2.7	-3.1	-2.6
State and local		1.1	6.0	4.0	2.3	2.2	2.0	2.0	2.0	1.9	1.9
Change in business inventories	Billions of 82\$	39.5	29.1	53.8	48.4	40.7	39.4	37.5	32.6	28.5	25.7
Nonfarm	Billions of 82\$	40.4	37.6	41.1	39.1	31.0	33.1	31.1	25.8	21.4	18.3
Exports	Billions of 82\$	-93.9	-105.4	-95.6	-93.0	-88.5	-85.1	-84.1	-81.7	-74.7	-66.4
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	106.5	107.3	108.3	108.8	109.2	109.5	109.8	109.9	110.0	110.2
Unemployment rate	Percent*	5.5	5.3	5.2	5.3	5.3	5.4	5.5	5.7	5.9	6.1
Industrial production index	Percent change	7.1	4.6	3.0	1.5	1.8	1.2	1.0	.4	.8	2.0
Capacity utilization rate-mfg.	Percent*	84.0	84.4	84.6	84.2	83.9	83.5	83.0	82.4	81.9	81.7
Housing Starts	Millions	1.47	1.56	1.52	1.44	1.42	1.40	1.39	1.40	1.41	1.42
Auto sales	Millions	10.32	11.00	9.71	10.46	10.57	9.90	9.75	9.50	9.30	9.30
Domestic	Millions	7.20	7.89	6.90	7.41	7.60	7.00	6.90	6.80	6.70	6.70
Foreign	Millions	3.12	3.11	2.82	3.05	2.97	2.90	2.85	2.70	2.60	2.60
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change	7.3	8.7	13.2	7.3	6.3	6.4	7.7	6.2	5.5	6.5
Real disposable income	Percent change	5.6	4.1	7.7	-9	1.4	1.3	2.7	.6	-.2	1.0
Personal saving rate	Percent*	4.2	4.3	5.7	4.8	4.6	4.5	4.8	4.7	4.4	4.4
Corp. profits with IVA & CCA <sup>d</sup>	Percent change	4.4	13.9	-10.6	-3.6	.2	-12.6	-19.3	-15.2	-2.1	-6.0
Profit share of GNP	Percent*	6.7	6.8	6.5	6.3	6.2	5.9	5.5	5.2	5.1	5.0
Federal govt. surplus/deficit	Billions of \$	-123.5	-157.5	-146.1	-131.4	-130.2	-128.0	-124.5	-121.8	-110.6	-105.7
State and local govt. surplus		56.0	52.6	50.6	55.2	58.4	59.5	61.8	62.0	64.3	66.9
Exc. social insurance funds		-13.3	-18.2	-21.9	-18.2	-15.9	-15.6	-14.1	-14.7	-13.2	-11.4
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change	4.7	5.3	3.9	4.8	4.1	3.9	5.1	4.5	4.5	4.3
GNP fixed-weight price index		5.3	4.2	5.0	5.2	4.3	4.1	5.1	4.6	4.6	4.4
Cons. & fixed invest. prices		4.5	4.4	5.0	5.8	4.3	4.2	4.8	4.9	4.8	4.7
I		4.5	4.4	5.4	6.1	4.7	4.2	5.1	5.1	5.0	5.0
Inc. food and energy		4.0	4.9	5.1	5.0	5.1	5.4	5.6	5.6	5.4	5.4
Farm business sector											
Output per hour		2.0	1.0	.5	-.8	1.6	.5	.5	.4	.9	1.2
Compensation per hour		5.7	5.2	5.7	5.1	5.4	5.5	6.9	5.4	5.3	5.3
Unit labor costs		3.7	4.1	5.2	5.9	3.7	5.0	6.4	5.0	4.4	4.1

\* Not at an annual rate.

May 10, 1989

CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

	Units	1982	1983	1984	1985	1986	1987	1988	Projection	
									1989	1990
<b>EXPENDITURES</b>										
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Nominal GNP	Billions of \$	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4864.3	5242.3	5551.6
Real GNP	Billions of 82\$	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3996.1	4119.9	4175.2
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	2.0	5.0	2.8	2.8	1.1
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.1	2.9	2.9	1.1
Gross domestic purchases		-.8	8.4	6.4	4.3	2.4	4.4	2.2	2.3	.6
Final sales		.3	3.7	4.7	4.6	2.5	3.0	3.9	2.6	1.5
Private dom. final purchases		.8	7.7	5.6	4.6	2.8	2.4	3.9	2.2	1.1
Personal consumption expend.		2.9	5.4	4.1	4.6	4.2	1.8	3.7	2.0	1.1
Durables		9.0	14.7	10.8	7.0	11.5	-2.4	7.5	.7	-5.5
Nondurables		1.8	4.4	2.3	3.3	3.1	.6	1.9	1.6	.8
Services		2.3	3.9	3.5	5.0	2.7	4.2	3.9	2.7	1.8
Business fixed investment		-11.3	10.8	13.8	3.7	-7.3	8.8	5.7	6.2	1.2
Producers' durable equipment		-12.5	20.9	14.9	4.6	-2.4	9.6	10.0	7.2	2.4
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.4	6.7	-5.0	3.2	-2.4
Residential structures		4.9	38.1	6.1	5.8	11.3	-3.5	2.0	-5.8	.3
Exports		-13.8	5.8	5.9	-2.4	5.6	18.4	13.7	9.6	6.0
Imports		-5.9	23.8	17.4	4.5	7.6	10.4	7.2	4.8	2.4
Government purchases		3.8	-2.7	7.9	8.6	2.9	2.3	.4	1.5	.7
Federal		8.2	-8.1	13.0	13.3	.0	2.1	-3.5	.0	-1.2
Defense		8.8	5.1	6.5	7.1	4.8	6.0	-2.1	-4.9	-2.8
State and local		.6	1.5	4.4	4.9	5.3	2.5	3.4	2.6	2.0
Change in business inventories	Billions of 82\$	-24.5	-6.4	62.3	9.1	15.4	34.4	42.5	45.6	31.1
Nonfarm	Billions of 82\$	-23.1	-.1	57.8	13.4	17.9	36.9	40.0	36.1	24.2
Net exports	Billions of 82\$	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-100.2	-90.6	-76.7
Nominal GNP	Percent change*	3.1	10.4	8.6	6.6	4.8	8.3	7.2	7.2	5.8
<b>EMPLOYMENT AND PRODUCTION</b>										
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Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.3	106.0	109.0	110.0
Unemployment rate	Percent	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.8
Industrial production index	Percent change*	-7.7	14.3	6.6	1.7	1.0	5.8	5.0	1.9	1.0
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.1	83.5	84.0	82.3
Housing Starts	Millions	1.06	1.71	1.77	1.74	1.81	1.63	1.49	1.44	1.41
Auto sales	Millions	8.01	9.23	10.38	11.06	11.47	10.26	10.69	10.16	9.46
Domestic	Millions	5.78	6.82	7.92	8.22	8.22	7.06	7.55	7.23	6.78
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.94	2.69
<b>INCOME AND SAVING</b>										
-----										
Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.9	8.5	7.0	8.3	6.5
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.4	3.0	3.6	2.3	1.0
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.0	3.2	4.2	4.9	4.6
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	.9	7.6	7.8	-6.8	-10.9
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	7.0	6.9	6.8	6.2	5.2
Federal govt. surplus/deficit	Billions of \$	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-142.3	-133.9	-115.7
State and local govt. surplus		35.1	47.5	64.6	65.1	61.2	52.9	55.2	55.9	63.8
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.0	-9.2	-13.3	-17.9	-13.3
<b>PRICES AND COSTS</b>										
-----										
GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.8	3.1	4.3	4.2	4.6
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.7	4.7
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.8	4.8
CPI		4.4	3.2	4.2	3.5	1.3	4.4	4.3	5.1	5.1
Exc. food and energy		5.2	4.2	5.0	4.3	3.9	4.2	4.6	5.1	5.5
Nonfarm business sector										
Output per hour		1.0	3.6	1.5	1.5	1.2	1.9	1.0	.5	.7
Compensation per hour		7.3	3.3	4.2	4.5	4.2	4.1	4.7	5.5	5.7
Unit labor costs		6.2	-.3	2.6	2.9	3.0	2.1	3.6	5.0	4.9

\* Percent changes are from fourth quarter to fourth quarter.

	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	24.2	24.0	54.8	23.0	20.5	16.5	12.6	6.6	10.6	16.4	188.3	110.4	114.9	46.2
Gross domestic product	20.0	22.6	56.7	23.2	19.5	15.6	13.0	7.6	9.6	15.1	188.3	113.3	115.0	45.3
Gross domestic purchases	25.5	35.5	45.0	20.5	16.0	13.1	11.6	4.1	3.6	8.1	171.9	89.8	94.6	27.5
Final sales	20.0	34.5	30.1	28.3	28.2	17.8	14.5	11.5	14.7	19.2	110.7	148.5	104.5	59.9
Private dom. final purchases	31.6	24.0	18.1	22.1	20.3	11.8	12.2	7.8	6.7	9.2	76.2	125.0	72.2	35.9
Personal consumption expend.	24.8	22.4	8.6	19.9	15.6	9.3	10.8	5.9	5.2	7.3	45.5	94.5	53.4	29.3
Durables	-.2	6.1	-3.4	7.4	2.6	-3.7	-.2	-1.6	-1.4	1.0	-9.7	28.9	2.8	-2.3
Nondurables	10.9	2.9	4.4	2.5	3.9	4.1	2.8	1.8	1.6	1.6	5.2	16.9	14.9	7.8
Services	14.1	13.3	7.7	10.0	9.1	8.9	8.3	5.7	5.0	4.7	50.0	48.6	35.8	23.7
Business fixed investment	4.8	-3.6	11.4	8.1	6.9	3.8	2.5	2.0	1.1	.6	37.5	26.6	30.2	6.2
Producers' durable equipment	4.1	-3.3	9.0	6.9	6.0	4.3	3.2	2.6	2.0	1.5	29.2	33.2	26.2	9.3
Nonresidential structures	.8	-.3	2.4	1.2	.9	-.5	-.7	-.7	-.9	-.9	8.3	-6.6	4.1	-3.1
Residential structures	2.0	5.0	-1.8	-5.9	-2.2	-1.4	-1.2	-.1	.5	1.3	-7.0	3.9	-11.3	.5
Change in business inventories	4.2	-10.4	24.7	-5.4	-7.7	-1.3	-1.9	-4.9	-4.1	-2.8	77.6	-38.0	10.3	-13.7
Nonfarm	10.3	-2.8	3.5	-2.0	-8.1	2.1	-2.0	-5.3	-4.4	-3.1	67.0	-30.6	-4.5	-14.8
Farm	-6.1	-7.7	21.1	-3.3	.4	-3.4	.1	.4	.3	.3	10.6	-7.4	14.8	1.1
Net exports	-1.3	-11.5	9.8	2.6	4.5	3.5	1.0	2.5	6.9	8.3	16.4	20.6	20.3	18.7
Exports	17.1	8.1	13.3	18.1	8.8	10.1	7.4	6.3	8.8	11.9	71.4	62.9	50.4	34.4
Imports	18.4	19.5	3.6	15.6	4.4	6.6	6.4	3.8	1.9	3.6	55.0	42.2	30.1	15.8
Government purchases	-10.3	22.0	2.2	3.7	3.4	2.6	1.3	1.3	1.0	1.7	18.1	2.9	12.0	5.3
Federal	-11.5	15.4	-2.3	1.1	.9	.3	-1.0	-1.1	-1.3	-.6	7.2	-12.2	.1	-4.0
Defense	-7.2	6.1	-6.6	-2.0	-1.1	-3.2	-1.8	-1.7	-1.9	-1.6	15.1	-5.7	-12.9	-7.0
Nonddefense	-4.2	9.2	4.4	3.1	2.0	3.5	.8	.6	.6	1.0	-7.9	-6.6	13.1	3.0
State and local	1.2	6.6	4.5	2.6	2.5	2.3	2.3	2.4	2.3	2.3	10.9	15.1	11.9	9.3

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FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

	Fiscal Year 1988a	FY1989p			FY1990p			1988 IVA	FRB Staff Projection							
		Admin	CBO	FRB Staff	Admin	CBO	FRB Staff		1989				1990			
								I	II	III	IV	I	II	III	IV	
Not seasonally adjusted																
<b>BUDGET</b>																
Budget receipts	909	979	983	992	1066	1069	1077	222	220	305	245	235	251	325	266	254
Budget outlays	1064	1143	1142	1140	1157	1215	1189	289	280	290	280	299	298	301	292	303
Surplus/deficit (-)																
to be financed	-155	-164	-159	-148	-91	-146	-112	-68	-61	15	-35	-63	-47	24	-26	-49
(On-budget)	-194	-220	-215	-203	-162	-214	-177	-73	-77	-6	-47	-73	-66	2	-41	-62
(Off-budget)	39	56	56	55	69	68	66	6	16	21	12	9	19	22	15	13
Means of financing:																
Borrowing	162	n.a.	n.a.	129	n.a.	n.a.	111	54	38	11	26	51	31	3	25	35
Cash decrease	-8	n.a.	n.a.	10	n.a.	n.a.	-6	11	19	-20	0	16	3	-20	-5	22
Other	1	n.a.	n.a.	9	n.a.	n.a.	7	3	4	-7	9	-4	12	-7	6	-9
Cash operating balance, end of period	44	n.a.	n.a.	34	n.a.	n.a.	40	34	15	34	34	18	15	35	40	18
Seasonally adjusted annual rates																
<b>NIPA FEDERAL SECTOR</b>																
Receipts	964	n.a.	1037	1039	n.a.	1133	1128	992	1030	1059	1074	1090	1123	1139	1158	1179
Expenditures	1107	n.a.	1177	1180	n.a.	1255	1249	1149	1176	1191	1205	1218	1248	1261	1269	1284
Purchases	380	n.a.	395	399	n.a.	416	412	396	395	402	404	406	413	415	416	416
Defense	298	n.a.	302	300	n.a.	311	301	302	299	300	300	298	302	302	301	301
Nondefense	82	n.a.	93	99	n.a.	105	112	94	96	102	104	108	111	113	114	116
Other expend.	727	n.a.	782	781	n.a.	839	837	753	781	789	800	812	835	846	854	868
Surplus/deficit	-143	n.a.	-140	-141	n.a.	-122	-121	-158	-146	-131	-130	-128	-125	-122	-111	-106
<b>FISCAL INDICATORS</b>																
High-employment (HEB) surplus/deficit (-)	-151	n.a.	n.a.	-162	n.a.	n.a.	-129	-170	-170	-155	-152	-146	-138	-126	-107	-96
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.2	n.a.	n.a.	-.6	.7	0	-.3	-.1	-.1	-.2	-.2	-.4	-.2
Fiscal impetus measure (FI), percent	.3 *	n.a.	n.a.	-4.1 *	n.a.	n.a.	-6.7 *	1.7	-2.5	-.4	-.4	-2.9	-3.7	-.4	-.5	-.4
	a--actual	p--projection			*--calendar year			n.a.--not available								

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Notes:

1. The Administration figures are the proposals in Building a Better America (February 9, 1989), with a minor revision from the Budget Director's testimony. The bipartisan agreement for FY1990 projects receipts of \$1066 billion, outlays of \$1165 billion, and a deficit of \$99 billion.
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

Market interest rates have declined considerably since the last FOMC meeting in response to a series of reports that appeared to signal slower economic growth. Federal funds generally have continued to trade between 9-3/4 and 9-7/8 percent, but key Treasury bill rates have fallen 50 to 60 basis points, as the economic data, combined with statements by monetary policymakers, allayed concerns about any near-term tightening. Longer-term Treasury yields meanwhile have declined 10 to 25 basis points. Yields on private market instruments also have declined across the maturity spectrum, but generally less than those on Treasuries. Stock price indexes have risen 5 to 6 percent over the intermeeting period, to new postcrash highs.

Growth of the monetary aggregates remained weak in April. M2 and M3 grew at estimated annual rates of 2 and 4 percent, respectively, about in line with the rates recorded in the first quarter. M1, which had edged down in the first quarter, contracted at an estimated annual rate of 5 percent last month. Although the weakness in M2 reflected primarily the runoffs of transactions balances, growth of its nontransactions component also remained sluggish. Within this component, outflows from savings accounts and MMDAs accelerated, while inflows to small time deposits strengthened. This pattern was consistent with changes in opportunity costs; rates paid on the more liquid components remained well below market yields, while those on small time deposits have approached or exceeded market rates. In addition, the runoffs of the liquid components likely were swollen by unexpectedly large personal tax payments.

Outflows of deposits from thrift institutions continued in April, although at a somewhat slower rate (seasonally adjusted) than in the previous two months. Because the funds leaving thrifts appear to have gone mostly to commercial banks or money market funds, M2 probably was affected only slightly. Overall, liquidity problems at thrifts appeared to ease somewhat last month; in particular, FHLB advances leveled off, after five consecutive months of increases that totaled \$30 billion.

Available data indicate that borrowings by nonfinancial business in April probably fell back from the rapid pace of the first quarter, when the bulk of the financing of the RJR-Nabisco LBO occurred. After a flurry of short-maturity issues in March, public offerings of corporate bonds dropped off markedly last month, as opportunities evaporated for creating sub-LIBOR floating-rate obligations by issuing fixed-rate bonds and swapping for floating rates. Potential investors in longer-term investment-grade industrial issues reportedly remained concerned about event risk. Whether because of unwillingness to provide event-risk protection or because of expectations of declines in longer-term interest rates, nonfinancial corporations continued to borrow heavily in the commercial paper market. Since the announcement of the RJR-Nabisco deal last October, the outstanding volume of nonfinancial commercial paper has grown 30 percent.

In contrast to other market interest rates, junk bond yields rose in April, boosting the spread to investment-grade yields 30 to 40 basis points. Investors reportedly were troubled by rumors of sales of bonds by an investment firm implicated in the Drexel investigation and by the prospect of a heavy calendar of new issues, including \$6 billion in impending issues by RJR-Nabisco.

Federal borrowing is expected to decline more than seasonally in the second quarter. Marketable borrowing is expected to fall more than two-thirds from the first-quarter level, and the cash balance is expected to jump \$16 billion. Among federally sponsored agencies, borrowing by the Federal Home Loan Banks remained heavy last month, despite the leveling off of advances. In the past two months, the spreads between FHLB and Treasury yields have widened noticeably, to around 40 basis points for three-year instruments; nonetheless, they have been no wider than they were in periods earlier in the decade, when credit demands by the FHLBs also were sizable.

In the state and local sector, issuance of long-term securities slowed in April, primarily because refunding issues dried up in response to earlier increases in tax-exempt yields. In contrast, short-term issues surged last month, as the state of New York marketed an unusually large \$4 billion of tax- and revenue-anticipation notes.

Available data indicate that household borrowing picked up in the first quarter. Consumer installment credit accelerated to a 9-1/2 percent clip, while mortgage asset growth at FSLIC-insured institutions strengthened from the weak fourth-quarter pace. In April, consumer loans at commercial banks, adjusted for securitization, grew at a 9-3/4 percent annual rate, above the 8 percent rate registered in the first quarter. Home equity loans at banks also strengthened last month, perhaps in part to cover the unusually heavy personal tax payments.

New issues of mortgage-backed pass-through securities by federally sponsored agencies reached \$17 billion in the first quarter, the highest quarterly level in more than a year; ARM-backed issues accounted for nearly a fourth of the activity. The initial rate advantage of ARMs over FRMs has

continued to narrow, however. Over the intermeeting period, the average initial rate on ARMs has edged up, while the average commitment rate on conventional FRMs has declined around 1/4 percentage point. The relative increase in ARM rates may have reflected pressures applied to lenders by regulatory agencies and by FNMA to reduce the use of teaser rates.

### Outlook

The staff economic forecast anticipates that the System will tighten conditions in money markets somewhat further over the remainder of the year in order to restrain aggregate demand sufficiently to reduce inflation over time. By early 1990, pressures on economic resources are projected to begin to abate and short-term interest rates to turn down. Bond rates are expected to fluctuate with short rates, but more narrowly.

Growth of total domestic nonfinancial debt, which is estimated to have picked up to a 9-1/2 percent annual rate in the first quarter, is expected to drop off sharply in the second quarter. For this year as a whole, this aggregate is projected to grow at an 8 percent pace, and then to slow somewhat further in 1990.

Business borrowing is projected to moderate significantly over the projection period, as a slower pace of corporate restructuring more than offsets the effects of weakened profits on external financing needs. The projected slowdown in mergers and buyouts reflects the outlook for slower economic growth, as well as signs that lenders may be reassessing the risks associated with such financing. Unless concerns about event risk diminish, investment-grade industrial borrowers are likely to continue to borrow heavily in the commercial paper market.

Credit demands in the household sector also are expected to moderate later this year and in 1990. Housing activity and associated demands for mortgage credit likely will remain relatively soft throughout the projection period, and growth of consumer credit should moderate as purchases of consumer durables slow.

The staff's forecast for the federal deficit implies that the Treasury's credit demands will diminish considerably over the forecast horizon. In the agency market, if passage of a thrift rescue package calms depositors' fears, borrowing by the Federal Home Loan Banks could taper off significantly. By the second half of this year, however, the current legislation calls for a new agency to begin borrowing \$50 billion to finance resolutions of thrift insolvencies. Repayment of principal on these borrowings would be secured by nonmarketable 30-year zero-coupon securities that the Treasury plans to issue to the new agency. Only the proceeds of these zero-coupon issues (less than \$4 billion) would be included in measures of Treasury borrowing.

Finally, borrowing by the state and local sector is expected to slacken throughout the projection period, with refunding issues, in particular, remaining light.

Recent Developments

The weighted average foreign exchange value of the dollar in terms of the other G-10 currencies has risen on balance about 1 percent since the last FOMC meeting. Early in the intermeeting period, market participants perceived statements by G-7 authorities as indicating that a lower dollar would be welcome, and the dollar declined through mid-April. The dollar recovered by the end of the month, however, and has strengthened somewhat further so far in May, responding perhaps to concerns about political events in Germany and Japan. The dollar appreciated despite increases in official interest rates by the Bundesbank and several other European central banks in late April and modest declines in U.S. interest rates. Over the intermeeting period, the dollar increased slightly more against the yen (1.1 percent) than against the mark (0.7 percent).

. The Desk sold more than \$1.7 billion, of which \$550 million was against yen, its first yen purchases in the market since the autumn of 1985.

Interest rate differentials have narrowed between dollar-denominated assets and both yen and mark assets since the last FOMC

meeting. A 1/2 percentage point increase in its discount and Lombard rates by the Bundesbank on April 20 was followed by a rise in German short-term market interest rates of about 35 to 50 basis points.

Japanese short-term rates have been stable, while long-term rates have risen slightly. In contrast, U.S. short-term interest rates edged down over the intermeeting period.

Available indicators suggest that the pace of real economic growth and inflation increased, on balance, in the major foreign industrial countries in early 1989. Industrial production rose rapidly in Japan in the first quarter, and the unemployment rate remained steady in March at its lowest level in more than six years. Unofficial government estimates indicate that real GNP growth in Germany could be as high as 8 percent (s.a.a.r.) during the first quarter, the result of the warm winter weather and seasonal adjustment problems. Industrial production and the volume of new orders rose strongly as well. Industrial production expanded only slightly in France and declined in Canada. In the United Kingdom, past tightening of monetary policy contributed to a weakening of industrial output in January and February.

Inflation rates increased in Japan, Germany, and Italy, partly the result of tax-related rises in consumer prices and of increases in oil prices. The German current account surplus has widened so far this year when compared with that for the same interval last year, while the Japanese surplus continues at about the record 1988 pace.

In Argentina, a near collapse of the austral has led to a significant acceleration of prices, replacement of the government's

economic team, and new emergency stabilization measures as the May 14 presidential election draws near. The package includes revision of the export tax system in an effort to increase the supply of dollars to foreign exchange markets, hikes in public sector prices, an indefinite freeze on most private sector prices, and a temporary limit on withdrawals from bank deposits. Mexico reached an agreement with the IMF on April 11 for a three-year, SDR 2.8 billion Extended Fund Facility arrangement. The agreement essentially endorses the policies that Mexico has been following; performance criteria will be adjusted for unanticipated changes in oil export prices and world interest rates. In Brazil, the government announced on April 17 new measures that include a 3.2 percent devaluation of the cruzado against the dollar, plans to reintroduce indexed government debt, and an increase in mandated prices for many goods. The cruzado was devalued 2 percent further on May 4.

The seasonally adjusted nominal U.S. merchandise trade deficit rose in February to \$10.5 billion, after an \$8.7 billion deficit (revised) in January. The January deficit was originally reported as \$9.5 billion; the monthly trade data continue to be quite volatile and subject to revision. For January-February combined, the deficit on a balance of payments basis was at a somewhat smaller rate than it was in the fourth quarter of last year but was not significantly different from the deficits recorded in the second and third quarters. Exports in January-February averaged 2-1/2 percent above their fourth-quarter rate. Exports of consumer goods, industrial supplies, and certain agricultural commodities, as well as undocumented exports to Canada, increased

strongly. Imports were less than 1 percent higher in January-February than in the fourth quarter. Increases in imports of oil, other industrial supplies, and capital goods were nearly offset by declines in other categories of imports, including automotive products, consumer goods, and foods.

Prices of total imports, as measured by the BLS index, increased 0.7 percent in March, more than reversing the decline recorded in February. For the first quarter of 1989, total import prices rose 7.0 percent at an annual rate (n.s.a.), only slightly lower than the 8.2 percent rate of increase registered in the fourth quarter of last year. The first-quarter increase reflected primarily a rebound in oil prices; prices of non-oil imports rose 1.6 percent (a.r.). Export prices rose 0.5 percent in March, offsetting a decline in February and bringing export prices for the quarter nearly 6 percent (a.r.) above their fourth-quarter average. Monthly prices of exports at the aggregate level have fluctuated in response to movements in agricultural prices. The first-quarter rise resulted largely from a turnaround in the prices of fuels and crude materials, as well as of agricultural products.

Net purchases of private U.S. securities by foreigners rose sharply in February to \$3.2 billion. Foreign net purchases of U.S. corporate bonds totaled \$4.6 billion while foreigners sold small amounts of U.S. corporate equities on net. A growing percentage of transactions recorded as "corporate bonds" represent bonds issued by U.S. government corporations and federally sponsored agencies. Foreign net purchases of U.S. Treasury obligations doubled in February from the January figure to

total \$4.8 billion. U.S. residents purchased foreign securities, on net, of \$1.1 billion in February, the same figure as in January. Foreign official reserve assets in the United States increased a moderate \$2.1 billion in February. The total was more than accounted for by the increase in OPEC reserves of \$3.8 billion. G-10 official reserves in the United States were stable in February despite significant reported intervention sales of dollars.

#### Outlook

The staff outlook for the U.S. external balances again incorporates near-term strength for the dollar, with some slight downward drift against other G-10 currencies expected in the second half of this year. The recent strength of the dollar on exchange markets and the forecast assumption of a further moderate increase in U.S. interest rates are factors in the small upward revision to the path of the dollar. The dollar is projected to decline moderately in 1990 as U.S. interest rates partially retrace their 1989 rise and real U.S. economic activity visibly slows.

The staff now estimates that the price of U.S. imports of petroleum and products in the current quarter will average \$18.25 per barrel, somewhat higher than previously expected. Supply disruptions in Alaska and the North Sea account for much of the recent increase in price. The average price of oil imports is expected to decline to \$16.50 per barrel by the end of this year and to remain at that level through 1990, as worldwide oil production returns to more normal levels. This projection represents an increase of about \$1 per barrel over the previous forecast

path. Higher oil revenues in the near term provide more scope for restraint of OPEC production later this year and next than was assumed in the previous forecast.

The growth of economic activity in the foreign industrial countries is expected to slow during the rest of this year and into 1990 from its current strong pace as the effects of monetary restraint in several of the countries become visible. Inflation rates abroad are projected to rise this year in response to higher oil prices, increases in several countries in indirect taxes, tightening capacity constraints, and near-term weakness in exchange rates. Growth in the developing countries is expected to slow slightly in 1989 from its 1988 pace and then to strengthen again by the end of 1990.

The U.S. merchandise trade deficit is projected to be about the same this year as last, followed by an improvement of less than \$10 billion over the four quarters of 1990. The growth of imports is expected to slow significantly as the pace of activity in the U.S. economy moderates later this year and as oil prices recede from their second-quarter levels. The growth of exports is also expected to slow over the year ahead, as expansion abroad moderates and the effects of the dollar's past depreciation diminish. The projected decline of the dollar in 1990 will help boost export growth by the end of the year.

When capital gains and losses on foreign-currency denominated assets that are largely the result of exchange rate changes are excluded, the U.S. current account deficit is expected to fluctuate narrowly around \$140 billion through the middle of next year and then to

decline very slightly. In 1990, larger net portfolio interest payments offset increases in direct investment income receipts and other services. As a result, the current account (excluding capital gains) will improve a bit less than the trade balance.

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	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
<b>1. GNP Exports and Imports 1/</b>													
Current \$, Net	-94.7	-90.5	-80.8	-80.0	-96.1	-90.5	-94.8	-90.2	-86.6	-85.9	-85.4	-79.8	-72.2
Exports of G+S	519.8	597.7	653.7	536.1	548.0	570.3	593.9	606.3	620.1	632.9	644.3	659.3	678.2
Imports of G+S	614.4	688.2	734.5	616.0	644.0	660.8	688.7	696.6	706.7	718.8	729.7	739.1	750.3
Constant \$2 \$, Net	-100.2	-90.6	-76.7	-93.9	-105.4	-95.6	-93.0	-88.5	-85.1	-84.1	-81.7	-74.7	-66.4
Exports of G+S	504.8	555.9	592.0	514.0	522.1	535.4	553.5	562.4	572.5	579.8	586.1	595.0	606.9
Imports of G+S	605.0	646.5	668.7	607.9	627.4	631.0	646.6	650.9	657.5	664.0	667.8	669.7	673.3
<b>2. Merchandise Trade Balance 2/</b>	-126.5	-127.6	-123.7	-116.7	-128.1	-124.7 <sup>P</sup>	-130.7	-128.5	-126.5	-126.2	-126.3	-123.4	-118.9
Exports	319.9	361.2	390.2	326.7	334.6	348.3 <sup>P</sup>	361.3	364.4	370.9	377.4	384.3	393.4	405.5
Agricultural	38.3	43.7	47.3	40.9	38.4	42.6 <sup>P</sup>	45.4	42.7	44.1	45.3	46.5	47.9	49.6
Non-Agricultural	281.6	317.5	342.8	285.8	296.2	305.7 <sup>P</sup>	315.9	321.7	326.8	332.1	337.8	345.5	355.9
Imports	446.4	488.8	513.9	443.4	462.7	473.0 <sup>P</sup>	492.0	493.0	497.4	503.7	510.5	516.8	524.4
Petroleum and Products	39.3	47.6	48.2	39.4	36.9	42.8 <sup>P</sup>	53.5	47.8	46.5	47.4	48.0	48.3	49.3
Non-Petroleum	407.1	441.2	465.6	404.0	425.7	430.2 <sup>P</sup>	438.5	445.2	450.9	456.3	462.5	468.5	475.2
<b>3. Other Current Account Transactions</b>													
Capital Gains and Losses 3/	-2.3	-2.0	2.6	-12.0	11.3	-4.2 <sup>P</sup>	-3.7	-0.0	-0.0	2.6	2.6	2.6	2.6
Other D.I. Income, Net	33.2	34.5	38.9	36.6	37.4	32.7 <sup>P</sup>	32.9	35.2	37.2	37.3	37.0	39.3	41.9
Portfolio Income, Net	-28.3	-34.3	-46.6	-29.6	-30.0	-30.5 <sup>P</sup>	-32.6	-35.3	-38.7	-41.9	-45.1	-48.3	-51.1
Other Current Account, Net	-11.4	-10.3	-6.6	-8.8	-18.4	-11.4 <sup>P</sup>	-9.7	-8.8	-11.6	-7.9	-6.2	-5.3	-7.2
<b>4. U.S. Current Account Balance</b>													
Including Capital G/L	-135.3	-139.7	-135.5	-130.4	-127.6	-138.1 <sup>P</sup>	-143.6	-137.5	-139.6	-136.1	-138.1	-135.0	-132.8
Excluding Capital G/L	-133.1	-137.7	-138.1	-118.5	-139.0	-133.9 <sup>P</sup>	-140.0	-137.5	-139.6	-138.7	-140.7	-137.6	-135.4
<b>5. Foreign Outlook 4/</b>													
Real GNP--Ten Industrial 5/	3.8	2.8	2.5	4.5	2.3	3.1	2.9	2.6	2.4	2.3	2.3	2.6	2.7
Real GNP--NonOPEC LDC 6/	3.9	3.5	3.7	3.7	3.6	3.5	3.4	3.3	3.3	3.3	3.8	4.4	5.0
Consumer Prices--Ten Ind. 5/	2.6	3.9	3.4	2.5	3.8	4.2	5.4	3.0	3.2	3.0	4.5	2.4	2.9

1/ National Income and Product Account data.

2/ International accounts basis.

3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.

4/ Percent change, annual rates.

5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.

6/ Weighted by share in NonOPEC LDC GNP.

<sup>P</sup>/ Projected