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CONFIDENTIAL (FR)

March 14, 1979

SUMMARY AND OUTLOOK

**By the Staff
Board of Governors
of the Federal Reserve System**

SUMMARY AND OUTLOOK

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. The pace of economic expansion has moderated since the turn of the year, owing to some extent to adverse weather conditions. At the same time, there has been a broad acceleration of price increases from the already rapid rate late last year.

Nonfarm payroll employment in February showed a further large gain of 300,000, and the unemployment rate was virtually unchanged at 5.7 per cent. Employment gains in the private sector were widespread with the exception of construction and nondurable manufacturing. Industrial production apparently increased by a small amount in February, following little change in the previous month.

Retail sales, excluding autos and nonconsumption items, advanced by about 1 per cent in February, following a decline in January (according to the revised estimate). Weather conditions contributed to these developments to an uncertain extent. The GAF grouping (general merchandise, apparel and furniture and appliance stores) showed reduced sales in January and not much change in February. Unit auto sales, however, increased to an 11.3 million rate in February, slightly above the average of the second half of 1978. This probably reflected a substantial spurt in demand for small, gas-efficient cars, both domestic and foreign. Total foreign car sales increased to 2.3 million units (annual rate), while total domestic-type sales stayed about unchanged at a 9 million annual rate.

In the business investment area, new orders for nondefense capital goods rose 7-1/2 per cent in January to a level 5 per cent above the fourth quarter. Sizable increases were recorded for aircraft and ships as well as electrical machinery. Contract awards for nonresidential construction, however, fell again in January to a level 7 per cent below the average in the last half of 1978.

There still remains a difference between some of the near-term and the longer-term investment indicators. In contrast to the recent spurt in the orders data, the Commerce Department's February survey of investment intentions indicates virtually the same moderate increase as the previous reading taken in December--an 11.3 per cent rise in outlays in 1979. Manufacturers' newly approved capital appropriations rose strongly in the second half of last year; however, this followed earlier weakness, and thus the implications for growth in capital spending are also moderate.

The book value of manufacturers' inventories increased sharply at an annual rate of \$41 billion in January, and wholesale trade inventories also rose substantially. The increase in stocks for manufacturers was well balanced among work-in-process, finished goods, and materials. As shipments were essentially unchanged, the inventory-to-sales ratio for manufacturing rose a bit in January, and the ratio for wholesalers also moved up slightly. To the extent that manufacturers' shipments were delayed by adverse weather conditions the inventory increase may have been unavoidable. However, the already low inventory-sales ratio had been

drawn down further by the surge of sales toward the end of 1978 and firms may have wanted to build stocks to some extent in January. There is no direct evidence that much of the January bulge in inventories represents speculative purchases.

Housing starts fell in January to a 1.66 million annual rate, off 20 per cent from the fourth quarter pace. Much of the drop was in the single-family sector, while multi-family starts fell slightly, their third consecutive monthly decline. The fall in starts was concentrated in regions where the weather was particularly bad, but other data on the housing market--permits, home sales, and mortgage commitments--showed declines which were geographically more widespread.

An acceleration of inflation has been evident recently in most major goods markets. The Consumer Price Index rose at a 10 per cent annual rate in January with food and energy prices rocketing upward. Producer prices of finished goods rose at an annual rate of about 14 per cent in January and February, up sharply from the 8-3/4 per cent rate of the second half of 1978; the price acceleration was widespread. For consumer non-foods, producer prices increased at a 12-1/2 per cent annual rate over the first two months of 1979, as compared to a rate of about 8-1/2 per cent in the second half of last year. Moreover, spot prices for industrial materials have increased sharply further since mid-February, presaging increases in finished goods prices in coming months. Wage increases slowed somewhat in February with the private nonfarm average hourly earnings index up at a 4-1/2 per cent annual rate; this followed a 9 per cent annual rate increase in January when the higher minimum wage was put into effect.

Outlook. The staff is currently estimating that real GNP in the first quarter is increasing at a 3 per cent annual rate, one percentage point less than was projected in the previous Greenbook and considerably below the 6-1/2 per cent fourth quarter pace. Declines are indicated for real consumer goods outlays and residential construction. In addition, net exports appear to be declining in the current quarter. But inventory accumulation appears to have picked up and the late 1978 growth pace of fixed capital spending apparently has carried over into the new year. Taking into account recent price performance, the staff now estimates the first quarter rise in the gross business product fixed-weighted price index at around a 9-1/2 per cent annual rate--3/4 percentage point higher than indicated last month.

Assumptions underlying the staff projection of economic developments through the end of 1980 remain largely unchanged from the last Greenbook. Short-term interest rates are expected to change only moderately during the projection period, perhaps edging higher in the next few months and then gradually receding over the remainder of the period. The growth rate of M-1 is assumed to be 3 per cent in 1979 and 4 per cent in 1980, and the impact of ATS is assumed to be a depressing factor in these growth rates by around 3 percentage points in 1979 and 2 percentage points in 1980. Anticipated growth of net inflows into thrift institutions has been reduced by about 2 percentage points over the projection period to allow for the effects of the recent regulatory changes for money market

certificates. The fiscal policy assumptions are largely unchanged with the FY 1979 deficit projected about \$35 billion and the FY 1980 deficit projected around \$33 billion. Finally, in reaction to recent developments in world oil markets, the projection assumes no major supply disruptions, but very sharp price increase for imported oil in early 1979; over the year the cumulative rise is expected to amount to about 23 per cent, while the average annual increase would be 16-1/2 per cent. This compares with assumed price increases of 14-1/2 and 10 per cent, respectively, in the last Greenbook. While the outlook for OPEC pricing behavior is highly uncertain, we have assumed no further OPEC price increases for 1980, following the sharp hikes in 1979.

Projected economic developments over 1979 are similar to those presented last month. Growth in real GNP is expected to slow considerably further from the current quarter pace, with the second half of the year characterized by a rise of 1 per cent, annual rate. New developments, such as effects of reduced deposit inflows to primary mortgage lenders and the influence of higher rates of inflation on real income gains, have been estimated to trim the rate of growth of total activity by 1/4 of a percentage point during the remainder of the year as compared to last month's projection.

The general composition of output remains similar to that previously projected. Growth in capital spending is still anticipated to slow considerably in 1979 as a whole, although not as sharply as

indicated by the recent survey of business intentions. Residential construction on a quarterly average basis is expected to decline moderately with housing starts falling to about a 1.6 million unit annual rate in late 1979. The level of housing starts has been reduced by about 50,000 units reflecting the regulatory change for money market certificates. Conservative spending attitudes and a substantial decline of Federal grants for counter-cyclical programs are expected to continue to result in sluggish State and local government purchases through 1980. An increase in exports, however, should provide some support to U.S. economic growth, reflecting relatively faster economic expansion abroad and the depreciation of the dollar that occurred earlier. On balance, however, household real income gains are likely to be reduced and hence only small gains in consumption outlays are projected. The personal saving rate is projected to continue relatively low--in the area of 5 to 5-1/2 per cent.

In 1980, economic activity is projected to expand at a sluggish pace, by around 1-1/2 per cent annual rate. By the end of 1980, the unemployment rate is indicated to reach about 7 per cent.

The larger than previously anticipated rate in oil prices is estimated to add directly about 1/4 percentage point to prices by late 1979. Despite the deterioration of near-term price prospects, some of the recent adverse developments appear temporary and the projected emergence of economic slack in late 1979 and 1980 is still expected to contribute to a moderation of inflationary pressures. Moreover, the impact on prices from payroll tax increases and minimum wages is likely

to be somewhat smaller in 1980 than in 1979, as will be the domestic price push of the 1978 dollar devaluation. As measured by the gross business product fixed-weighted price index, inflation is projected to slow to an 8 per cent rate by year-end 1979 and to decline further to a 7-1/4 per cent rate by late 1980.

Detailed data for these projections are shown in the tables that follow.

STAFF GNP PROJECTIONS

	Per cent changes, annual rate							
	Nominal GNP		Real GNP		Gross business product fixed-weighted price index		Unemployment rate (per cent)	
	1/31/79	3/14/79	1/31/79	3/14/79	1/31/79	3/14/79	1/31/79	3/14/79
1976 <u>1/</u>	11.2	11.2	5.7	5.7	5.4	5.4	7.7	7.7
1977 <u>1/</u>	11.0	11.0	4.9	4.9	6.2	6.2	7.0	7.0
1978 <u>1/</u>	11.6	11.6	3.9	4.0	7.8	7.7	6.0	6.0
1979 <u>1/</u>	11.9	11.8	3.6	3.3	8.5	8.9	6.1	6.0
1980	9.0	9.1	1.4	1.3	7.6	7.9	6.8	6.8
1978-III <u>1/</u>	9.6	9.6	2.6	2.6	8.0	8.0	6.0	6.0
1978-IV <u>1/</u>	14.7	15.0	6.1	6.4	8.3	8.0	5.8	5.8
1979-I	13.3	12.2	4.0	3.0	8.9	9.6	5.8	5.7
1979-II	9.8	10.4	2.0	1.9	8.4	9.2	6.0	5.9
1979-III	8.2	8.2	1.3	1.0	7.6	7.9	6.2	6.1
1979-IV	8.9	9.2	1.2	1.0	7.7	8.0	6.3	6.3
1980-I	9.3	9.4	1.3	1.4	7.8	8.1	6.5	6.5
1980-II	9.0	9.2	1.3	1.4	7.6	7.8	6.7	6.7
1980-III	8.6	8.8	1.5	1.4	7.1	7.3	6.9	6.9
1980-IV	9.2	9.5	1.6	1.5	7.1	7.3	7.1	7.1
Change:								
77-IV to								
78-IV <u>1/</u>	12.9	13.0	4.3	4.3	8.8	8.7	- .8	- .8
78-IV to								
79-IV	10.1	10.0	2.1	1.7	8.1	8.7	.5	.5
79-IV to								
80-IV	9.0	9.2	1.4	1.4	7.4	7.6	.8	.8
Memo:								
Growth Over Annual Policy Period:								
78-IV to								
79-IV	10.1	10.0	2.1	1.7	8.1	8.7	.5	.5

1/ Actual.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1979				1980			
	Projected							
	I	II	III	IV	I	II	III	IV
Gross national product	2276.5	2333.5	2379.7	2432.4	2487.7	2542.8	2596.7	2656.1
Final purchases	2253.0	2309.5	2356.7	2409.4	2465.2	2521.3	2576.2	2636.6
Private	1789.2	1840.1	1876.1	1916.7	1962.8	2009.2	2054.4	2101.5
Excluding net exports	1798.5	1845.7	1883.6	1924.3	1964.9	2007.2	2049.5	2093.9
Personal consumption expenditures	1441.2	1482.8	1516.0	1549.7	1582.7	1616.8	1651.0	1687.5
Goods	779.7	802.3	818.1	834.5	849.4	865.0	881.1	898.1
Services	661.5	680.5	697.9	715.2	733.3	751.8	769.9	789.4
Gross private domestic investment	380.8	386.9	390.6	397.6	404.7	411.9	419.0	425.9
Residential construction	114.1	112.7	110.9	111.9	113.6	116.1	118.6	121.4
Business fixed investment	243.2	250.2	256.7	262.7	268.6	274.3	279.9	285.0
Change in business inventories	23.5	24.0	23.0	23.0	22.5	21.5	20.5	19.5
Nonfarm	23.5	24.0	23.0	23.0	22.5	21.5	20.5	19.5
Net exports of goods and services ^{1/}	-9.3	-5.6	-7.5	-7.6	-2.1	2.0	4.9	7.6
Exports	228.9	241.0	249.5	257.4	268.3	277.3	284.8	292.7
Imports	238.1	246.5	256.9	264.9	270.3	275.2	279.8	285.0
Gov't. purchases of goods and services	463.8	469.4	480.6	492.7	502.4	512.1	521.8	535.1
Federal ^{2/}	165.0	163.9	168.6	174.2	177.1	179.7	182.1	188.0
State and local	298.8	305.5	312.0	318.5	325.3	332.4	339.7	347.1
Gross national product in constant (1972) dollars	1432.4	1430.2	1433.8	1437.5	1442.3	1447.2	1452.2	1457.7
Personal income	1833.9	1882.3	1935.0	1982.0	2023.4	2066.9	2119.9	2167.1
Wage and salary disbursements	1181.7	1208.2	1232.5	1260.0	1287.8	1313.1	1339.2	1368.9
Disposable personal income	1559.9	1599.6	1643.9	1682.1	1716.9	1752.4	1796.5	1834.0
Saving rate (per cent)	5.1	4.8	5.3	5.3	5.2	5.1	5.5	5.3
Corporate profits with I.V.A. and C.C. Adj.	179.7	182.4	179.4	180.6	181.7	186.0	188.6	193.8
Corporate profits before tax	229.2	231.4	226.4	228.6	230.9	236.3	239.9	243.2
Federal government surplus or deficit (-) (N.I.A. basis)	-21.0	-16.5	-28.0	-29.7	-24.2	-20.5	-23.8	-22.4
High employment surplus or deficit (-)	2.6	11.5	5.5	8.4	19.6	28.3	29.7	35.2
State and local government surplus or deficit (-) (N.I.A. basis)	26.1	26.6	25.4	25.4	24.4	23.3	22.3	22.2
Excluding social insurance funds	2.6	2.5	.7	.1	-1.5	-3.2	-4.7	-5.4
Civilian labor force (millions)	102.5	103.1	103.7	104.2	104.8	105.3	105.8	106.3
Unemployment rate (per cent)	5.7	5.9	6.1	6.3	6.5	6.7	6.9	7.1
Nonfarm payroll employment (millions)	87.7	88.1	88.4	88.8	89.1	89.4	89.6	89.8
Manufacturing	20.9	21.0	21.0	20.9	20.9	20.9	20.9	20.9
Industrial production (1967=100)	151.2	152.4	153.2	153.8	154.4	154.9	155.3	155.8
Capacity utilization: all mfg. (per cent)	85.9	85.8	85.4	84.9	84.4	83.9	83.3	82.8
Materials (per cent)	87.8	87.8	87.5	87.2	86.9	86.6	86.2	85.8
Housing starts, private (million units, A.R.)	1.85	1.75	1.65	1.60	1.70	1.70	1.75	1.75
New autos sales, (millions, A.R.)	11.10	10.70	10.50	10.35	10.30	10.40	10.40	10.50
Domestic models	9.00	8.90	8.80	8.75	8.70	8.75	8.75	8.80
Foreign models	2.10	1.80	1.70	1.60	1.60	1.65	1.65	1.70

^{1/} Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

^{2/} Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

March 14, 1979

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PER CENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1979				1980			
	Projected							
	I	II	III	IV	I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	3.0	1.9	1.0	1.0	1.4	1.4	1.4	1.5
Final purchases	.9	1.9	1.1	1.1	1.5	1.5	1.6	1.7
Private	.8	2.8	.6	1.1	1.4	1.6	1.7	1.8
Excluding net exports	1.1	1.8	.5	.9	.7	1.0	1.3	1.5
Personal consumption expenditures	1.1	2.7	1.3	1.3	.8	1.1	1.5	1.8
Goods	-1.3	2.1	.3	.5	-.2	.3	1.0	1.3
Services	3.9	3.4	2.5	2.2	1.9	2.1	2.0	2.5
Gross private domestic investment	15.7	-1.6	-3.1	-1.3	-.5	-.5	-1.1	-1.2
Residential structures	-8.8	-14.6	-15.9	-7.0	-3.4	.1	.4	1.2
Business fixed investment	5.7	3.6	2.5	1.7	1.3	.9	.6	-.3
Gov't. purchases of goods and services	1.2	-1.8	3.0	1.1	1.5	1.5	1.5	1.4
Federal	1.0	-7.0	6.5	1.3	1.7	1.1	.9	.7
State and local	1.4	1.4	1.1	1.0	1.4	1.7	1.8	1.8
Disposable personal income	3.3	1.4	3.4	1.7	.5	.8	3.1	1.3
<u>Current dollars</u>								
Gross national product	12.2	10.4	8.2	9.2	9.4	9.2	8.8	9.5
Final purchases	9.9	10.4	8.4	9.2	9.6	9.4	9.0	9.7
Private	10.3	11.9	8.1	8.9	10.0	9.8	9.3	9.5
Excluding net exports								
Personal consumption expenditures	10.7	12.1	9.3	9.2	8.8	8.9	8.7	9.1
Goods	9.3	12.1	8.1	8.3	7.3	7.6	7.7	7.9
Services	12.4	12.0	10.6	10.3	10.5	10.5	10.0	10.5
Gross private domestic investment	25.0	6.6	3.9	7.4	7.3	7.3	7.1	6.8
Residential structures	2.9	-4.8	-6.2	3.7	6.2	9.1	8.9	9.8
Business fixed investment	14.3	12.0	10.8	9.7	9.3	8.8	8.4	7.5
Gov't. purchases of goods and services	8.3	4.9	9.9	10.5	8.1	7.9	7.8	10.6
Federal	6.7	-2.6	12.0	14.0	6.8	6.0	5.5	13.6
State and local	9.2	9.3	8.8	8.6	8.8	9.0	9.1	9.0
Disposable personal income	13.1	10.6	11.5	9.6	8.5	8.5	10.4	8.6
Personal income	10.8	11.0	11.7	10.1	8.6	8.9	10.7	9.2
Wage and salary disbursements	11.8	9.3	8.3	9.2	9.1	8.1	8.2	9.2
Corporate profits with IVA & C.C. Adj.	.9	6.1	-6.4	2.7	2.6	9.8	5.7	11.5
Corporate profits before tax	3.6	3.9	-8.3	4.0	4.0	9.8	6.2	5.6
Nonfarm payroll employment	3.7	1.8	1.4	1.7	1.4	1.2	1.0	1.0
Manufacturing	5.9	1.3	.5	-.6	-.5	-.5	-.3	-.2
Nonfarm business sector								
Output per hour	.6	.9	.4	.5	.9	1.0	1.0	1.0
Compensation per hour	10.6	9.2	8.8	8.7	10.1	8.6	8.6	8.5
Unit labor costs	9.9	8.3	8.4	8.2	9.2	7.5	7.5	7.4
GNP implicit deflator <u>1/</u>	8.9	8.3	7.1	8.0	7.9	7.7	7.3	7.8
Gross business product fixed-weighted price index <u>2/</u>	9.6	9.2	7.9	8.0	8.1	7.8	7.3	7.3
Industrial production	4.3	3.3	2.1	1.5	1.6	1.2	1.1	1.2

Excluding Federal pay increase rates of change are: 1979 QI, 8.9 per cent; 1979 QIV, 7.5 per cent; 1980 QI, 8.0 per cent; 1980 QIV, 7.3 per cent.
Using expenditures in 1972 as weights.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1977				1978			
	I	II	III	IV	I	II	III	IV
Gross national product	1806.8	1867.0	1916.8	1958.1	1992.0	2087.5	2136.1	2212.1
Final purchases	1796.5	1850.0	1894.9	1945.0	1975.3	2067.4	2122.5	2200.5
Private	1421.5	1461.2	1493.4	1532.5	1558.6	1642.7	1682.7	1745.9
Excluding net exports	1430.0	1467.1	1502.4	1555.7	1582.7	1648.2	1693.4	1753.7
Personal consumption expenditures	1167.7	1188.6	1214.5	1255.2	1276.7	1322.9	1356.9	1405.1
Goods	639.1	649.2	657.1	684.1	684.9	717.1	731.2	762.7
Services	528.6	539.4	557.5	571.1	591.8	605.8	625.8	642.5
Gross private domestic investment	272.5	295.6	309.7	313.5	322.7	345.4	350.1	360.1
Residential construction	81.6	91.4	94.3	100.2	100.3	105.3	109.0	113.3
Business fixed investment	180.6	187.2	193.5	200.3	205.6	220.1	227.5	235.2
Change in business inventories	10.3	17.0	21.9	13.1	16.7	20.1	13.6	11.6
Nonfarm	11.1	16.5	22.0	10.4	16.9	22.1	14.6	12.2
Net exports of goods and services ^{1/}	-8.5	-5.9	-7.0	-23.2	-24.1	-5.5	-10.7	-7.8
Exports	170.9	178.1	180.8	172.1	181.7	205.4	210.1	222.0
Imports	179.4	184.0	187.8	195.2	205.8	210.9	220.8	229.7
Gov't. purchases of goods and services	375.0	388.8	399.5	412.5	416.7	424.7	439.8	454.6
Federal ^{2/}	138.3	142.9	146.8	152.2	151.5	147.2	154.0	162.3
State and local	236.7	245.9	252.7	260.3	265.2	277.6	285.8	292.3
Gross national product in constant (1972) dollar	1306.7	1325.5	1343.9	1354.5	1354.2	1382.6	1391.4	1413.0
Personal income	1470.7	1508.6	1543.7	1593.0	1628.9	1682.4	1731.7	1787.3
Wage and salary disbursements	946.4	973.4	993.6	1021.2	1050.8	1090.2	1113.2	1149.2
Disposable personal income	1248.0	1285.3	1319.1	1359.6	1391.6	1433.3	1468.4	1512.3
Saving rate (per cent)	4.2	5.3	5.6	5.4	5.9	5.3	5.2	4.6
Corporate profits with I.V.A. and C.C. Adj.	129.9	143.7	154.8	148.2	132.6	163.4	165.2	179.3
Corporate profits before tax	164.8	175.1	177.5	178.3	172.1	205.5	205.4	227.1
Federal government surplus or deficit (-) (N.I.A. basis)	-37.3	-40.3	-56.4	-58.6	-52.6	-23.6	-22.8	-21.2
High employment surplus or deficit (-)	-1.2	-9.1	-28.2	-29.8	-17.7	1.4	3.8	8
State and local government surplus or deficit (-) (N.I.A. basis)	29.5	28.5	31.2	29.0	31.5	29.8	23.4	28.2
Excluding social insurance funds	12.5	10.8	12.8	9.9	11.5	9.3	1.8	5.3
Civilian labor force (millions)	96.2	97.1	97.6	98.5	99.3	100.1	100.8	101.5
Unemployment rate (per cent)	7.4	7.2	6.9	6.6	6.2	6.0	6.0	5.8
Nonfarm payroll employment (millions)	80.8	82.0	82.7	83.5	84.3	85.7	86.1	87.0
Manufacturing	19.4	19.6	19.7	19.9	20.1	20.3	20.3	20.6
Industrial production (1967=100)	133.6	137.0	138.4	139.3	139.6	144.0	147.0	149.6
Capacity utilization: all mfg. (per cent)	81.2	82.7	83.0	82.9	82.1	84.0	85.0	85.8
Materials (per cent)	80.4	82.6	82.3	82.2	81.7	84.5	86.0	87.5
Housing starts, private (million units, A.R.)	1.81	1.93	2.02	2.09	1.80	2.10	2.04	2.07
New autos sales, (millions, A.R.)	11.12	11.70	10.92	10.75	10.80	12.12	11.16	11.07
Domestic models	9.28	9.34	8.88	8.77	8.80	10.01	9.19	9.06
Foreign models	1.84	2.36	2.04	1.98	2.00	2.11	1.98	2.00

^{1/} Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

^{2/} Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

CONFIDENTIAL - FR
CLASS II FOMC

PER CENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1977				1978			
	I	II	III	IV	I	II	III	IV
<u>Constant (1972) dollars</u>								
Gross national product	7.3	5.9	5.7	3.2	-1	8.7	2.6	6.4
Final purchases	5.3	4.6	5.0	4.7	-1.6	8.6	3.7	7.0
Private	6.1	3.7	4.8	4.8	-1.1	11.0	2.8	7.7
Excluding net exports	6.9	3.8	4.3	8.7	-1.0	7.7	3.7	7.5
Personal consumption expenditures	5.1	1.4	4.1	9.0	-1.4	6.0	4.1	8.0
Goods	5.2	1.2	2.4	13.5	-8.1	9.7	2.6	11.6
Services	4.9	1.5	6.1	3.9	7.0	1.9	5.9	3.8
Gross private domestic investment	32.8	25.7	9.7	-2.9	11.3	15.2	-5.1	1.0
Residential structures	10.2	37.8	5.2	11.1	-5.2	2.7	-1.6	3.7
Business fixed investment	19.0	7.5	5.3	5.3	4.2	21.3	3.5	5.7
Gov't. purchases of goods and services	2.4	8.0	5.8	4.2	-3.5	-.2	7.2	4.1
Federal	5.1	10.7	6.4	2.9	-8.9	-15.3	14.3	3.7
State and local	.7	6.3	5.4	5.1	-.1	9.6	3.4	5.7
Disposable personal income	1.7	6.2	5.9	7.8	1.1	3.5	3.6	5.7
<u>Current dollars</u>								
Gross national product	13.7	14.0	11.1	8.9	7.1	20.6	9.6	15.0
Final purchases	11.0	12.5	10.1	11.0	6.4	20.0	11.1	15.5
Private	11.3	11.6	9.7	10.3	7.0	23.4	10.1	15.9
Excluding net exports	14.9	10.8	10.0	15.0	7.1	17.6	11.4	15.0
Personal consumption expenditures	12.5	7.3	9.0	14.1	7.0	15.3	10.7	15.0
Goods	12.1	6.5	5.0	17.5	.5	20.2	8.1	18.4
Services	13.1	8.4	14.1	10.1	15.3	9.8	13.9	11.1
Gross private domestic investment	48.0	38.5	20.5	5.1	12.2	31.3	5.5	12.0
Residential structures	25.1	57.8	13.5	27.3	.5	21.0	14.9	16.8
Business fixed investment	25.9	15.3	14.1	14.8	11.1	31.2	14.3	14.3
Gov't. purchases of goods and services	9.9	15.5	11.5	13.7	4.1	7.9	15.0	14.2
Federal	11.5	14.0	11.3	15.7	-2.0	-10.9	20.0	23.2
State and local	9.0	16.4	11.6	12.5	7.8	19.9	12.4	9.5
Disposable personal income	9.0	12.5	10.9	12.9	9.8	12.5	10.2	12.5
Personal income	11.7	10.7	9.6	13.4	9.3	13.8	12.2	13.5
Wage and salary disbursements	12.0	11.9	8.6	11.6	12.1	15.9	8.7	13.6
Corporate profits with IVA & C.C. Adj.	26.4	49.8	34.7	-16.0	-35.9	130.6	4.5	38.8
Corporate profits before tax	29.1	27.5	5.6	1.8	-13.2	103.3	-.2	49.4
Nonfarm payroll employment	3.9	5.6	3.6	4.0	3.8	6.9	2.1	4.0
Manufacturing	5.2	5.7	1.5	3.2	5.7	3.1	-.2	6.0
Nonfarm business sector								
Output per hour	2.4	-1.4	3.7	.5	-3.1	1.7	2.3	2.3
Compensation per hour	8.3	6.5	8.1	7.6	12.2	8.2	9.6	9.0
Unit labor costs	5.8	8.0	4.2	7.1	15.7	6.4	7.1	6.5
GNP implicit deflator ^{1/}	6.0	7.7	5.1	5.5	7.2	11.0	6.9	8.1
Gross business product fixed-weighted price index ^{2/}	6.7	7.9	4.7	6.3	6.7	12.1	8.0	8.0
Industrial production	6.2	10.6	4.2	2.6	.9	13.2	8.6	7.3

^{1/} Excluding Federal pay increase rates of change are: 1977:QI, 5.9 per cent; 1977:QIV, 4.8 per cent; 1978:QI, 7.2 per cent; 1978:QIV, 7.6 per cent.
Using expenditures in 1972 as weights.

March 14, 1979

CONFIDENTIAL - FR
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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of current dollars.)

	1973	1974	1975	1976	1977	1978	Projected	
							1979	1980
Gross national product	1306.6	1412.9	1528.8	1700.1	1887.2	2106.9	2355.5	2570.8
Final purchases	1288.6	1404.0	1539.6	1689.9	1871.6	2091.4	2332.2	2549.8
Private	1019.1	1101.3	1201.2	1330.4	1477.6	1657.4	1855.5	2032.0
Excluding net exports	1012.0	1095.3	1180.8	1323.0	1488.7	1669.4	1863.0	2028.9
Personal consumption expenditures	809.9	889.6	979.1	1090.2	1206.5	1340.4	1497.4	1634.5
Goods	457.5	498.3	541.5	599.2	657.4	724.0	808.6	873.4
Services	352.3	391.3	437.5	491.0	549.2	616.4	688.8	761.1
Gross private domestic investment	220.0	214.6	190.9	243.0	297.8	344.6	389.0	415.4
Residential construction	66.1	55.1	51.5	68.2	91.9	107.0	112.4	117.4
Business fixed investment	136.0	150.6	150.2	164.6	190.4	222.1	253.2	276.9
Change in business inventories	17.9	8.9	-10.7	10.2	15.6	15.5	23.4	21.0
Nonfarm	14.7	10.8	-14.3	12.2	15.0	16.4	23.4	21.0
Net exports of goods and services ^{1/}	7.1	6.0	20.4	7.4	-11.1	-12.0	-7.5	3.1
Exports	101.6	137.9	147.3	163.2	175.5	204.8	244.2	280.7
Imports	94.4	131.9	126.9	155.7	186.6	216.8	251.6	277.6
Gov't. purchases of goods and services	269.5	302.7	338.4	359.5	394.0	434.0	476.6	517.8
Federal ^{2/}	102.2	111.1	123.1	129.9	145.1	153.7	167.9	181.7
State and local	167.3	191.5	215.4	229.6	248.9	280.2	308.7	336.1
Gross national product in constant (1972) dollars	1235.0	1217.8	1202.3	1271.0	1332.7	1385.3	1431.1	1449.5
Personal income	1052.4	1154.9	1255.5	1380.9	1529.0	1707.6	1908.3	2094.3
Wage and salary disbursements	701.3	764.6	805.9	890.1	983.6	1100.9	1220.6	1327.2
Disposable personal income	901.7	984.6	1086.7	1184.4	1303.0	1451.4	1621.4	1774.9
Saving rate (per cent)	7.8	7.3	7.7	5.7	5.1	5.3	5.1	5.3
Corporate profits with I.V.A. and C.C. Adj.	99.1	83.6	95.9	127.0	144.2	160.2	180.5	187.5
Corporate profits before tax	115.8	126.9	120.4	155.9	173.9	202.6	228.9	237.6
Federal government surplus or deficit (N.I.A. basis)	-6.7	-10.7	-70.6	-53.8	-48.1	29.7	-23.8	-22.7
High employment surplus or deficit (-)	-7	17.1	-25.5	-18.0	-17.1	-2.9	7.8	28.2
State and local government surplus or deficit (-) (N.I.A. basis)	13.0	7.6	6.2	20.7	29.6	28.3	25.9	23.0
Excluding social insurance funds	4.1	-2.9	-6.2	5.5	11.5	7.1	1.5	-3.7
Civilian labor force (millions)	88.7	91.0	92.6	94.8	97.4	100.4	103.4	105.5
Unemployment rate (per cent)	4.9	5.6	8.5	7.7	7.0	6.0	6.0	6.8
Nonfarm payroll employment (millions)	76.8	78.3	76.9	79.4	82.3	85.8	88.3	89.5
Manufacturing	20.2	20.1	18.3	19.0	19.6	20.3	20.9	20.9
Industrial production (1967=100)	129.8	129.3	117.8	129.8	137.1	145.1	152.6	155.0
Capacity utilization: all manufacturing (per cent)	87.5	84.2	73.6	80.2	82.5	84.2	85.5	83.6
Materials (per cent)	92.4	87.7	73.6	80.4	81.9	84.9	87.5	86.3
Housing starts, private (million units, A.R.)	2.05	1.34	1.16	1.54	1.99	2.02	1.71	1.72
New auto sales, (millions, A.R.)	11.42	8.91	8.66	10.12	11.13	11.29	10.66	10.40
Domestic models	9.65	7.49	7.08	8.63	9.07	9.27	8.86	8.75
Foreign models	1.77	1.42	1.58	1.50	2.06	2.02	1.80	1.65

^{1/} Balance of payments data underlying these estimates are shown in the International Developments section of this part of the Greenbook.

^{2/} Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

March 31, 1979

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PER CENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1973	1974	1975	1976	1977	1978	Projected	
							1979	1980
<u>Constant (1972) dollars</u>								
Gross national product	5.5	-1.4	-1.3	5.7	4.9	4.0	3.3	1.3
Final purchases	4.9	-.7	.2	4.3	4.7	3.9	3.1	1.4
Private	6.3	-1.4	-.3	5.5	5.3	4.3	3.3	1.4
Excluding net exports	5.1	-2.3	-1.0	6.4	6.0	4.6	3.0	1.0
Personal consumption expenditures	4.7	-.9	1.8	5.8	4.7	4.0	3.4	1.3
Goods	5.0	-3.4	.7	6.4	5.0	3.4	3.2	.4
Services	4.4	2.3	3.2	5.0	4.4	4.6	3.6	2.2
Gross private domestic investment	10.0	-11.4	-22.3	21.6	13.2	7.0	3.2	-1.2
Residential structures	-3.7	-24.6	-13.9	23.4	20.5	3.8	-6.9	-5.2
Business fixed investment	12.2	-.3	-13.0	4.7	9.1	7.8	5.3	1.4
Gov't. purchases of goods and services	-.2	2.1	1.9	.1	2.4	2.2	2.1	1.4
Federal	-5.4	-.8	.7	.1	5.2	-1.3	1.8	1.4
State and local	3.2	3.8	2.6	.1	.8	4.3	2.2	1.4
Disposable personal income	6.7	-1.5	2.1	3.5	4.1	4.3	3.3	1.6
<u>Current dollars</u>								
Gross national product	11.6	8.1	8.2	11.2	11.0	11.6	11.8	9.1
Final purchases	10.9	8.9	9.7	9.8	10.8	11.7	11.5	9.3
Private	12.2	8.1	9.1	10.8	11.1	12.2	12.0	9.5
Excluding net exports	11.0	8.2	7.8	12.0	12.5	12.1	11.6	8.9
Personal consumption expenditures	10.5	9.8	10.1	11.4	10.7	11.1	11.7	9.2
Goods	11.4	8.9	8.7	10.7	9.7	10.1	11.7	8.0
Services	9.3	11.1	11.8	12.2	11.8	12.3	11.7	10.5
Gross private domestic investment	16.8	-2.5	-11.0	27.3	22.6	15.7	12.9	6.8
Residential structures	6.6	-16.7	-6.5	32.5	34.8	16.4	5.0	4.5
Business fixed investment	16.4	10.8	-.3	9.6	15.7	16.7	14.0	9.4
Gov't. purchases of goods and services	6.5	12.3	11.8	6.2	9.6	10.2	9.8	8.6
Federal	.1	8.7	10.7	5.5	11.7	6.0	9.2	8.2
State and local	10.8	14.5	12.5	6.6	8.4	12.6	10.2	8.9
Disposable personal income	12.5	9.2	10.4	9.0	10.0	11.4	11.7	9.5
Personal income	11.7	9.7	8.7	10.0	10.7	11.7	11.8	9.7
Wage and salary disbursements	10.6	9.0	5.4	10.4	10.5	11.9	10.9	8.7
Corporate profits with IVA & C.C. Adj.	7.6	-15.6	14.7	32.4	13.5	11.1	12.7	3.9
Corporate profits before tax	20.4	9.6	-5.1	29.5	11.5	16.5	13.0	3.8
Nonfarm payroll employment	4.3	1.9	-1.7	3.2	3.6	4.3	3.0	1.4
Manufacturing	5.2	-.4	-8.7	3.7	3.4	3.5	3.0	-.2
Nonfarm business sector								
Output per hour	1.7	-2.9	1.9	3.6	1.3	.5	1.2	.8
Compensation per hour	7.8	9.4	9.9	8.5	8.1	9.3	9.4	9.1
Unit labor costs	6.0	12.7	7.9	4.7	6.7	8.7	8.1	8.2
GNP implicit deflator	5.9	9.7	9.6	5.2	5.9	7.4	8.3	7.7
Gross business product fixed-weighted price index ^{1/}	5.7	10.4	9.4	5.4	6.2	7.7	8.9	7.9
Industrial production	8.4	-.4	-8.9	10.2	5.6	5.8	5.2	1.6

^{1/} Using expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

March 14, 1979

	Fiscal Year 1978*	FY 1979 e/		FY 1980 e/		CY 1978*	CY79 e/ F.R. Board	FRB Staff Estimates								
		Admin. 1/	F.R. Board	Admin. 1/	F.R. Board			Calendar quarters; unadjusted data						1980		
								1978		1979		1979		1980		
								III*	IV*	I	II	III	IV	I	II	III
Unified budget receipts	402.0	456.0	458.0	502.6	505.9	416.9	468.6	106.8	99.5	102.6	137.0	119.0	110.0	109.6	151.9	134.4
Unified budget outlays	450.8	493.4	493.1	531.6	538.5	460.6	503.2	114.9	123.2	122.1	123.2	124.6	133.3	133.0	135.1	137.1
Surplus(+)/Deficit(-), unified budget	-48.8	-37.4	-35.1	-29.0	-32.6	-43.7	-34.6	-8.1	-23.7	-19.5	13.8	-5.6	-23.3	-23.4	16.8	-2.7
Surplus(+)/Deficit(-), off-budget agencies <u>2/</u>	-10.3	-12.0	-11.2	-12.0	-11.5	-9.1	-12.1	-3.1	-0.1	-3.6	-4.1	-3.4	-1.0	-3.0	-4.0	-3.5
Combined deficit to be financed	-59.1	-49.4	-46.3	-41.0	-44.1	-52.8	-46.7	-11.2	-23.8	-23.1	9.7	-9.0	-24.3	-26.4	12.8	-6.2
Means of financing combined deficits:																
Net borrowing from public	59.1	40.0	32.8	39.0	42.7	53.6	36.9	15.1	15.2	8.8	1.5	7.3	19.3	19.8	-2.8	6.4
Decrease in cash operating balance	-3.3	7.4	7.4	0.0	0.0	-4.0	4.3	-4.9	6.1	9.8	-9.5	1.0	3.0	4.0	-8.0	1.0
Other <u>3/</u>	3.2	2.0	6.1	2.0	1.4	3.2	5.5	1.0	2.6	4.7	-1.7	0.5	2.0	2.6	-2.0	-1.2
Cash operating balance, end of period	22.4	15.0	15.0	15.0	15.0	16.3	12.0	22.4	16.3	6.5	16.0	15.0	12.0	8.0	16.0	15.0
Memo: Sponsored agency borrowing <u>4/</u>	19.1	n.a.	23.0	n.a.	14.8	22.0	21.9	6.1	4.9	6.5	6.5	5.1	3.8	3.0	4.0	4.0
NIA Budget								Seasonally adjusted annual rates								
Receipts <u>5/</u>	413.8	464.3	471.5	513.8	520.5	431.6	484.1	441.7	482.6	468.6	479.3	488.7	500.0	512.9	525.1	538.3
Expenditures <u>5/</u>	450.6	496.3	496.4	539.2	543.6	461.3	507.9	464.5	483.5	489.6	495.8	516.7	529.7	537.1	545.6	562.1
Purchases (total)	151.1	166.0	165.0	178.2	178.3	153.7	167.9	154.0	162.3	165.0	163.9	168.6	174.2	177.1	179.7	182.1
Defense	98.1	105.1	104.8	115.4	114.6	99.5	107.1	99.6	102.1	103.6	105.7	107.7	111.6	113.6	115.6	117.7
Non-defense	53.0	60.9	60.2	62.8	63.6	54.2	60.8	54.5	60.2	61.4	52.2	60.9	62.6	63.5	64.1	64.4
All other expenditures	299.5	330.3	331.4	361.0	365.3	307.6	340.0	310.5	321.2	324.6	331.9	348.1	355.5	360.0	365.9	380.0
Surplus(+)/Deficit(-) <u>5/</u>	-36.8	-32.0	-24.9	-25.4	-23.1	-29.7	-23.8	-22.8	-20.9	-21.0	-16.5	-28.0	-29.7	-24.2	-20.5	-23.8
High Employment Surplus(+)/ Deficit(-) (NIA basis) <u>6/</u>	-10.6	n.a.	5.1	n.a.	21.5	-2.9	7.0	3.8	0.8	2.6	11.5	5.5	8.4	19.6	28.3	29.7

*--actual e--estimated r--revised n.a.--not available

1/ The Budget of the United States Government, Fiscal Year 1980, January 1979.

2/ Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.

3/ Checks issued less checks paid, accrued items and other transactions.

4/ Includes Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives.

5/ The fiscal year totals as published by the BEA "Fiscal Year 1980 Budget Translation," January 1979, are based on unadjusted data and do not conform to the average of four seasonally adjusted quarters. The FRB staff estimates, therefore, have been adjusted in order to make the BEA and the staff estimates comparable.

6/ FRB staff estimates are consistent with the Council's new potential GNP series as reported in the Economic Report of the President, January 1979.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Weakness in the monetary aggregates persisted into February. M-1 fell at around a 3-3/4 percent annual rate last month, even though shifts into ATS accounts apparently slowed somewhat, and savings deposits declined further. The public appears to be making vigorous efforts to economize on demand and savings balances, perhaps because it has become sensitized to the costs of holding low-yielding assets by historically high interest rates and by the introduction and publicity given to ATS and money market certificate accounts (MMCs). Growth of money market mutual funds remained extremely rapid in February and early March.

Although net sales of MMCs are estimated to have slowed in February, following their record growth during the January reinvestment period, they still bolstered expansion of the time deposit component of M-2, as did stepped-up issuance of large CDs included in this aggregate. Combined deposit growth at savings and loan associations and mutual savings banks moderated somewhat (month-end basis), but remained close to the 9 to 10 percent range established since late 1978.

The high level of interest rates has continued to restrain borrowing in bond markets, but demands for short- and intermediate-term funds to support economic expansion apparently have remained strong. Business borrowing at banks has picked up quite substantially, following a slowing in December. Businesses also appear to be making further use of finance company loans to carry increased stocks of goods--especially automobiles--but commercial paper issuance has edged off slightly this

year. Public offerings of bonds by industrial corporations in February fell to their lowest level in more than four years.

In the household sector, instalment borrowing slowed somewhat in January, and net mortgage extensions in January and February were likely to have remained below the levels reached last fall. Field reports suggest that a portion of the slowing of mortgage flows reflects borrower reaction to high interest rates and tight credit terms, although artificial constraints imposed by usury ceilings and FHA/VA mortgage rate ceilings are continuing to play a role. Primary mortgage rates have changed little in recent weeks.

State and local governments have stepped up their support for mortgage markets through the sale of mortgage revenue bonds, boosting the total of tax-exempt bond issuance; nonetheless, total borrowing by these entities has moderated from last year. The Treasury has increased its short-term marketable borrowing considerably in recent weeks to bridge low points in its cash balance prior to the April tax date. Foreign central banks have been net sellers of bills recently, and a sizable volume of nonmarketable issues held by these institutions has been redeemed as the dollar strengthened.

With demand and savings deposits shrinking, banks have had to continue to rely heavily on managed liabilities to meet rising loan demand from businesses and other borrowers. In addition, banks have obtained around \$5 billion since the end of December for domestic lending by having their foreign branches repay loans.

The Federal funds rate has remained around 10 percent since the February FOMC meeting, and other private short-term rates are

unchanged or a little higher. Treasury bill rates, on the other hand, have risen 10 to 30 basis points since early February in response to the increase in market supply. Bond yields generally also have moved higher over the intermeeting period as the outlook for inflation has appeared to worsen.

Outlook. Interest rates may come under some upward pressures in coming months in response to projected strength in demands for money and credit associated with further rapid advances in nominal transactions volumes. Businesses are expected to increase their borrowing to finance outlays for inventories and fixed capital. Given their preference for avoiding call-protected bond indebtedness at current interest rate levels, these credit demands are likely to be focused primarily on the banking system. As a result, banks probably will have to continue to issue a large volume of CDs, tap nondeposit sources of funds and reduce their holdings of liquid assets. Thus, nonprice lending terms may tighten further, and increases in the cost of money market funds are likely to be followed promptly by hikes in the prime rate.

Despite indications of emerging reluctance to take on mortgage debt at current interest rates, households' demands for such credit are likely to remain strong over the near term. At the same time, deposit flows to thrift institutions are expected to slow significantly as a result of the reductions of ceiling rates on their money market certificates relative to open market rates and those offered at commercial banks. Thrifts can be expected to partially offset the impact of slower deposit growth on their mortgage lending by stepping up their borrowing

from Home Loan Banks and other sources and by reducing their liquidity. Under these circumstances, they are also likely to raise rates and tighten nonprice lending terms further; the increase in mortgage rates can be expected to attract interest from diversified investors.

Borrowing in the tax-exempt markets is expected to remain moderate, although there may be public pressures on local governments to increase their issuance of mortgage revenue bonds. Treasury demand for funds is projected to decline somewhat more than seasonally following the April tax date.

INTERNATIONAL DEVELOPMENTS

Summary. In the six weeks since the last Greenbook the trade-weighted average value of the dollar has shown no net change. There was a drop in early February in reaction to the overthrow of the Shah of Iran, but this was quickly reversed and the dollar has held steady since then, despite adverse news about the U.S. inflation rate and trade deficit. The dollar's resilience reflected the market's perception of a firm U.S. monetary policy, and there appears to have been a sizable net flow of private capital into dollars and U.S. banks since the turn of the year.

. U.S. authorities made net purchases of \$1.8 billion equivalent of foreign currencies in the past six weeks,

. The System's share of these purchases was used to repay \$1.4 billion of swap debt and to build up foreign currency balances to \$160 million. Combined Treasury and System holdings of foreign currencies are now about \$6-1/2 billion; the System's swap debt has been reduced to \$3.4 billion.

The European Monetary System began operations on March 13. In the days immediately preceding the start of the arrangement the French franc came under pressure,

The major developments in the U.S. international accounts in January were a rise in the trade deficit and a sizable inflow of banking funds. Revisions in the method of seasonally adjusting the trade data resulted in a smaller adjusted deficit in the fourth quarter of last year. The January deficit was quite large on the new basis, with imports up sharply. The rise in imports was especially large for petroleum, and included the arrival of oil loaded earlier in anticipation of the January increase in OPEC prices. There was also some increase in imports of consumer and capital goods, though imports of foreign cars declined. Exports declined slightly in January from the November-December level -- mainly because agricultural exports were off from their high levels in the two earlier months while other exports rose only slightly.

Data on banking flows for January showed a sizable net inflow (reversing most of the large December outflow), and partial data suggest some continued net inflow in February. Foreign private net purchases of U.S. securities (other than Treasury issues) were virtually zero in January, following sizable net foreign purchases in December. U.S. net

purchases of foreign securities rose sharply in January as new foreign issues in the U.S. market were resumed. The sale of a Treasury issue denominated in Swiss francs yielded an inflow of \$1.2 billion in January. Proceeds of a second German mark issue (\$1.4 billion) were received in March.

Foreign official assets in the United States rose by under \$1/2 billion in January, but may have declined by as much as \$3 billion in February, reflecting in part the repayment of swap debt and a further decline in OPEC holdings in the United States.

In a number of foreign industrial countries price data for January (and scattered February data) show some rise in inflation rates after a slowing in the second half of last year. Economic activity abroad still seems to be tending moderately upward, with German and Japanese GNP showing considerable strength toward the end of last year. The Japanese current account surplus declined further in January.

Outlook. Since January the main change in the international outlook has been the acceleration of OPEC oil prices. Growth of economic activity abroad is still expected to be well above projected U.S. growth rates; the rate of price increases abroad, though rising, is expected to be lower than in the United States over the year ahead.

Most of the effect on exports and imports of the political upheaval in Iran had already been factored in to the January projection of a \$28 billion trade deficit in 1979. Recent price increases for oil are

offset in part by somewhat lower volumes, so that the projected trade deficit has been revised upward only to \$29 billion. The deficit is now projected to decline more slowly into 1980, however, falling to about \$22 billion -- \$2-1/2 billion higher than in the last projection. The equivalent current-account deficit is \$10 billion in 1979, with near balance reached for the year 1980. Based on these projections, the staff expects no net change in the weighted-average value of the dollar in the year ahead.

	1978 ^e	1979 ^P	1980 ^P	1978		1979 ^P				1980 ^P			
				III	IV ^e	I	II	III	IV	I	II	III	IV
GNP NET EXPORTS OF GOODS AND SERVICES													
1. International Acct. data	-10.3	0	10.8	-9.6	-.2	-1.7	2.0	.1	0	5.5	9.6	12.5	15.2
2. (GNP account data 1/)	(-12.0)	(-7.5)	(3.7)	(-10.7)	(-7.8)*	(-9.3)	(-5.6)	(-7.5)	(-7.6)	(-2.1)	(2.0)	(4.9)	(7.6)
3. a) Merchandise Trade Balance	-34.1	-28.8	-21.9	-32.0	-25.2*	-29.2	-26.6	-29.3	-30.2	-26.3	-22.9	-20.4	-18.1
4. Exports (excl. military)	141.9	171.5	199.5	145.9	157.5*	159.1	168.6	176.1	182.3	189.3	196.1	203.0	209.6
5. Agricultural	29.9	30.4	32.4	31.7	31.1*	29.2	30.6	31.2	30.7	31.6	31.9	32.8	33.4
6. Nonagricultural	112.0	141.1	167.1	114.2	126.3*	130.0	137.9	144.9	151.6	157.8	164.1	170.2	176.2
7. Imports	176.0	200.3	221.4	177.9	182.7*	188.3	195.2	205.3	212.5	215.6	219.0	223.4	227.7
8. Petroleum and petrol. products	42.3	50.2	57.9	43.5	43.2*	42.5	46.7	53.9	57.5	56.4	57.4	58.4	59.5
9. Nonpetroleum	133.7	150.2	163.5	134.4	139.4*	145.8	148.5	151.4	155.0	159.2	161.6	165.0	168.2
10. b) Other transactions, net	23.8	28.8	32.7	22.4	25.0	27.5	28.6	29.3	30.2	31.8	32.5	32.9	33.3
11. Investment Income, net 2/	19.9	23.6	25.1	19.1	20.8	23.2	23.5	23.7	23.9	25.0	25.3	25.1	25.0
12. Other, net 3/	3.9	5.2	7.6	3.3	4.2	4.3	5.1	5.6	6.3	6.8	7.2	7.8	8.3
U.S. CURRENT ACCOUNT BALANCE													
13. U.S. CURRENT ACCOUNT BALANCE	-16.6	-9.7	.5	-15.3	-8.0	-11.8	-8.5	-9.5	-9.3	-5.1	-1.1	2.6	5.6
14. a) GNP net exports (line 1.)	-10.3	0	10.8	-9.6	-.2	-1.7	2.0	.1	0	5.5	9.6	12.5	15.2
15. b) U.S. Govt & private transfers 4/	-6.3	-9.7	-10.3	-5.7	-7.8	-10.1	-10.5	-9.6	-9.3	-10.6	-10.7	-9.9	-9.6
Constant (1972) dollars													
16. Merchandise exports (excl. military)	71.9	78.7	85.1	73.1	75.5	75.2	78.0	80.1	81.7	83.1	84.5	85.7	86.9
17. (% change, annual rates)	(7.4)	(9.5)	(8.0)	(-.8)	(13.4)	(-1.2)	(15.2)	(11.2)	(8.2)	(7.4)	(6.6)	(6.1)	(5.3)
18. Merchandise imports	75.8	79.0	81.4	76.3	76.7	77.7	77.7	79.7	80.8	80.6	80.9	81.7	82.3
19. (% change, annual rates)	(7.0)	(4.1)	(3.1)	(10.0)	(2.4)	(5.3)	(.4)	(10.4)	(5.7)	(-.8)	(1.6)	(3.6)	(3.2)
Foreign Outlook - Ten Industrial Countries 5/													
20. Real GNP, % change, annual rates	3.5	3.8	3.8	2.9	4.4	3.1	4.1	4.3	4.0	3.7	3.5	3.7	3.9
21. Consumer Prices, 6/ % change, A.R.	4.4	5.2	5.4	2.8	3.3	6.8	5.7	6.0	5.4	5.4	5.2	5.0	5.1

- 1/ Lines 1 and 2 are defined identically but, data in line 2 differ from Intl. Acct. data (line 1) in that they usually lag the Intl. Acct. data in the inclusion of revisions and new information in published data.
- 2/ Excluding U.S. Govt. interest payments to foreigners, and reinvested earnings of incorporated affiliates. These are included in line 15.
- 3/ Includes travel, transportation, fees and royalties, miscellaneous other service transactions, and military transactions.
- 4/ Includes U.S. Govt. grants, U.S. Govt. interest payments to foreigners, remittances and pensions, exports to Israel financed by U.S. military assistance grants, and reinvested earnings of incorporated affiliates.

- 5/ Weighted by the shares of Canada, France, Germany, Italy, Japan, United Kingdom, Netherlands, Sweden, Belgium and Switzerland in the sum of the real GNP of the ten countries in dollar terms.
- 6/ Wholesale prices for Japan.

- p/ Projected.
e/ Estimated.
*/ Published data.

NOTE: A revised methodology for seasonally adjusting merchandise exports and imports was introduced with the January data. Data for 1978 have been revised accordingly. The new seasonal pattern results in a smaller 1978-IV trade deficit and a larger 1978-I deficit; there is no change in the annual figures. These changes will be incorporated in the published GNP data in July 1979.