Federal Reserve System - Volcker [1986]

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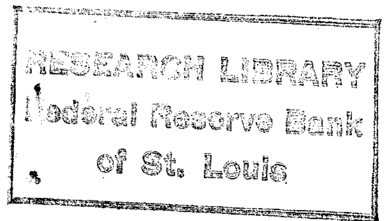
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Statement by

Paul A. Volcker

Chairman, Board of Governors of the Federal Reserve System

before the

Committee on Banking, Finance and Urban Affairs

House of Representatives

February 19, 1986

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I am pleased once again to appear before this Committee to discuss the approach of Federal Reserve policy within the larger economic setting at home and abroad.

As you know, 1986 has begun with the economy continuing to move forward after more than three years of expansion. Today, more people are employed relative to the working age population than ever before recorded. Unemployment has continued to fall. Happily, the continuing expansion has so far been achieved while inflation remained at the lowest rate in more than a decade.

Looking ahead, there are some highly encouraging signs as well. The larger employment increases in recent months are reflected in relatively confident attitudes by consumers. Manufacturing output as a whole, which had been sluggish during much of 1985, is again rising even though many areas continue to face strong competition from abroad. Lower interest rates and higher stock prices -- buoyed in part by the action of Congress in improving prospects for declining federal deficits in

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the years ahead -- have made it less expensive to finance new business investment and housing. With few exceptions, excessive inventories, often in the past a harbinger of economic adjustments, appear absent.

While productivity growth has been rather disappointing, wage restraint in much of industry and lower commodity prices have kept costs under control. The sharp break in oil prices should be an important force cutting costs and prices in the period immediately ahead, in the process releasing real purchasing power to U.S. consumers. Moreover, changes in exchange rates and the welcome initiatives taken by the Congress and the Administration toward budgetary restraint offer the potential for dealing with two of the major, and interrelated, imbalances in the economy that I have spoken about with you so often -- the enormous fiscal and trade deficits.

Altogether, the opportunity clearly remains for combining sustained expansion with greater price stability in the period ahead, building on the progress of the past three years. In

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my judgment, the present expansion -- already longer than the postwar average for peacetime years -- is not about to die from old age or sheer exhaustion. We don't have the pressures on capacity, the excess inventories, the accelerating costs and prices, or the rising interest rates that have typically presaged cyclical downturns in the past.

Yet, any claim that we live in an economy in which every prospect pleases would be idle pretense. There are evident points of economic pressure and financial strain, some of them aggravated by the sharp decline in oil prices itself. While the adverse trends are being changed, the deficits in our budget and trade accounts will take years to correct. And, we have long since passed the time when we could, with any validity, insulate ourselves from the difficulties of neighbors and trading partners to which we are bound by strong ties of finance and trade.

Most of these threats, in magnitude and in combination, are unique, certainly in our postwar experience. They demand our full attention if we are to deal with them successfully.

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Take, for instance, the trade problem. The dollar had risen to extraordinarily high levels by early 1985, with the effect of undercutting our trade position vis-a-vis major industrial competitors. At the same time, the relatively rapid growth in demand for goods and services in the United States, at a time of sluggish growth abroad, attracted a large volume of imports. The net result was to drive our trade deficit to a rate of close to $150 billion by the end of last year and to about $125 billion for the year as a whole.

No doubt, given the extreme values the dollar had attained internationally in 1984 and early 1985, an adjustment in exchange rates has been a necessary part of achieving a better competitive equilibrium and of responding to destructive protectionist pressures. That was explicitly recognized in the meeting of the Finance Ministers and Central Bankers of the five leading industrialized countries in September. By now, a substantial adjustment in exchange rates has been made, placing our producers in a stronger competitive position.

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But we also know, from hard experience here and abroad, that changes in actual trade flows necessarily lag changes in exchange rates by a period extending into years, that currency adjustments can assume a momentum of their own, and that sharp depreciation in the external value of a currency carries pervasive inflationary threats.

No doubt, some depreciation in the dollar, after the rapid run up, could be absorbed without a sharp or immediate impact on domestic prices. But we cannot afford to be complacent. Inevitably, prospects for balance in our internal capital markets -- and therefore prospects for interest rates -- remain for the time being heavily dependent on the willingness of foreigners to place huge amounts of funds in dollars and on the incentives for Americans to employ their money at home. In essence, the financing of both our current account deficit and our internal capital needs -- so long as the government deficit remains so high -- is dependent on an historically high net capital inflow. Clearly, the orderly balancing of our demands for

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funds with supply in those circumstances requires continued confidence in our currency.

I recognize and appreciate the importance of the efforts that the Congress and the Administration have made to place the budget deficit on a declining trend. I know that effort will continue to require the hardest kind of choices. But we can also see some of the potential benefits in improved market sentiment. The net result should be both to reduce risks of inflation and to make us less dependent on foreign financing in the years ahead.

At the same time, oil imports apart, improvement in our trade balance for the next year or longer is in large part dependent not on depreciation of our currency but on greater growth by our trading partners. More competitive pricing is of limited value when foreign markets are not growing strongly, and when producers abroad do not themselves have expanding, profitable markets at home.

Prospects in that respect remain quite mixed. There have been signs of somewhat stronger growth in Germany and elsewhere in continental Europe. However, it remains questionable whether

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that growth will in fact be strong enough to reduce appreciably continued high levels of unemployment, now averaging more than 10 percent for the continent as a whole. In Japan, where unemployment is historically at much lower levels, growth by those same historical standards is sluggish, with the appreciation of the yen itself a restraining factor.

As appropriately emphasized at the September G-5 meeting, a better world equilibrium, including more rapid improvement in our trade balance, is clearly dependent on structural and other measures to deal with the sources of the imbalances. The Gramm-Rudman-Hollings legislation represents one important approach to that end. Stronger growth patterns in other leading countries are also directly relevant. The opportunities for policies to work toward that result this year appear to be greatly enhanced by the strongly beneficial effects of the declines in oil prices and the appreciation of their currencies. Both developments reinforce the already strong prospects for price stability in those countries.

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Should oil prices remain close to present levels, that development will also be a powerful force offsetting, and in the short-run probably more than offsetting, the direct and indirect effects of the lower international value of the dollar on our overall price performance. At the same time, the effect is to release real purchasing power and cash flow to American consumers and oil-consuming businesses. The potential addition to real consumer income should work in the direction of offsetting the effects on purchasing power that some have foreseen in the full implementation of the deficit reduction program called for by the Gramm-Rudman-Hollings legislation over the course of this year.

With similarly beneficial effects for other consuming countries, that is part of the basis for a sense of growing optimism about world economic prospects. But, of course, the effects are sharply adverse for energy producers, affecting important regions in the United States where energy production and exploration loom so large, and therefore prospects for investment as a whole. The added strains for certain already

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heavily indebted developing countries are even more acute. Moreover, the pervasive pressures on much of the agricultural sector in this country remain, although recent legislation by the Congress addressed and should help stem further deterioration.

These sectoral strains and imbalances point up the crucial importance of maintaining the essential safety and soundness of our financial system, and in particular our depository institutions. For a long time, that was something we in this country thought we could take for granted. And it was partly that feeling, combined with accelerating inflation and other factors, that contributed to much more aggressive lending behavior over the years -- lending that has led to unanticipated problems in a period of disinflation and greater competitive pressures. Today, measures to protect the basic financial fabric necessarily assume a high priority, and that effort will require appropriate action by the Congress as well as the regulatory authorities.

Finally, in surveying the economic setting for monetary policy, I must call to your attention the disappointing record

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with respect to productivity over recent years viewed generally, at least as recorded by the standard national statistics. Developments in that respect during 1985, when productivity for nonfarm businesses as a whole showed no growth, are hard to explain. In manufacturing, where recorded performance is substantially better than in other sectors, the slower productivity growth may be a reflection of the levelling of output. But other sectors were growing relatively fast, without reflection in productivity improvement.

Perhaps part of the seeming problem lies in the inherent difficulty in measuring the volume and quality of output in the dominant service sector of the economy. But the results do raise further questions about the growth potential of the economy as recorded by the GNP statistics -- how fast can we expect the GNP to grow in a sustained way without excessive pressures on human or physical capacity. Over the past six months, for instance, the unemployment rate has dropped by a

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full 1/2 percentage point -- desirable in itself but accompanied by a recorded annual rate of output growth of only 2-3/4 percent.

In the end, it is largely productivity that governs prospects for per capita income growth; together with growth in the number of workers, it sets a limit on our total economic growth. Fortunately, in developing monetary policies now, we do not need to reach precise judgments about our long-term growth potential; today, capacity utilization is still somewhat below, and unemployment somewhat above, average levels for periods of business prosperity. Recent productivity trends, nonetheless, do introduce an unwelcome cautionary note about the longer-run.

Monetary Policy

Any description of the opportunities and risks in the current economic situation points up the fact that the formulation and implementation of monetary policy need to take account of a variety of sometimes conflicting objectives and criteria. In the current setting, other policy approaches -- toward the budget, toward international finance, toward trade, and toward other areas --

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are obviously critical to the success of the common effort, just as the pervasive and indirect effects of monetary policy can bear upon the success of other policies beyond the strictly financial. Moreover, institutional and economic changes have strongly affected the behavior of certain policy guideposts -- notably M1 and debt -- relative to other economic magnitudes. Consequently, I do not believe that in current circumstances there is any escape from the need for a substantial element of judgment in the conduct of Federal Reserve policies.

That need was illustrated in 1985. Over the course of the year, monetary policy remained in a generally accommodative mode in the sense that pressures on bank reserve positions were both limited and little changed. The discount rate was reduced once in the spring, from 8 to 7-1/2 percent, and most market interest rates declined by 1 to 2 percentage points, generally reaching the lowest levels since mid-1979 or before.

As illustrated in Charts II and III attached, the broader monetary aggregates, M2 and M3, remained generally within

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the ranges targeted at the start of the year. At the same time, however, the narrowly defined measure of the "money supply," M1, grew persistently above the range set both at the start of the year and again after the range was reset in July (see Chart I). That aggregate ended the year almost 12 percent above the year earlier level, an historically high rate of growth.

In technical terms, that large "overshoot" was permitted in the light of a persistent and sizable decline in M1 "velocity" -- that is the relationship between M1 and the nominal GNP. That decline in velocity was apparent whether measured contemporaneously or with a one or two quarter lag between money and GNP. In other words, the exceptional growth in M1 seemed to be matched by an equally exceptional decline in velocity, suggesting the high M1 growth in 1985 does not imply the same inflationary potential, at least for the near term, as in the past.

Less abstractly, the judgment of the Federal Open Market Committee as the year developed was that the rather strong

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restrictive action that would have been necessary to maintain M1 within its targeted range was not justified in the light of the different signals conveyed by the much more restrained growth in M2 and M3, the slower growth in overall economic activity, the margins of capacity that remained, and the continuing progress toward price stability. For much of the year, the dollar remained high, and that fact was another strong signal that monetary policy was not unduly liberal.

We were aware, of course, of some conflicting evidence. During much of 1984 and 1985, domestic demand -- the spending of consumers, businesses, and governments -- continued to expand at a rate well beyond the rate of domestic output, measured by the GNP. In fact, the rate of demand increase, if maintained, would probably be beyond our long-term growth potential. In that sense we continued to live beyond our means, at the expense of a widening trade deficit.

Moreover, private as well as public debt continued to accumulate at an historically rapid rate, running above the

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9-12 percent "monitoring range" set out at the start of the year. The aggregate debt statistics, portrayed in relation to GNP on Chart IV, exaggerate the problem to some degree. There has been massive issuance of tax-exempt securities in anticipation of tax law changes, for re-investment in Treasury securities in pending subsequent refundings, and for financing home purchases and industrial development. These activities lead to "double counting" in the aggregate statistics because both the new municipal debt and the debt acquired in employing the funds borrowed are included in the total. At the same time, substitution of debt for equity by businesses continued unabated, with about $100 billion of equity retired by a combination of stock repurchase programs, so-called leveraged buyouts, and as part of mergers and acquisitions.

The strongly rising stock market and lower interest rates had the effect of greatly increasing consumer wealth, measured by current market values, and lowering the cost of capital to business. Nonetheless, the trend of debt creation,

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with its implications of greater leveraging and potential financial fragility, remains disquieting, particularly in an environment of progress toward greater price stability. Indeed, as I suggested earlier, there is already ample evidence in the financial area of the consequences for individual institutions of extended financial positions and unduly loose credit standards. The crises in the thrift industry in Maryland and Ohio, where federal insurance and supervision were absent, illustrated in an extreme form the consequences of essentially speculative lending and lax market practices.

A more pointed question for the deliberations of the FOMC has been the lasting significance of the sizable increase in M1. We are well aware, as I have often reported to this Committee, of the long history and of the economic analysis that relate excessive money growth to inflation over time. The operational question remains as to what, in specific circumstances, is in fact excessive in the light of recent velocity behavior.

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That question is greatly complicated both by the changed composition of M1, which now includes accounts that receive interest close to market levels and clearly have a large "savings" as well as a "transaction-oriented" component. The disinflationary process and the associated decline in market interest rates also have implications for the willingness to hold money.

Enough evidence has now accumulated since the peak inflation years to suggest two conclusions:

(1) That the long upward trend in velocity of 3 percent or so characteristic of most of the postwar period -- when inflation and interest rates were generally trending upward -- will probably not be typical of a world in which inflation and interest rates are trending downward and in which M1 has a growing savings component.

(2) That M1 may be more sensitive to short-term fluctuations in interest rates.

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For 1985 specifically, our work strongly indicates that much of the unexpected decline in M1 velocity was a response to the sharp reduction in interest rates late in 1984, continuing at a lesser pace over much of last year. In a context of contained inflation, a generally strong dollar, and more muted economic growth, the decline in interest rates did not appear in itself to risk excessive economic stimulation, with renewed inflationary potential. Moreover, neither of the broader monetary aggregates, which remained within their target ranges, confirmed excessive monetary expansion.

Looking ahead to 1986, the FOMC decided to take account of the greater uncertainty associated with the relationship between M1 and economic activity and prices by adopting a relatively broad M1 target range of 3-8 percent. While wider, that range is centered on the same mid-point, 5-1/2 percent, as the tentative 4-7 percent range set out last July. In fixing that range, the Committee anticipated that velocity would not

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drop at nearly the rate of 1985. Without some reversal of the sharp drop in velocity last year, growth toward the upper end of the range could well be appropriate. More broadly, the Committee agreed that changes in M1 would be evaluated in the light of the presence -- or absence -- of confirming evidence of excessive growth in M2 and M3. For both those aggregates, the tentative growth ranges of 6-9 percent set in July were reaffirmed.*

As set out in Table II attached, in establishing these target ranges, members of the Federal Reserve Board and Reserve Bank Presidents anticipated the economy would grow somewhat more rapidly than in 1985 and that the unemployment rate would continue to decline gradually. Views on the outlook for prices were rather mixed, with some anticipating measurable further progress toward stability, particularly in the light of the oil price

*These new ranges, and the related monitoring range for debt, in comparison with ranges for 1985 are shown in Table I.

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decline, while others expected that the consequences of the lower exchange rate may, for a time, put stronger upward pressure on prices. While the "central tendency" of the projections for real growth is lower than that of the Administration, so are most of the projections of prices by participants in the FOMC. The differences are not so large as to suggest, in themselves, inconsistency with the monetary growth targets; indeed, several Board Members and Presidents anticipated real growth in the 4 percent area. I might also note the somewhat lower unemployment rate generally anticipated by the Committee participants suggests more limited productivity growth than implied by the Administration projections.

Monetary policy is implemented day-by-day and week-by-week by determining the appropriate degree of pressure on bank reserve positions in the light of monetary growth, judged in the context of the flow of information about the economy, the outlook for prices, and domestic and international financial

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markets, including the value of the dollar in the foreign exchange markets. In the latter connection, circumstances now are, of course, very different than during most of 1985. The potential inflationary implications of further depreciation of the dollar, while likely to be offset for some time by lower oil prices, need to be fully considered in the implementation of policy.

At present, with the various monetary aggregates at reasonable levels relative to their new target ranges, and taking account of the cross-currents in other factors bearing on policy implementation, there has been no occasion for significant change in the degree of pressure on bank reserve positions. As you know, both intermediate and long-term interest rates have been declining to the lowest levels seen in years and the stock market has been ebullient. The justification, and the sustainability, of those developments lies in a combination of prospects for budgetary restraint, the favorable impact of lower oil prices, and improved inflationary expectations and performance. The challenge for

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monetary policy, insofar as it can contribute, is to help assure that those favorable prospects for maintaining progress toward stability can be a reality in the context of a growing economy. The implementation of policy will be conducted in the light of that objective.

Related Approaches

I referred earlier to the pressures in some areas of the credit markets growing in large part out of the backwash of overly aggressive lending policies in the earlier climate of accelerating inflation. Indeed, those concerns have been aggravated in more recent years by a continued highly aggressive approach by some institutions seeking high returns, with their own liabilities effectively underwritten by federal insurance. These problems, and appropriate responses to them, are too large a subject for me to deal with in the time available today; we have discussed them before on a number of occasions.

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I do want to report, however, that the Federal Reserve has underway a number of initiatives to help deal with the problems more effectively. They include strengthening our force of examiners and supervisory personnel so that they are equipped to meet higher standards in the frequency and intensity of examination of member banks and holding companies. Certain regulatory steps have been undertaken as well. Specifically, we have issued for public comment a proposal for a framework of "adjusted capital/asset ratios" designed to supplement our present capital standards. The proposed standards are designed to take account of the different characteristics of bank assets and to incorporate allowance for off-balance sheet risks that have been proliferating rapidly at major banks here and abroad in recent years. I know other regulatory agencies have comparable initiatives underway in the supervisory and regulatory area.

By its nature, this supervisory effort must be a continuing process, although it has particular relevance in this turbulent period.

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Moreover, I can only emphasize to you again my long-standing concern that you act, and act soon, to modernize our basic laws governing the structure and nature of our depository system. After decades of little change in the legal structure, technological and market developments have together created a new competitive environment. That change, without a coherent legislative framework, has sown enormous confusion about the proper and legitimate role of banks, bank holding companies, thrift institutions, and their commercial and financial competitors. Regulatory decisions attempting to apply current laws, sometimes conflicting in themselves, are regularly challenged in the courts. The results are capricious as both regulatory bodies and the courts inevitably reach different conclusions in ambiguous circumstances.

The courts themselves in recent decisions have emphasized the need for fresh Congressional guidance. I can only reiterate my own view that, without such a review, the banking and thrift industries are left adrift, driven to exploit perceived loopholes

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in present law on the one hand, while on the other hand, their basic and regulated business is undercut by commercial organizations and investment houses operating without the protections provided by the federal "safety net." The result is a clear threat not only to the coherence but also to the safety and soundness of the whole. Time is growing short.

From another perspective, the decline in oil prices has presented an enormous new challenge to a few countries that have been heavily dependent on oil resources for the development of their own economies. The problem is particularly acute with respect to Mexico, with which we have close trade and financial relationships, but it is certainly not limited to that country.

In the broadest terms, the initiatives outlined by Secretary Baker some months ago for managing a "second stage" of the international debt crisis provide a constructive and needed overall framework for dealing with problems. He emphasized the importance of achieving a solution in the context of overall financial and

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economic policies conducive to sustained growth. That, in turn, requires complementary actions by the borrowing countries, by creditors, and by multilateral development institutions alike.

In essence, the borrowing countries themselves -- "Baker Plan" or not -- appear to have the strongest kind of incentives to take those actions necessary to improve the efficiency and competitiveness of their own economies, including the development of their potentially vast non-oil resources. Those fundamental measures will be more effective, with faster results, to the degree those nations also have greater assurance of access to growing external markets for their products. Resistance to protectionism should, of course, be easier to achieve in a context of an expanding world economy, the prospects for which should be enhanced by the same decline in oil prices that makes the pressures more acute for oil producing countries.

The restructuring process can be greatly assisted by cooperation with such institutions as the World Bank and Inter-American Development Bank, which have funds available for substantially

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larger loan programs in support of fundamental economic adjustments, and with the International Monetary Fund. On that basis, I believe necessary margins of external private investment or loans can continue prudently to be made available to meet essential external needs. Indeed, without complementary policies by international institutions and creditors, the will to find constructive outward-looking solutions to the problems by the borrowers themselves will inevitably be undermined, and the adverse implications would extend far beyond the economic arena.

For some heavily indebted countries that either import a sizable portion of their energy requirements or are essentially neutral in that respect, recent developments should ease the task. But I do not in any way want to minimize the challenge for others -- for Mexico, Ecuador, Nigeria, and Venezuela. What I do suggest is that the fundamental premises of the total effort by borrowers and creditors alike in managing the debt situation remain valid. I believe that, with will and wisdom, the basis

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remains for working through this inevitably difficult period in a way that ultimately will reinforce prospects for longer-term growth.

Conclusion

I conclude as I started.

With constructive policy responses, recent developments carry the potential for enhancing prospects here and elsewhere for a sustained period of growth in a context of price stability. Those are the common goals of the Congress, the Administration and the Federal Reserve.

But if those goals are to be actually achieved, we also must clearly recognize, and collectively deal effectively with, points of strain and danger, some of them stemming from the very successes of the past.

- Economic history is replete with examples of countries that, in attempting to correct over-valuation of their currencies, failed to take

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advantage of their improved competitive positions. Too often, they lapsed into a debilitating and self-defeating cycle of external depreciation and internal inflation, at the expense of an eroding loss of confidence, higher interest rates, and impaired growth.

It would be foolish to presume that the United States is somehow immune from that threat -- we had too much adverse experience in the 1970s to indulge in wishful thinking in that respect. Instead, in our monetary and fiscal policies, we need to be realistic about the danger and be fully sensitive to the need to maintain confidence in our currency.

-- Fortunately, the sharp decline in energy prices now underway should, for months ahead, help assure satisfactory price performance overall, making the job of maintaining progress toward stability much easier. But those lower prices are no unmitigated blessing.

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They create new uncertainties and stresses for some regions of the economy, for some financial sectors, and particularly for some important developing countries and trading partners. Those stresses need to be contained and dealt with in a constructive way, and we need to guard against conditions that might lead to a repetition of past energy shortages.

-- The sense of greater confidence about our fiscal prospects still needs to be converted into reality. Whatever the fortunes of the Gramm-Rudman-Hollings legislation in the courts or the merits of that particular approach toward the problem, the direction and broad spirit of the effort is essential if we are to correct deep-seated imbalances that, sooner or later, would only undercut our bright prospects.

-- The success of all our efforts is dependent in substantial part on complementary policies by other countries -- their

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success in enhancing <u>their</u> growth and stability, in opening markets to others, and in helping to deal with points of strain in the international financial fabric.

Most other industrialized countries have, as a matter of priority, been deeply concerned with restoring price stability and reducing fiscal deficits. Remarkable strides have been made toward those goals. However, their growth, at least until now, has been heavily dependent upon rising trade and current account surpluses. Today, there appears to be a prime opportunity for encouraging "home grown" expansion, larger imports, and better international balance.

- For the longer run, I welcome the call by the President to consider what steps might be desirable to achieve and maintain greater exchange rate stability internationally.

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No one should think that task is a simple one. It cannot in any way substitute for disciplined and complementary domestic policies among the leading nations. Indeed, meaningful progress would imply even greater demands on those policies and on international cooperation. But surely we have had enough experience, here and elsewhere, with the distorting effects of extreme exchange-rate volatility to make that effort to reexamine the international system worthwhile. In a fundamental sense, that is a corollary of the simple observable fact that the economic fortunes of all countries -- including the United States -- are inextricably interlocked.

We have come too far, and the stakes are too high, to fail to rise to the evident new challenges.

We have to recognize that depreciation of our currency does not in itself provide a fundamental solution, and is in fact a two-edged sword.

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The budgetary effort must be sustained.

If we expect to benefit from the break in energy prices, we must collectively respond to the points of strain.

We need to be patient when patience is required. The trade and budgetary and financial problems will be with us for some time; at the same time, we need to be insistent in carrying through the measures to deal with them constructively.

In much of this, I recognize the Federal Reserve and monetary policy have a vital part to play. Given the cross-currents in the economy and sometimes conflicting signals among the guide-posts to policy in today's setting, there will be a high premium on careful judgment. But through it all the basic objective does not change. We are convinced that sustained growth in the United States -- and much more -- is dependent upon maintaining progress toward price stability over time. And given our weight in the world, that same stability must be one of the foundation stones of a prosperous, integrated global economy.

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Chart I

M1 Target Ranges and Actual

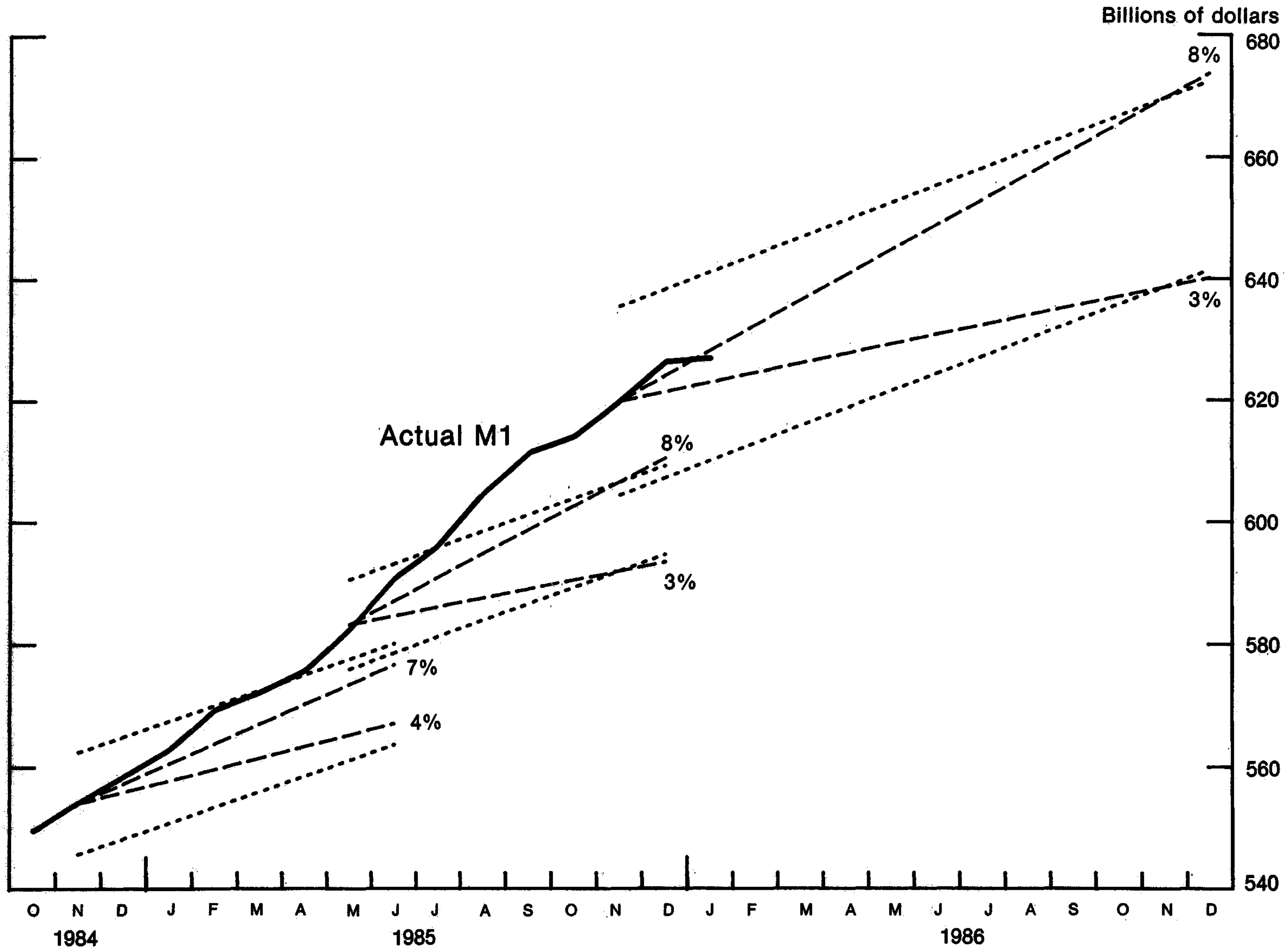

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Chart II

M2 Target Ranges and Actual

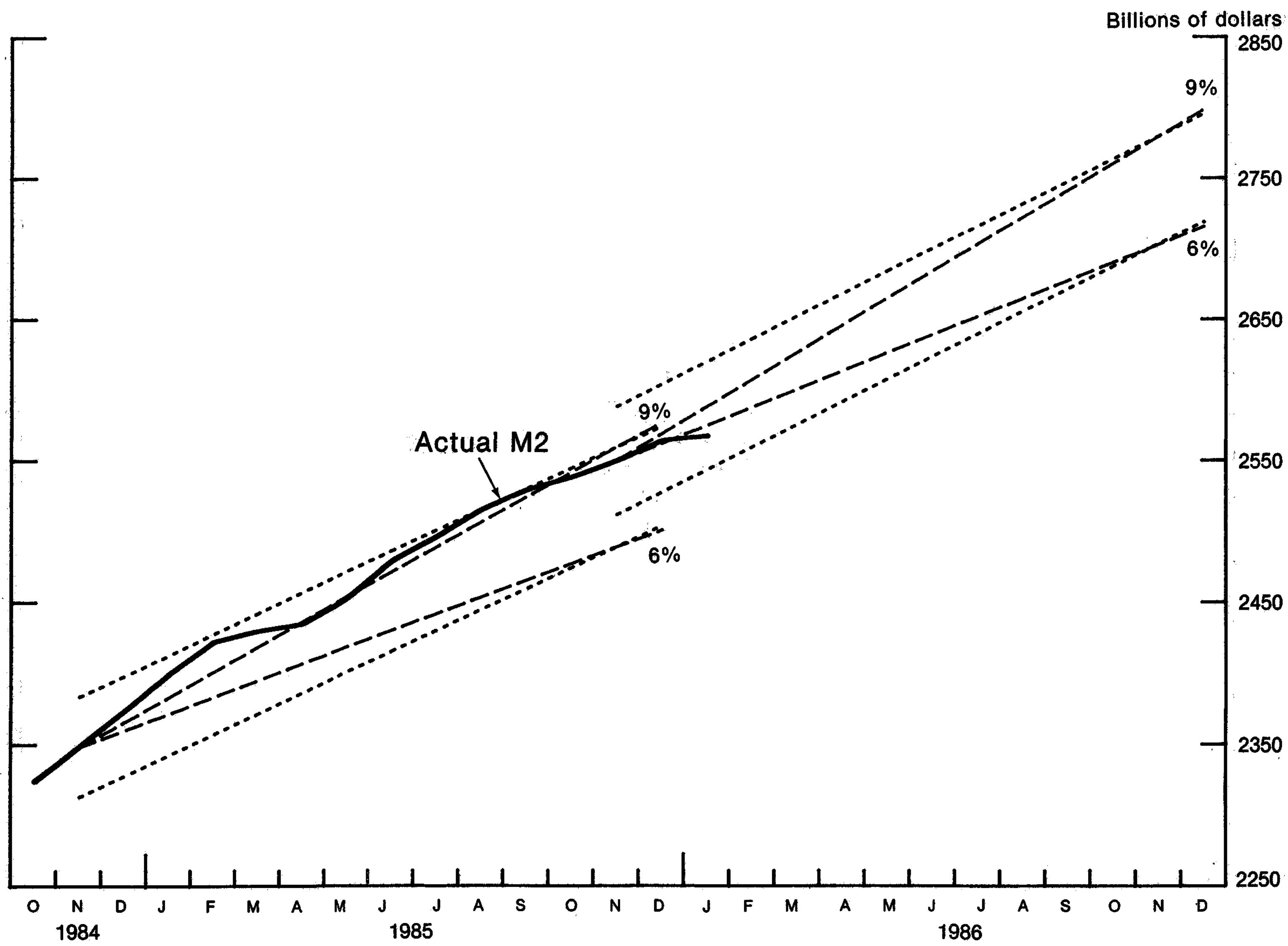

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Chart III

M3 Target Ranges and Actual

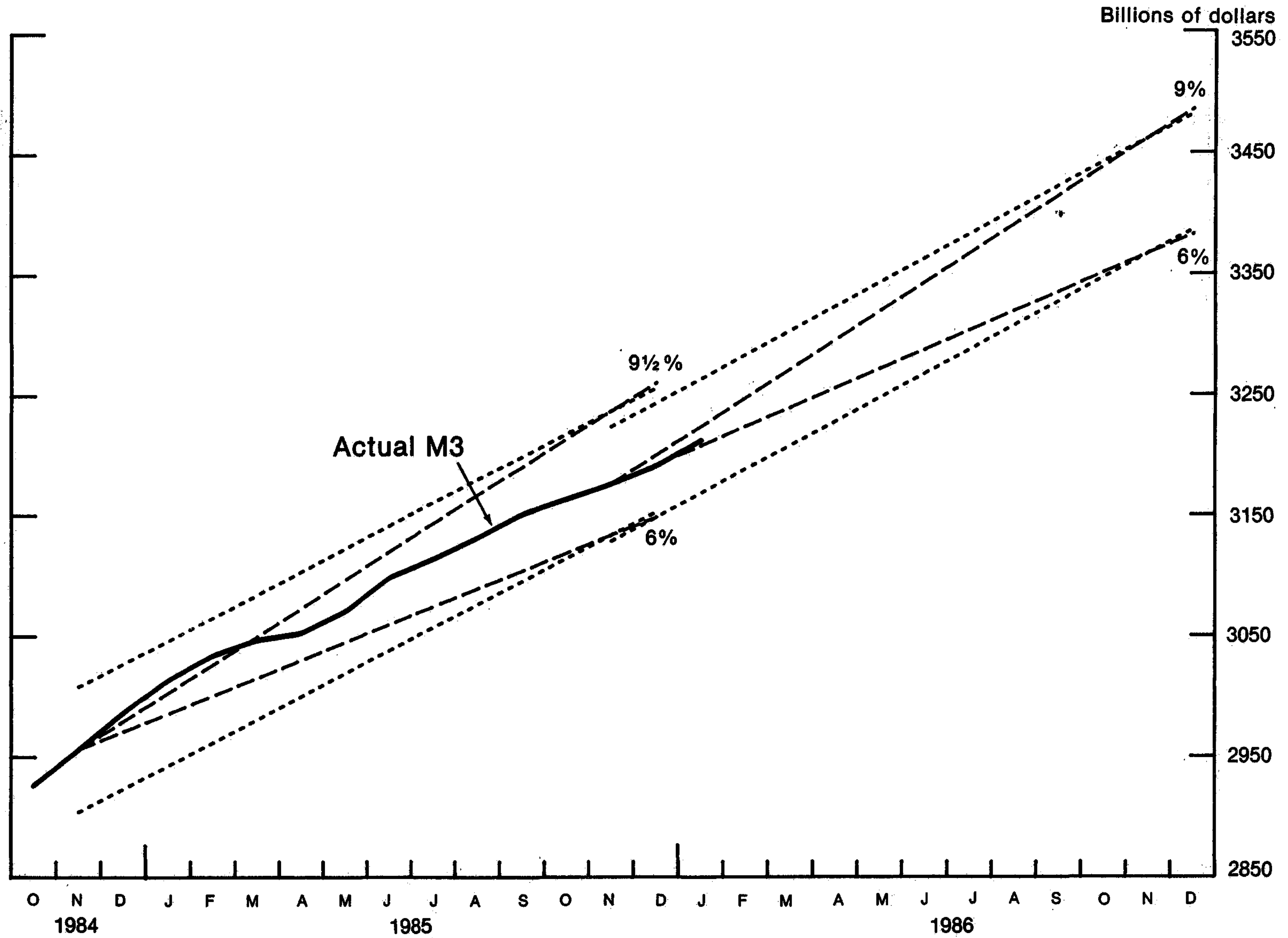

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Chart IV

Ratio of Domestic Nonfinancial Sector Debt to GNP

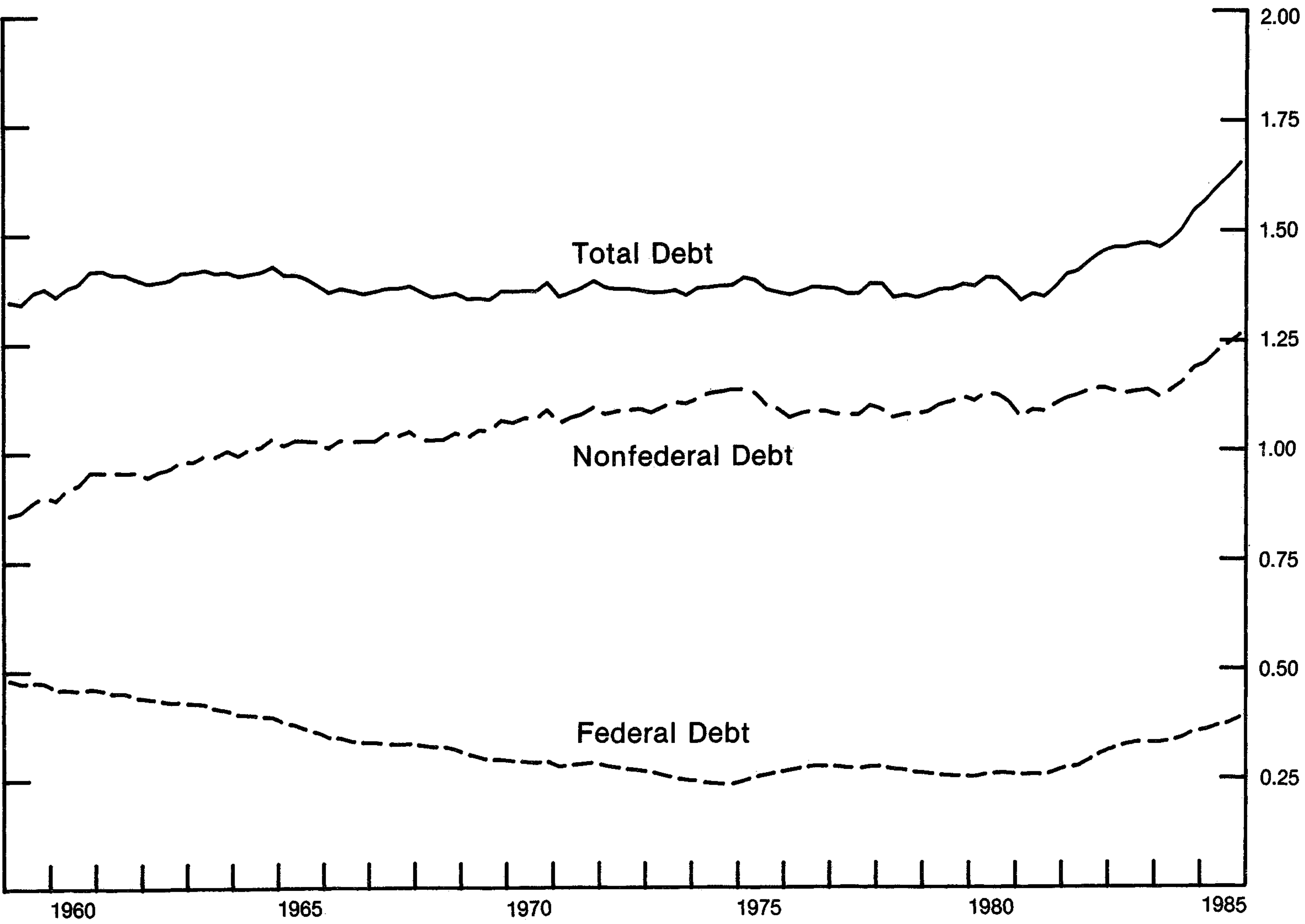

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Table I

Ranges of Growth for Monetary and Credit Aggregates
(Percent change, fourth quarter to fourth quarter)

	1986	1985
M1	3 to 8	3 to 8*
M2	6 to 9	6 to 9
M3	6 to 9	6 to 9-1/2
Debt	8 to 11	9 to 12

*Applied to period from second to fourth quarter.

Table II

Economic Projections for 1986

	FOMC Members and other FRB Presidents		Administration	CBO
	Range	Central Tendency		
Percent change, fourth quarter to fourth quarter:				
Nominal GNP	5 to 8-1/2	6-1/2 to 7-1/4	8.0	7.6
Real GNP	2-3/4 to 4-1/4	3 to 3-1/2	4.0	3.6
Implicit deflator for GNP	2-1/2 to 4-1/2	3 to 4	3.8	3.9
Average level in the fourth quarter, percent				
Unemployment rate	6-1/4 to 6-3/4	About 6-1/2	6.7	6.7*

*Civilian unemployment rate.

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