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December 12, 1980

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

Summary. Economic activity expanded further in November, as employment, production, and retail sales posted substantial gains. However, weakness was evident in the credit-sensitive auto and real estate markets. Inflationary pressures remained strong, reflecting rapidly rising labor costs and developments in the energy area.

Employment increases of about a quarter million were reported by both the household and payroll surveys in November. Continued strength was indicated for manufacturing--both durables and non-durables--and for contract construction; services also continued to show employment gains. Moreover, factory overtime schedules were expanded and the workweek edged up another 0.1 hour. The overall jobless rate, at 7-1/2 percent in November, remained about the same as in the past several months.

Industrial production registered another sizable increase in November, with widespread advances tentatively estimated for both product and materials industries. Auto assemblies and steel production both were up last month, but not as much as in October. Auto assemblies in December are scheduled to be curtailed from the November rate.

Consumer spending for goods increased substantially in November, and the October level of retail sales was revised up significantly. Excluding autos and other nonconsumption items, retail sales now are estimated to have increased about 1-1/2 percent in both October and November, a faster pace than in earlier months. Sales at the general merchandise, apparel, and furniture (GAF) grouping of stores rose

further in November, following a very rapid October gain. However, auto demand remained relatively sluggish. Although sales of imports picked up to a 2 1/2 million unit rate, sales of domestic-model autos edged down to a 6-1/2 million unit rate, and total sales remained at about a 9 million unit rate--only slightly above the third quarter average.

Recent indicators of housing market activity suggest a re-emergence of weakness in both production and demand in response to rising interest rates. Private housing starts edged higher in October, but the gain apparently was accounted for by a temporary surge in government-subsidized multi-family units; while single-family starts fell slightly. Moreover, the advance reading on permits in early November was down from the October rate of 1.3 million units. Sales of new single-family homes decreased in October for the third consecutive month, and existing home sales edged down following four months of increase.

Business capital spending resumed its downward trend in October. Real shipments of nondefense capital goods declined during the month, following a sharp rise in September, and nonresidential construction fell for the sixth straight month. Moreover, the low level of new spending commitments suggests a further contraction in business outlays over the near term. New orders for nondefense capital goods in constant dollars, although volatile from month to month, have been trending down since the beginning of the year and fell 6 percent in October. In addition, newly approved capital appropriations of large manufacturers, which have an average lead of about 4 to 6

quarters, moved down somewhat further in the third quarter, after dropping sharply in the previous quarter. The Commerce Department's October-November survey of anticipated plant and equipment spending plans, however, reports that business is planning a substantial increase in capital outlays during the first half of 1981. But this survey was taken before the most recent steep hike in interest rates; moreover, it has a record of substantial errors in recent years.

The book value of wholesale trade inventories rose at an \$18-1/2 billion annual rate in October, following an upward revised \$12 billion accumulation in the preceding month. Manufacturers, however, continued to reduce the volume of their inventories in October.

Wage and price pressures remain intense, despite the relatively low levels of capacity and labor utilization. The employment cost index--a measure of earnings for blue- and white-collar workers--rose about 9-1/2 percent over the four quarters ending in 1980-Q3, up from 7-3/4 percent over the previous four quarters; the index of average hourly earnings increased about 1.0 percent in both October and November and was 9-3/4 percent above the level a year earlier. Producer prices for finished goods rose 0.6 percent in November, somewhat less than in October; food price increases remained moderate, but energy prices--particularly for gasoline--turned up, after edging lower in most months since last spring. Consumer prices rose another 1.0 percent in October--mainly due to an acceleration in homeownership costs, reflecting a turnaround in mortgage interest rates as well as a sharp increase in home prices. Excluding food, energy, and homeownership costs, the CPI rose 0.6 percent--about the rate that has prevailed since April.

Outlook. The staff now estimates that real GNP will rise at a 4-1/2 percent annual rate in the final quarter of 1980, up substantially from the rate projected in November. Reflecting the strength of retail sales in both October and November, the estimate of consumption expenditures has been raised substantially. Housing and federal outlays also have been somewhat stronger over the past few months than previously expected. Moreover, the production gains in recent months suggest that firms have been accumulating inventories faster than anticipated last month. However, the more stringent financial market conditions which have emerged recently, partially as a consequence of these relatively strong demand forces, are expected to contribute to a deeper contraction in activity during the first half of 1981 than shown in the last Greenbook.

This month the staff projections have been extended through 1982. Money growth is projected to slow further over the expanded projection horizon; excluding the impact of ATS and NOW accounts, M-1A is assumed to grow 4-1/4 percent over 1981 and 3-3/4 percent in 1982. The sharply reduced growth of total demands in current dollars in the first part of 1981 is likely to take some pressure off credit markets. During the remainder of the projection period, however, the strength of nominal GNP growth relative to the assumed path for the monetary aggregates is expected to sustain upward pressure on interest rates.

For fiscal policy, the staff continues to assume a 10 percent cut in income tax liabilities in 1981 as well as a speed up in depreciation; no new tax adjustments are assumed for 1982. Although

expenditure cuts by the new Administration are assumed, the spending estimate for fiscal year 1981 has been raised in this Greenbook--reflecting the weaker outlook for economic activity and higher interest costs. On balance, the fiscal year 1981 deficit has been increased \$7 billion to \$62 billion. In fiscal year 1982, outlays--with \$16 billion in spending cuts--are expected to increase nearly 10 percent, reaching \$714 billion, while receipts rise only 8 percent to \$636 billion; consequently, the deficit widens to \$78 billion. Much of it reflects the sluggish performance of the economy, and on a high employment basis, the budget continues to show restraint over the forecast period.

Economic activity is expected to be constrained severely over the projection period in an environment of continued inflation and monetary restraint. Inflation is expected to remain strong in 1981 due to a combination of forces, including rapid rates of increase in compensation in response to past price rises; continued poor productivity performance; supply constraints on food; and the direct and indirect effects of higher energy prices. Real GNP is expected to fall 3/4 percent over the four quarters of 1981.

In response to the recent sharp runup in interest rates, real GNP is projected to decline at a 2-1/2 percent annual rate in the first half of 1981. The reversal in activity primarily reflects cutbacks in expenditures on housing and durable goods. Housing starts are expected to drop from an upward-revised fourth-quarter level of 1.4 million units (annual rate) to a 1.1 million unit rate in the first quarter. Spending on autos and other credit-sensitive

discretionary goods in the first quarter of 1981 also should be held down by higher financing costs as well as by a boost in payroll taxes, which will erode personal income. Consumer demand should pick up in the second quarter, following the injection of disposable income through the assumed tax cut, and is projected to contribute to a resumption of some growth in output during the second half of 1981.

Activity gains, however, will be constrained due to continued weakness in the business sector. Significant unused capacity and taut financial conditions are expected to prolong the downtrend in capital spending. As a result, real outlays for business fixed investment are projected to decline throughout 1981. Moreover, after downward adjustments are made to correct the currently developing imbalance between stocks and sales, inventory practices are expected to remain conservative.

By 1982, wage and price pressures are anticipated to ease somewhat in response to continued monetary restraint and protracted slack in labor and product markets. The gross domestic business product fixed-weighted price index is projected to decelerate from a 10 percent annual rate during 1981 to a 7-3/4 percent rate over the four quarters of 1982. However, the relatively limited supply of loanable funds will keep interest rates high, and real activity is projected to show only a fractional rise--up 1/4 percent over the year. Investment outlays by business and for housing are projected to flatten out, while consumption is anticipated to rise about in line with the sluggish growth of real income.

The projected path of the unemployment rate mirrors the contour of economic activity. Layoffs due to production adjustments are expected to push the jobless rate above 8 percent early in 1981. As slow growth limits job creation over the remainder of the forecast period, the rate continues to drift up, reaching almost 9-1/4 percent by the fourth quarter of 1982.

Detailed data for this projection are shown in the following tables.

STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Total		Excluding food and energy		Unemployment rate (percent)		
11/12/80	12/12/80	11/12/80	12/12/80	11/12/80	12/12/80	11/12/80	12/12/80	11/12/80	12/12/80	
Annual changes:										
1979 ^{1/}	11.3	11.3	2.3	2.3	9.5	9.5	8.1	8.1	5.8	5.8
1980	8.7	8.9	-7	-6	10.2	10.2	8.5	8.5	7.2	7.2
1981	9.8	9.9	-2	-6	10.1	10.4	7.3	9.0	8.2	8.4
1982		8.9		.4		8.4		7.7		9.2
Quarterly changes:										
1980-Q1 ^{1/}	10.8	10.8	1.2	1.2	11.2	11.2	8.5	8.5	6.1	6.1
1980-Q2 ^{1/}	.1	.1	-9.6	-9.6	10.4	10.4	9.7	9.7	7.5	7.5
1980-Q3 ^{1/}	10.2	10.8	1.0	.9	10.4	10.2	10.5	10.2	7.6	7.6
1980-Q4	15.0	17.9	2.3	4.5	10.3	10.4	9.1	9.1	7.6	7.6
1981-Q1	8.2	8.0	-1.6	-2.7	10.4	11.5	8.5	8.6	7.9	7.9
1981-Q2	9.6	7.4	.7	-2.0	9.8	10.4	8.1	8.3	8.2	8.4
1981-Q3	9.9	9.7	1.2	.4	9.4	9.6	8.0	8.2	8.3	8.6
1981-Q4	10.4	10.6	.9	1.2	9.3	8.7	7.9	8.0	8.4	8.8
1982-Q1		9.0		.7		8.0		7.6		9.0
1982-Q2		7.9		.0		7.8		7.4		9.2
1982-Q3		8.0		.2		7.7		7.3		9.2
1982-Q4		8.7		.4		7.5		7.1		9.3
Two-quarter changes: ^{2/}										
1980-Q2 ^{1/}	5.3	5.3	-4.4	-4.4	10.9	10.9	9.1	9.1	1.6	1.6
1980-Q4	12.6	14.3	1.6	2.6	10.4	10.3	7.8	10.0	.1	.1
1981-Q2	8.9	7.7	-5	-2.3	10.1	10.9	8.2	8.5	.6	.8
1981-Q4	10.1	10.2	1.0	.8	9.3	9.1	7.9	8.1	.2	.4
1982-Q2		8.5		.4		7.9		7.5		.4
1982-Q4		8.3		2.8		7.6		7.2		.1
Four-quarter changes: ^{3/}										
1979-Q4 ^{1/}	9.9	9.9	1.0	1.0	9.7	9.7	7.5	7.5	.1	.1
1980-Q4	8.9	9.7	-1.4	-.9	10.6	10.6	9.5	9.6	1.7	1.7
1981-Q4	9.5	8.9	.3	-.8	9.7	10.0	8.1	8.3	.8	1.2
1982-Q4		8.4		.3		7.7		7.4		.5

^{1/} Actual.^{2/} Percent change from two quarters earlier.^{3/} Percent change from four quarters earlier.

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CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1979				1980			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Projected Q4
Gross national product	2292.1	2329.8	2396.5	2456.9	2520.8	2521.3	2586.5	2695.5
Final purchases	2272.9	2296.4	2381.9	2451.4	2516.1	2509.9	2603.3	2687.1
Private	1812.8	1829.8	1904.1	1950.2	1998.9	1981.6	2069.7	2130.5
Excluding net exports	1808.8	1837.9	1906.4	1962.1	2012.5	1983.8	2048.4	2114.1
Personal consumption expenditures	1454.2	1475.9	1528.6	1580.4	1629.5	1626.6	1683.3	1735.8
Goods	784.9	789.9	818.1	846.9	872.2	849.8	874.3	902.1
Services	669.3	686.0	710.6	733.5	757.3	776.9	808.9	833.7
Gross private domestic investment	373.8	395.4	392.3	387.2	387.7	368.5	348.4	386.7
Residential construction	111.2	112.9	116.0	116.4	110.4	88.9	94.2	103.5
Business fixed investment	243.4	249.1	261.8	265.2	272.6	268.2	270.9	274.8
Change in business inventories	19.1	33.4	14.5	5.6	4.7	11.4	-16.8	8.4
Nonfarm	18.8	32.6	12.6	2.1	4.4	12.3	-10.7	8.4
Net exports of goods and services ^{1/}	4.0	-8.1	-2.3	-11.9	-13.6	-2.2	21.3	16.4
Exports	238.5	243.7	267.3	280.4	308.1	307.0	313.2	323.7
Imports	234.4	251.9	269.5	292.4	321.7	309.2	291.9	307.3
Gov't. purchases of goods and services	460.1	466.6	477.8	501.2	517.2	528.3	533.6	556.6
Federal ^{2/}	163.6	161.7	162.9	178.4	186.2	193.3	191.4	206.4
State and local	296.5	304.9	314.9	322.8	331.0	335.0	342.2	350.2
Gross national product in constant (1972) dollar	1430.6	1422.3	1433.3	1440.3	1444.7	1408.6	1411.7	1427.2
Personal income	1852.6	1892.5	1946.6	2005.0	2057.4	2080.5	2144.6	2223.5
Wage and salary disbursements	1189.3	1212.4	1238.1	1270.5	1303.7	1310.4	1329.2	1384.1
Disposable personal income	1572.2	1601.7	1640.0	1683.1	1737.4	1755.9	1810.7	1870.1
Saving rate (percent)	5.0	5.4	4.3	3.5	3.7	4.9	4.7	4.8
Corporate profits with I.V.A. and C.C. Adj.	178.9	176.6	180.8	176.4	175.0	152.8	158.3	172.4
Corporate profits before tax	233.3	227.9	242.3	243.0	260.4	204.8	222.4	239.4
Federal government surplus or deficit (-) (N.I.A. basis)	-11.7	-7.0	-11.3	-15.7	-22.9	-49.2	-58.4	-48.3
High employment surplus or deficit (-)	-1.7	13.2	9.0	7.0	3.3	6.1	8.5	19.3
State and local government surplus or deficit (-) (N.I.A. basis)	27.6	19.7	25.3	25.8	24.6	19.5	23.9	26.9
Excluding social insurance funds	2.6	-6.3	-1.8	-2.2	-4.2	-10.4	-8.3	-6.0
Civilian labor force (millions)	102.3	102.4	103.2	103.7	104.2	104.7	105.1	105.4
Unemployment rate (percent)	5.7	5.8	5.8	5.9	6.1	7.5	7.6	7.6
Nonfarm payroll employment (millions)	89.1	89.7	90.2	90.6	91.1	90.5	90.1	90.9
Manufacturing	21.1	21.1	21.1	21.0	21.0	20.3	19.9	20.2
Industrial production (1967=100)	152.7	152.3	152.6	152.5	152.5	144.6	142.0	148.1
Capacity utilization: all mfg. (percent)	86.9	85.9	85.3	84.4	83.4	77.9	75.6	78.3
Materials (percent)	88.4	87.5	87.2	86.3	85.5	78.7	74.8	77.2
Housing starts, private (million units, A.R.)	1.67	1.82	1.81	1.59	1.26	1.05	1.41	1.40
New autos sales, (millions, A.R.)	11.56	10.65	10.79	9.80	10.65	7.68	8.80	8.95
Domestic models	9.30	8.16	8.63	7.43	7.87	5.53	6.51	6.60
Foreign models	2.25	2.49	2.16	2.37	2.77	2.14	2.29	2.35

^{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.

December 12, 1980

CONFIDENTIAL - FR
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1979				1980			Projected Q4
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	
<u>Constant (1972) dollars</u>								
Gross national product	1.1	-2.3	3.1	2.0	1.2	-9.6	.9	4.5
Final purchases	1.1	-3.9	6.4	3.6	1.5	-10.2	3.4	1.4
Private	1.8	-4.1	7.8	3.1	.9	-12.8	5.3	1.4
Excluding net exports	.4	-2.9	5.3	3.1	-.8	-14.1	4.0	3.2
Personal consumption expenditures	.6	-2.9	4.9	4.1	.5	-10.6	5.0	3.0
Goods	-4.4	-7.3	6.0	4.7	-1.8	-18.1	4.1	3.1
Services	7.1	2.5	3.6	3.5	3.2	-1.3	6.0	2.8
Gross private domestic investment	-.5	8.5	-12.8	-11.6	-8.3	-25.9	-17.8	30.4
Residential structures	-14.3	-7.2	-1.5	-4.5	-26.2	-61.8	16.1	32.9
Business fixed investment	4.8	-.8	10.7	-.3	1.7	-14.6	-4.9	-3.1
Gov't. purchases of goods and services	-1.8	-3.3	1.0	6.0	4.2	1.4	-4.1	1.6
Federal	7.2	-11.3	-2.6	16.0	13.1	9.5	-10.0	3.9
State and local	-6.6	1.6	3.1	.8	-.7	-3.2	-.4	.3
Disposable personal income	2.1	-1.4	.2	1.1	.9	-6.0	3.5	3.6
<u>Current dollars</u>								
Gross national product	10.6	6.7	11.9	10.5	10.8	.1	10.8	17.9
Final purchases	11.0	4.2	15.8	12.2	11.0	-1.0	15.7	13.5
Private	12.4	3.8	17.3	10.0	10.4	-3.4	19.0	12.3
Excluding net exports	10.3	6.6	15.8	12.2	10.7	-5.6	13.7	13.5
Personal consumption expenditures	11.4	6.1	15.0	14.3	13.0	-.7	14.7	13.1
Goods	7.9	2.6	15.1	14.8	12.5	-9.9	12.0	13.3
Services	15.8	10.4	15.1	13.5	13.6	10.8	17.6	12.8
Gross private domestic investment	3.6	25.2	-3.0	-5.1	.5	-18.4	-20.1	51.8
Residential structures	-8.5	6.1	11.7	1.4	-19.3	-57.8	26.2	45.5
Business fixed investment	12.9	9.6	22.0	5.4	11.6	-6.3	4.1	5.8
Gov't. purchases of goods and services	5.6	5.8	10.0	21.1	13.4	8.9	4.0	18.4
Federal	12.1	-4.6	3.1	43.8	18.7	16.1	-4.0	35.2
State and local	2.3	11.9	13.8	10.4	10.5	5.0	8.9	9.7
Disposable personal income	13.0	7.7	9.9	10.9	13.5	4.3	13.1	13.8
Personal income	11.4	8.9	11.9	12.6	10.9	4.6	12.9	15.6
Wage and salary disbursements	12.7	8.0	8.8	10.9	10.9	2.1	5.9	17.6
Corporate profits with IVA & C.C. Adj.	-12.2	-5.0	9.9	-9.4	-3.1	-41.9	15.2	40.7
Corporate profits before tax	10.8	-8.9	27.8	1.2	31.9	-61.7	39.1	34.5
Nonfarm payroll employment	4.3	2.4	2.3	1.7	2.5	-2.7	-1.6	3.3
Manufacturing	4.6	.6	-.6	-1.7	-.8	-11.7	-7.2	6.2
Nonfarm business sector								
Output per hour	-3.3	-3.9	-1.5	.8	-1.1	-3.7	1.5	-1.0
Compensation per hour	10.2	8.1	8.5	9.5	10.7	10.8	8.8	10.3
Unit labor costs	14.0	12.5	10.1	8.6	12.0	15.0	7.2	11.4
GNP implicit deflator ^{1/}	9.3	9.3	8.5	8.4	9.5	10.7	9.8	12.9
Gross domestic business product								
fixed-weighted price index ^{2/}	10.0	10.1	10.4	8.4	11.2	10.4	10.2	10.4
Excluding food and energy	7.7	7.9	7.6	7.7	8.8	8.7	10.5	9.8
Consumer price index (all urban)	11.1	13.6	12.9	13.2	17.2	13.8	7.2	12.4
Industrial production	5.4	-1.0	.8	-.3	.0	-19.2	-7.0	18.3

^{1/} Excluding Federal pay increases, rates of change were: 1979-Q1, 9.3 percent; 1979-Q4, 8.0 percent; 1980-Q1, 9.4 percent; 1980-Q4, 12.3 percent.

^{2/} Uses expenditures in 1972 as weights.

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CONFIDENTIAL - FR
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2747.8	2797.0	2862.5	2935.6	2999.8	3057.2	3116.5	3182.2
Final purchases	2740.8	2804.4	2873.3	2939.6	2999.7	3057.1	3116.0	3182.0
Private	2174.1	2225.9	2282.9	2332.4	2380.8	2426.3	2472.9	2521.5
Excluding net exports	2155.3	2203.3	2254.8	2299.7	2345.6	2390.2	2435.8	2481.2
Personal consumption expenditures	1778.0	1830.4	1879.1	1920.1	1961.7	2001.8	2040.8	2077.7
Goods	923.5	951.1	975.5	995.4	1015.7	1034.9	1053.6	1070.8
Services	854.5	879.3	903.6	924.7	946.0	966.9	987.2	1006.9
Gross private domestic investment	384.3	365.5	364.9	375.6	384.0	388.5	395.5	403.7
Residential construction	100.6	94.7	95.2	95.7	95.7	95.2	96.2	98.7
Business fixed investment	276.7	278.2	280.5	283.9	288.2	293.2	298.8	304.8
Change in business inventories	7.0	-7.4	-10.8	-4.0	.1	.1	.5	.2
Nonfarm	7.0	-7.4	-10.8	-4.0	.1	.1	.5	.2
Net exports of goods and services ^{1/}	18.8	22.6	28.1	32.7	35.2	36.1	37.1	40.3
Exports	344.8	355.6	364.0	373.5	383.8	392.1	399.1	407.6
Imports	326.0	333.0	335.9	340.8	348.6	356.0	362.0	367.3
Gov't. purchases of goods and services	566.7	578.5	590.4	607.2	618.9	630.8	643.1	660.5
Federal ^{2/}	210.4	215.9	221.4	231.8	238.0	244.3	250.9	262.6
State and local	356.3	362.6	369.0	375.4	380.9	386.5	392.2	397.9
Gross national product in constant (1972) dollars	1417.6	1410.4	1411.8	1416.1	1418.7	1418.9	1419.7	1420.9
Personal income	2262.6	2306.3	2368.4	2421.9	2468.8	2516.7	2579.6	2632.9
Wage and salary disbursements	1404.0	1423.4	1447.5	1479.2	1505.2	1530.5	1556.0	1587.1
Disposable personal income	1899.7	1962.3	2014.4	2055.8	2105.9	2143.4	2181.7	2222.8
Saving rate (percent)	4.0	4.3	4.3	4.2	4.4	4.2	4.0	4.1
Corporate profits with I.V.A. and C.C. Adj.	163.4	158.1	163.8	172.1	173.8	172.5	172.4	173.8
Corporate profits before tax	229.6	225.5	232.4	241.9	246.2	247.1	249.2	252.8
Federal government surplus or deficit (-) (N.I.A. basis)	-38.3	-70.2	-81.1	-81.3	-89.1	-88.6	-88.2	-88.6
High employment surplus or deficit (-) ^{3/}	45.6	24.3	23.1	30.5	28.5	39.5	53.3	64.1
State and local government surplus or deficit (-) (N.I.A. basis)	24.2	24.5	24.8	26.3	27.5	28.0	28.7	28.8
Excluding social insurance funds	-9.3	-9.6	-9.9	-9.0	-6.1	-8.8	-8.9	-9.6
Civilian labor force (millions)	105.7	106.0	106.3	106.6	106.8	107.1	107.4	107.6
Unemployment rate (percent)	7.9	8.4	8.6	8.8	9.0	9.2	9.2	9.3
Nonfarm payroll employment (millions)	90.7	90.4	90.4	90.3	90.3	90.4	90.6	90.7
Manufacturing	20.1	19.9	19.8	19.7	19.7	19.7	19.7	19.8
Industrial production (1967=100)	145.8	143.8	143.0	143.4	143.7	143.7	143.8	143.9
Capacity utilization: all mfg. (percent)	76.3	74.9	74.7	74.7	74.6	74.5	74.4	74.2
Materials (percent)	76.0	75.1	74.6	74.7	74.5	74.3	74.2	74.1
Housing starts, private (million units, A.R.)	1.10	1.10	1.15	1.15	1.10	1.10	1.10	1.10
New autos sales, (millions, A.R.)	8.40	8.50	8.60	8.50	8.50	8.50	8.40	8.30
Domestic models	6.20	6.40	6.50	6.50	6.50	6.50	6.40	6.30
Foreign models	2.20	2.10	2.10	2.00	2.00	2.00	2.00	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.

^{3/} Estimates in table are evaluated at a 5.1 percent high employment unemployment rate. Evaluated at a 6.1 percent unemployment rate, the high employment budget would show a deficit of \$8 billion in 1980-Q4 and a surplus of \$1 billion in 1981-Q4, and a surplus of \$31 billion in 1982-Q4.

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CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1981				1982			
	Q1	Q2	Q3	Projected Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	-2.7	-2.0	.4	1.2	.7	.0	.2	.4
Final purchases	-2.5	.0	.9	.3	.1	.0	.2	.4
Private	-3.1	-.1	.9	.1	.1	-.1	.0	.3
Excluding net exports	-3.1	-.8	.1	-.4	.3	.1	.2	.2
Personal consumption expenditures	-1.9	1.5	1.2	.3	.9	.6	.4	.1
Goods	-4.0	1.0	.3	.0	.6	.3	.1	-.5
Services	.4	2.2	2.1	.7	1.1	1.0	.7	.7
Gross private domestic investment	-10.0	-24.9	-9.2	3.8	1.7	-2.8	-.5	.2
Residential structures	-18.5	-28.3	-6.3	-6.3	-7.8	-9.7	-3.9	2.1
Business fixed investment	-5.6	-6.3	-5.1	-3.5	-1.6	-.8	-.1	.2
Gov't. purchases of goods and services	.1	.6	.8	.8	.5	.7	.8	.8
Federal	3.6	3.8	3.9	3.9	4.1	4.3	4.5	4.5
State and local	-2.1	-1.3	-1.1	-1.0	-1.8	-1.7	-1.5	-1.6
Disposable personal income	-5.1	2.9	1.2	-.2	2.0	-.4	-.3	.4
<u>Current dollars</u>								
Gross national product	8.0	7.4	9.7	10.6	9.0	7.9	8.0	8.7
Final purchases	8.2	9.6	10.2	9.6	8.4	7.9	7.9	8.7
Private	8.4	9.9	10.6	9.0	8.6	7.9	7.9	8.1
Excluding net exports	8.0	9.2	9.7	8.2	8.2	7.8	7.9	7.7
Personal consumption expenditures	10.1	12.3	11.1	9.0	9.0	8.4	8.0	7.4
Goods	9.8	12.5	10.7	8.4	8.4	7.8	7.4	6.7
Services	10.4	12.1	11.5	9.7	9.5	9.1	8.7	8.2
Gross private domestic investment	-2.5	-18.2	-.7	12.3	9.2	4.8	7.4	8.6
Residential structures	-10.7	-21.5	2.1	2.1	.0	-2.1	4.3	10.8
Business fixed investment	2.8	2.2	3.3	4.9	6.2	7.1	7.9	8.3
Gov't. purchases of goods and services	7.5	8.6	8.5	11.9	7.9	7.9	8.0	11.3
Federal	8.0	10.9	10.6	20.2	11.1	11.0	11.3	20.0
State and local	7.2	7.3	7.2	7.1	6.0	6.0	6.9	5.9
Disposable personal income	6.5	13.8	11.1	8.5	10.1	7.3	7.3	7.8
Personal income	7.2	7.9	11.2	9.3	8.0	8.0	10.4	8.5
Wage and salary disbursements	5.9	5.6	6.9	9.1	7.2	6.9	6.8	8.2
Corporate profits with IVA & C.C. Adj.	-19.3	-12.4	15.2	21.9	4.0	-3.0	-.2	3.3
Corporate profits before tax	-15.5	-6.8	12.8	17.3	7.4	1.4	3.5	5.9
Nonfarm payroll employment	-.6	-1.3	-.3	-.3	-.1	.5	.6	.6
Manufacturing	-3.0	-4.5	-1.5	-.9	-.7	.2	.5	.6
Nonfarm business sector								
Output per hour	-2.1	-1.0	.6	1.0	1.0	.2	.2	.3
Compensation per hour	11.8	9.0	8.8	8.5	9.2	7.9	7.7	7.6
Unit labor costs	14.2	10.1	8.2	7.4	8.1	7.7	7.5	7.3
GNP implicit deflator 1/	10.9	9.6	9.3	9.3	8.2	7.8	7.7	8.3
Gross domestic business product								
fixed-weighted price index 2/								
Excluding food and energy	11.5	10.4	9.6	8.7	8.0	7.8	7.7	7.5
Consumer price index (all urban)	8.6	8.3	8.2	8.0	7.6	7.4	7.3	7.1
Industrial production	-6.1	-5.4	-2.2	1.1	.8	.0	.3	.3

1/ Excluding Federal pay increases, the rates of change are: 1981-Q1, 10.9 percent; 1981-Q4, 8.7 percent; 1982-Q1, 8.2 percent; 1982-Q4, 8.3 percent.

2/ Uses expenditures in 1972 as weights.

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CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of current dollars.)

	1975	1976	1977	1978	1979	Projected		
						1980	1981	1982
Gross national product	1528.8	1702.2	1899.5	2127.6	2368.8	2581.0	2835.7	3088.9
Final purchases	1539.6	1692.1	1877.6	2105.2	2350.6	2579.1	2839.5	3088.7
Private	1201.2	1330.8	1481.4	1669.6	1874.2	2045.2	2253.8	2450.4
Excluding net exports	1180.8	1322.8	1491.3	1679.9	1878.8	2039.7	2228.3	2413.2
Personal consumption expenditures	979.1	1089.9	1210.0	1350.8	1509.8	1668.8	1851.9	2020.5
Goods	541.5	601.3	660.1	730.9	809.9	874.6	961.4	1043.7
Services	437.5	488.5	549.8	619.8	699.8	794.2	890.5	976.7
Gross private domestic investment	190.9	243.0	303.3	351.5	387.2	372.8	372.6	392.9
Residential construction	51.5	68.1	91.9	108.0	114.1	99.3	96.5	96.4
Business fixed investment	150.2	164.9	189.4	221.1	254.9	271.6	279.8	296.2
Change in business inventories	-10.7	10.0	21.9	22.3	18.2	1.9	-3.8	.2
Nonfarm	-14.3	12.1	20.7	21.3	16.5	3.6	-3.8	.2
Net exports of goods and services ^{1/}	20.4	8.0	-9.9	-10.3	-4.6	5.5	25.5	37.2
Exports	147.3	163.3	175.9	207.2	257.5	313.0	359.5	395.6
Imports	126.9	155.4	185.8	217.5	262.1	307.5	333.9	358.5
Gov't. purchases of goods and services	338.4	361.3	396.2	435.6	476.4	533.9	585.7	638.3
Federal ^{2/}	123.1	129.7	144.4	152.6	166.6	194.3	219.9	248.9
State and local	215.4	231.6	251.8	283.0	309.8	339.6	365.8	389.4
Gross national product in constant (1972) dollars	1202.3	1273.0	1340.5	1399.2	1431.6	1423.1	1414.0	1419.5
Personal income	1255.5	1381.6	1531.6	1717.4	1924.2	2126.5	2339.8	2549.5
Wage and salary disbursements	805.9	890.0	984.0	1103.3	1227.6	1331.8	1438.5	1544.7
Disposable personal income	1086.7	1184.5	1305.1	1458.4	1624.3	1793.5	1983.0	2163.5
Saving rate (percent)	7.7	5.8	5.0	4.9	4.5	4.5	4.2	4.2
Corporate profits with I.V.A. and C.C. Adj.	95.9	126.8	150.0	167.7	178.2	164.6	164.4	173.2
Corporate profits before tax	120.4	156.0	177.1	206.0	236.6	231.8	232.4	248.9
Federal government surplus or deficit (N.I.A. basis)	-70.6	-53.6	-46.3	-27.7	-11.4	-44.7	-67.7	-88.6
High employment surplus or deficit (-)	-21.5	-17.8	-22.1	-13.4	6.9	9.3	30.9	46.4
State and local government surplus or deficit (-) (N.I.A. basis)	6.2	17.9	26.8	27.4	24.6	23.7	25.0	28.3
Excluding social insurance funds	-6.2	2.3	7.3	4.2	-1.9	-7.2	-9.4	-8.3
Civilian labor force (millions)	92.6	94.8	97.4	100.4	102.9	104.8	106.1	107.2
Unemployment rate (percent)	8.5	7.7	7.0	6.0	5.8	7.2	8.4	9.2
Nonfarm payroll employment (millions)	77.0	79.4	82.5	86.7	89.9	90.6	90.5	90.5
Manufacturing	18.3	19.0	19.7	20.5	21.1	20.4	19.9	19.7
Industrial production (1967=100)	117.8	130.5	138.2	146.1	152.5	146.8	144.0	143.8
Capacity utilization: all manufacturing (percent)	72.9	79.5	81.9	84.4	85.6	78.8	75.2	74.4
Materials (percent)	73.4	81.1	82.7	85.6	87.4	79.1	75.1	74.3
Housing starts, private (million units, A.R.)	1.16	1.54	1.99	2.02	1.75	1.28	1.12	1.10
New auto sales, (millions, A.R.)	8.66	10.12	11.13	11.28	10.70	9.02	8.50	8.42
Domestic models	7.08	8.63	9.07	9.29	8.38	6.63	6.40	6.42
Foreign models	1.58	1.50	2.06	1.99	2.32	2.39	2.10	2.00

^{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.

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CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1975	1976	1977	1978	1979	Projected		
						1980	1981	1982
<u>Constant (1972) dollars</u>								
Gross national product	-1.3	5.9	5.3	4.4	2.3	-.6	-.6	.4
Final purchases	.2	4.5	4.8	4.4	2.7	.1	-.5	.3
Private	-.3	5.6	5.6	5.0	3.2	-.4	-.6	.1
Excluding net exports	-1.0	6.5	6.2	5.0	2.6	-1.3	-.8	.0
Personal consumption expenditures	1.8	5.9	5.0	4.5	2.6	.0	.4	.7
Goods	.7	6.9	5.1	4.1	1.3	-2.3	-1.0	.3
Services	3.2	4.8	4.9	5.1	4.3	2.7	2.0	1.1
Gross private domestic investment	-22.3	21.6	15.4	7.1	.4	-11.3	-8.0	-2.5
Residential structures	-13.9	23.3	20.7	4.2	-5.7	-20.6	-11.1	-8.2
Business fixed investment	-13.0	4.8	8.6	8.4	6.2	-2.2	-5.6	-2.3
Gov't. purchases of goods and services	1.9	.2	2.0	1.8	.4	1.9	.1	.7
Federal	.7	-.2	4.4	-2.0	.9	5.5	2.3	4.1
State and local	2.6	.5	.6	4.0	.2	-.2	-1.2	-1.5
Disposable personal income	2.1	3.7	4.2	4.6	2.3	-.1	.1	.7
<u>Current dollars</u>								
Gross national product	8.2	11.3	11.6	12.0	11.3	9.0	9.9	8.9
Final purchases	9.7	9.9	11.0	12.1	11.7	9.7	10.1	8.8
Private	9.1	10.8	11.3	12.7	12.3	9.1	10.2	8.7
Excluding net exports	7.8	12.0	12.7	12.6	11.8	8.6	9.2	8.3
Personal consumption expenditures	10.1	11.3	11.0	11.6	11.8	10.5	11.0	9.1
Goods	8.7	11.0	9.8	10.7	10.8	8.0	9.9	8.6
Services	11.8	11.7	12.5	12.7	12.9	13.5	12.1	9.7
Gross private domestic investment	-11.0	27.3	24.8	15.9	10.2	-3.7	-.1	5.5
Residential structures	-6.5	32.3	35.0	17.5	5.7	-13.0	-2.7	-.1
Business fixed investment	-.3	9.8	14.9	16.7	15.2	6.6	3.0	5.9
Gov't. purchases of goods and services	11.8	6.8	9.7	9.9	9.4	12.1	9.7	9.0
Federal	10.7	5.4	11.3	5.7	9.2	16.6	13.1	13.2
State and local	12.5	7.5	8.7	12.4	9.5	9.6	7.7	6.4
Disposable personal income	10.4	9.0	10.2	11.7	11.4	10.4	10.6	9.1
Personal income	8.7	10.0	10.9	12.1	12.0	10.5	10.0	9.0
Wage and salary disbursements	5.4	10.4	10.6	12.1	11.3	8.5	8.0	7.4
Corporate profits with IVA & C.C. Adj.	14.7	32.2	18.3	11.8	6.3	-7.6	-.1	5.4
Corporate profits before tax	-5.1	29.6	13.5	16.3	14.9	-2.0	.3	7.1
Nonfarm payroll employment	-1.7	3.1	3.9	5.1	3.7	.8	-.1	.0
Manufacturing	-8.7	3.7	3.6	4.2	2.8	-3.2	-2.5	-1.0
Nonfarm business sector								
Output per hour	1.9	3.5	1.5	.5	-1.1	-1.1	-.8	.5
Compensation per hour	9.9	8.3	7.9	8.6	9.0	9.8	10.0	8.5
Unit labor costs	7.9	4.7	6.3	8.0	10.2	11.1	10.9	7.9
GNP implicit deflator	9.6	5.2	6.0	7.3	8.8	9.6	10.6	8.5
Gross domestic business product								
fixed-weighted price index ^{1/}	9.4	5.3	6.2	7.6	9.5	10.2	10.4	8.4
Excluding food and energy	9.5	5.8	6.3	7.2	8.1	8.5	9.0	7.7
Consumer price index (all urban)	9.1	5.8	6.5	7.7	11.3	13.4	12.2	9.2
Industrial production	-8.9	10.8	5.9	5.7	4.4	-3.8	-1.9	-.2

^{1/} Uses expenditures in 1972 weights.

FEDERAL SECTOR ACCOUNTS
(billions of dollars)

December 12, 1980

	Fiscal Year 1980	FRB Staff Estimates													
		FY 1981 e/		FY 1982 e/	CY80e/	CY81e/	Calendar quarters; unadjusted data				1981				
		Admin.	F.R.	F.R.	F.R.	F.R.	1980								
		1/	Board	Board	Board	Board	I*	II*	III*	IV	I	II	III	IV	
Unified budget receipts	520.0	600.1	587.7	635.8	533.0	601.4	114.6	156.2	135.2	127.0	135.1	173.6	152.0	140.7	
Unified budget outlays	579.0	636.5	649.4	714.0	599.2	662.2	141.8	148.1	150.5	158.9	161.4	163.3	165.8	171.7	
Surplus(+)/deficit(-), unified budget	-59.0	-36.4	-61.7	-78.2	-66.2	-60.8	-27.2	8.2	-15.4	-31.9	-26.3	10.3	-13.8	-31.0	
Surplus(+)/deficit(-), off-budget agencies 2/	-14.2	-21.7	-21.6	-22.0	-15.0	-20.9	-3.8	-4.4	-4.9	-1.8	-6.0	-7.4	-6.3	-1.2	
Combined deficit to be financed	-73.2	-58.1	-83.3	-100.2	-81.2	-81.7	-31.0	3.8	-20.3	-33.7	-32.3	2.9	-20.1	-32.2	
Means of financing combined deficits:															
Net borrowing from public	70.5	52.4	72.7	95.7	73.6	84.4	19.1	5.4	27.1	22.0	27.0	3.1	20.6	33.7	
Decrease in cash operating balance	3.2	5.0	6.0	0.0	5.6	-4.7	7.7	-5.9	-6.9	10.7	2.3	-4.0	-3.0	0.0	
Other 3/	-0.6	0.7	4.6		2.0	2.0	4.1	-3.1	0.1	1.0	3.0	-2.0	2.5	-1.5	
Cash operating balance, end of period	21.0	15.0	15.0	15.0	10.3	15.0	8.2	14.1	21.0	10.3	8.0	12.0	15.0	15.0	
Memo: Sponsored agency borrowing 4/	24.1	16.7	25.5	20.0	22.6	22.8	7.7	5.3	3.2	7.7	5.5	6.8	5.5	5.0	
NIA Budget															
							Seasonally adjusted annual rates								
Receipts 5/	531.6	605.0	594.2	634.9	550.2	604.2	538.4	529.9	549.9	582.7	606.6	587.5	603.1	619.4	
Expenditures	572.3	647.1	654.4	721.7	595.0	671.9	561.3	579.1	608.5	631.0	644.9	657.7	684.2	700.7	
Purchases (total)	187.3	211.3	213.5	241.3	194.3	219.9	186.2	193.3	191.4	206.4	210.4	215.9	221.4	231.8	
Defense	121.9	143.1	145.4	167.8	127.8	151.1	119.6	124.1	129.1	138.3	142.7	147.9	152.7	161.0	
Nondefense	65.5	68.2	68.1	73.4	66.6	68.8	66.6	69.2	62.3	68.1	67.7	68.0	68.7	70.8	
All other expenditures	385.0	435.8	440.9	480.4	400.7	452.0	375.1	385.8	417.1	424.6	434.5	441.8	462.8	468.9	
Surplus(+)/deficit(-) 5/	-40.7	-42.1	-60.2	-86.8	-44.8	-67.7	-22.9	-49.2	-58.6	-48.3	-38.3	-70.2	-81.1	-81.3	
High employment (H.E.) surplus(+)/deficit(-) evaluated at H.E. unemployment rate of:															
5.1 percent	6.2	n.a.	28.1	38.0	9.3	30.9	3.3	6.1	8.5	19.3	45.6	24.3	23.1	30.5	
6.1 percent	-18.5	n.a.	-0.2	7.0	-16.4	2.0	-20.7	-19.3	-17.6	-8.0	17.0	-3.9	-5.9	0.6	

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

- OMB/BEA Mid-Session Review estimates adjusted by FRB staff for the effects of Administration's revitalization program. In its report on the Second Concurrent Resolution, the Congress recommended receipts of \$606.7 billion and outlays of \$631.7 billion.
- Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Pension Benefit Guaranty Corporation.
- Checks issued less checks paid, accrued items and other transactions.
- FRB staff estimates include Federal Home Loan Banks, FNMA, Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives marketable debt on an offerings basis.
- BEA (NIPA) translations, July 1980. The fiscal year totals 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.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Short-term interest rates have surged since the last FOMC meeting. In reaction to restrained reserve availability, adjustment in the discount rate and the imposition and subsequent increase of the surcharge, the federal funds rate jumped from 15-1/4 percent in the week of the November meeting to around 19 percent. Other market rates on instruments with maturities of three months or less rose at least as much to record levels and the prime rate was boosted from 16-1/4 to 20 percent.

Intermediate- and longer-term yields advanced substantially less, however, reflecting the widespread expectation of a near-term peak in short-term yields. Even so, corporate and municipal bond yields attained record highs.

Although November marked the third consecutive monthly deceleration of the narrow monetary aggregates, the 6-3/4 percent expansion of M-1A during the month raised its rate of growth for the year to date to only 1/4 percentage point below the 6 percent upper end of its longer-run range. The 9-1/2 percent expansion of M-1B in November moved its annual average growth rate to 1-1/4 percentage points above its 6-1/2 percent targeted upper bound.

The other checkable deposits component of M-1B continued the strong gains that have generally marked its expansion since last March, when the Monetary Control Act was passed. Since then, commercial banks have aggressively marketed ATS accounts in order to protect market shares threatened by the nationwide extension of NOWs to all depository institutions at year end.

In contrast to the narrow monetary aggregates, M-2 and M-3 expansion picked up in November for the second consecutive month, bringing their

annual rate of growth for the year to date to 1 and 1/2 percentage points, respectively, above the upper ends of their long-run ranges. The sharper advance of small time deposits at both commercial banks and thrifts more than offset emergent outflows of savings deposits and continued runoffs of money market mutual fund shares. In addition, commercial banks considerably stepped up issuance of large time deposits to help finance the 16 percent annual rate of growth of loans and investments. Bank credit growth through November had risen to the midpoint of its longer-run range.

Business borrowing again was concentrated at commercial banks in November. Business loans maintained the rapid October rate of growth, and the runoff of commercial paper of nonfinancial firms continued, although at a slower pace than in other recent months. The continued relative attractiveness of bank borrowing probably reflected the persistence of an unusually narrow spread between the prime and commercial paper rates. Long-term debt offerings weakened further, as corporations apparently are reluctant to issue longer-term fixed rate securities at the current level of yields. In contrast, a large issuance of equities in November and early December was encouraged by the higher level of stock prices.

Net Treasury borrowing surged in November and early December, on both long and short ends of the market. Purchases of bills by foreign official accounts and noncompetitive tenders in Treasury bill and 2-year note auctions have been sizable. Gross offerings of state and local government securities fell off in November, despite stepped up offerings of mortgage revenue bond issues.

In the household sector, consumer installment credit in October continued the modest advance begun in the previous month. With delinquencies and repossessions on auto loans moving up at finance companies and commercial banks, lending institutions apparently are tightening nonrate terms and raising standards of creditworthiness. In addition, finance rates have continued to rise further above reported August lows.

Primary mortgage rates have risen further as well. The average contract interest rate on commitments for conventional home mortgages at S&Ls has gone up 1/4 percentage point since the last FOMC meeting. Although mortgage funds generally continue to be available, higher rates reportedly have met with increasing borrower resistance, and new commitment extensions at S&Ls dropped sharply in October, while outstanding commitments at S&Ls fell for the first time in four months. According to field reports, new commitment activity at S&Ls and other major mortgage originators, particularly mortgage bankers, has fallen off further in November and early December.

Outlook. The recent increases in interest rates are likely to be partially reversed over the next few months. As economic activity weakens in early 1981 and the effects of the current higher interest rates on money and credit demands occur with the usual lag, downward pressures on market interest rates should emerge. Declines in long-term rates may be tempered by the triggering of enlarged bond issuance by nonfinancial corporations whose balance sheet measures of liquidity are currently weak and whose overall credit demands are expected to remain sizable. A continued involuntary build-up of inventories in the first quarter is expected to keep the financing gap above \$50 billion at an annual rate. Total short-

term business credit demands are expected to expand at a reduced though still substantial pace. In addition, renewed commercial paper issuance by nonfinancial corporations is likely to displace some of the recent strength of bank C&I loans, as declines in the prime rate lag those of commercial paper rates, and the spread widens to more normal levels. The Treasury is expected to reduce somewhat its marketable borrowings, seasonally adjusted, in the first quarter, with a similar pattern anticipated for state and local entities.

Household borrowing is likely to be about unchanged in the first quarter. The staff currently anticipates that primary conventional mortgage rates will continue to move up over the near term before retreating and that mortgage commitment activity will fall further. The recent and prospective declines in commitments will begin to show through in reduced net mortgage extensions at major lenders as time goes on. Consumer credit flows are expected to edge down in the near term.

INTERNATIONAL DEVELOPMENTS

Summary. Persistent market demand resulted in a further 5 percent appreciation of the dollar over the past month, on a weighted average basis, to about 8 percent above the level prevailing at mid-October. Rising relative interest rates in the United States have been the main supportive factor recently, with further upward pressure possibly resulting from the Soviet threat to Poland. The dollar has risen about 6-1/2 percent against the German mark and other Continental European currencies in the past month, and about 3-1/2 percent against the pound, but has changed little against the yen in the period.

The main feature of official intervention in the past month was U.S. purchases of \$2.1 billion equivalent of German marks, mostly for the Treasury. With these purchases the Treasury's balance exceeds its DM-denominated Carter-bond debt by roughly \$1/2 billion and the System's balance amounts to more than \$1.3 billion equivalent.

Weakness in economic activity in most foreign industrial countries appears to be continuing. The most recent data show declining industrial production in the United Kingdom and a fall in Italian GDP in the third quarter. Exceptions are Japan, where GNP was strong in the third quarter, and Canada, where there has been some pickup in industrial production and GNP.

The rate of increase in consumer prices has remained moderate in recent months in Japan and the United Kingdom, but turned up in Germany

in November, possibly affected by the depreciation of the DM. In France, Italy, and Canada, consumer price inflation has remained high. Germany's current-account deficit diminished further in October, and near balance was reported for Japan; while the United Kingdom registered a widening surplus.

The only significant economic policy action abroad was in the United Kingdom, where the government announced a package of measures designed to bring the public sector deficit, real government spending, and monetary growth closer to the medium-term paths announced earlier. The U.K. authorities also reduced the Minimum Lending Rate in view of the evident weakness in the economy.

The U.S. trade deficit in October was about the same as in the preceding two months (\$14 billion SAAR), well below the first half rate. Total exports held fairly steady; a decline in agricultural exports was probably temporary. However, there are signs of leveling off or decline in several major export categories -- machinery, consumer goods, and industrial materials.

Oil import volume in October was somewhat above the low third-quarter rate, and prices rose marginally. Nonoil imports held at about the third-quarter rate.

Financial flows recorded in the international accounts registered a sizable inflow in October. U.S. banking offices repatriated funds on balance, in contrast to a large outflow in September, and foreigners purchased a substantial amount of U.S. corporate stocks. According to daily-average data net inflows through banking channels continued in November. Foreign official accounts in the United States

rose only slightly in October, however, as OPEC accounts were drawn down in sharp contrast to strong inflows through September. U.S. reserve assets rose by over \$2-1/2 billion in October and November, mainly reflecting purchases of German marks, and rose further in early December.

Outlook. The staff projection of the U.S. current account for 1980 is little changed from the last Greenbook at a surplus of about \$4 billion, but the projected 1981 surplus has been raised to about \$20 billion, with a further rise to about \$30 billion in 1982. In these projections the trade deficit drops from about \$25 billion in 1980 to \$10 billion in 1982, while net receipts on other current transactions (mainly investment income) rise from \$30 billion to \$40 billion. Underlying these revised projections are weaker domestic economic activity relative to foreign activity, higher dollar interest rates on rising U.S. net foreign assets, which tends to push up U.S. net income receipts, and a reestimation of U.S. demand for petroleum imports.

With the projected strength in the U.S. current account and in U.S. interest rates, both well above the present market view, the staff would expect a substantial further appreciation of the weighted average exchange value of the dollar over the projection period. However, the dollar's exchange value may deviate from this upward trend as dollar interest rates recede from near-term highs.

OUTLOOK FOR U.S. NET EXPORTS AND RELATED ITEMS
(BILLIONS OF DOLLARS, SEASONALLY ADJUSTED ANNUAL RATES)

December 12, 1980

	1980 ANN.	1981 ANN.	1982 ANN.	1980 Q IV	1981 Q I	1981 Q II	1981 Q III	1981 Q IV	1982 Q I	1982 Q II	1982 Q III	1982 Q IV
1. GNP NET EXPORTS												
CURRENT \$, NET	5.5	25.5	37.2	16.4	18.8	22.6	28.1	32.7	35.2	36.0	37.2	40.3
EXPORTS OF G&S	313.0	359.5	395.7	323.7	344.8	355.6	364.0	373.5	383.8	392.1	399.1	407.6
IMPORTS OF G&S	307.5	333.9	358.5	307.3	326.0	333.0	335.9	340.8	348.6	356.1	362.0	367.3
CONSTANT 72 \$, NET	28.3	30.0	31.5	27.6	27.3	29.1	31.2	32.6	32.1	31.4	31.1	31.5
EXPORTS OF G&S	128.4	130.3	133.7	125.9	128.6	129.2	130.6	132.8	133.7	133.8	133.5	133.6
IMPORTS OF G&S	100.1	100.3	102.1	98.3	101.3	100.1	99.4	100.2	101.7	102.4	102.4	102.1
TERMS OF TRADE (1972=100) 1/	79.4	82.8	84.3	82.3	83.3	82.8	82.5	82.7	83.7	84.3	84.6	84.8
2. U.S. MERCHANDISE TRADE BALANCE 2/												
	-25.2	-12.5	-10.6	-16.1	-16.8	-14.5	-10.6	-8.2	-8.6	-10.7	-11.8	-11.4
EXPORTS (EXCL. MILITARY)	223.4	251.3	268.0	230.5	241.6	249.6	255.2	258.6	262.7	266.1	269.4	273.8
AGRICULTURAL	42.0	50.7	54.4	43.7	49.3	51.6	51.7	50.3	52.1	53.5	55.2	56.9
NONAGRICULTURAL	181.4	200.5	213.6	186.8	192.3	198.0	203.6	208.3	210.7	212.6	214.3	216.9
IMPORTS	248.6	263.8	278.6	246.6	258.4	264.1	265.8	266.8	271.4	276.7	281.3	285.2
PETROLEUM AND PRODUCTS	79.6	92.5	95.2	78.9	87.8	93.1	95.1	93.9	94.2	95.3	95.7	95.8
NONPETROLEUM	169.0	171.3	183.4	167.7	170.6	170.9	170.8	172.9	177.2	181.5	185.6	189.4
3. U.S. CURRENT ACCOUNT BALANCE												
	4.4	21.1	29.9	15.7	15.3	18.9	23.9	26.2	27.2	28.7	30.3	33.4
OF WHICH: NET INVESTMENT INCOME	34.9	38.5	45.9	36.9	37.4	38.0	39.0	39.9	41.4	44.3	47.1	50.8
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/												
REAL GNP, % CHANGE, ANNUAL RATES	1.8	0.5	2.3	1.0	0.3	0.8	1.7	1.9	2.5	2.6	2.9	3.0
CONSUMER PRICES 4/, % CHANGE, ANNUAL RATES	11.4	8.3	7.2	7.6	8.7	7.9	7.5	7.4	7.4	6.9	6.7	6.7

1/ GNP EXPORT IMPLICIT DEFLATOR DIVIDED BY GNP IMPORT IMPLICIT DEFLATOR.

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ GEOMETRIC WEIGHTS USED TO AGGREGATE FOREIGN REAL GNP AND CONSUMER PRICES -- PER CENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE. CANADA (9.1%), JAPAN (13.6%), UNITED KINGDOM (11.9%), GERMANY (20.8%), FRANCE (13.1%), ITALY (9.0%), BELGIUM (6.4%), THE NETHERLANDS (8.3%), SWITZERLAND (3.6%), SWEDEN (4.2%).

4/ WHOLESALE PRICES FOR JAPAN.

P/ PROJECTED.