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May 12, 1982

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 continued to contract early in the second quarter. Employment fell further in April, and industrial production declined at nearly the same rate as in March. The huge inventory liquidation that began last December continued through March; while the reduction in auto inventories apparently has ended, production cutbacks in other manufacturing sectors probably signal further inventory liquidation in those areas. The price picture has continued to improve in most sectors, and both the consumer and producer price indexes registered declines in March.

The April decline in industrial production was fairly widespread. Materials industries were particularly hard hit, with raw steel production down more than 10 percent and other primary metals posting declines as well. Auto assemblies moved up 9 percent from a very low March level; assemblies currently are scheduled to rise further in May.

Payroll employment fell another 200,000 in April, with job cutbacks concentrated in the manufacturing, construction, and retail trade sectors. Given the reduction in employment and the growth in the labor force, the unemployment rate rose to 9.4 percent, the highest rate since 1941.

Consumer spending held up fairly well in the first quarter, according to the Commerce Department, which estimated that real personal consumption expenditures rose at a 4 percent annual rate. Part of this increase can be attributed to a rebate-induced rise in sales of motor vehicles, but excluding autos and trucks, PCE still rose at a 2 percent rate in real terms. However, auto sales weakened in April with the

termination of many price concessions, and recent reports indicate that sales at chain stores were disappointing.

Housing activity has continued its slow improvement. In March, housing starts were 950,000 units a year, only 100,000 units above their low last October. Moreover, sales of both new and existing houses remain very weak, and in general, most indicators of housing demand and activity suggest a sluggish real estate environment in the months ahead, given the present mortgage market conditions.

Business investment has continued to decline, but at a slower rate than might have been expected, in light of the low level of capacity utilization (71.4 percent in March) and the high cost of capital. Shipments of nondefense capital goods fell 1 percent in March, pushing the first-quarter average 3.8 percent below the fourth quarter of last year. In contrast, nonresidential construction continued to rise, posting a 1.6 percent increase in the first quarter. Looking ahead, the McGraw-Hill survey conducted in April found that businesses were planning to reduce real capital spending by 4-1/2 percent in 1982, a substantial reduction from their previous report.

Inventories continued to decline throughout the first quarter. Data now available suggest that the current-dollar decline in inventories probably was larger than the \$40 billion annual rate estimated for the first-quarter GNP. But even with this decrease, inventory-to-sales ratios in most industries remain quite high. In the automobile industry, inventories have declined substantially, moving them nearly into balance with sales.

The improvement in the consumer and producer price indexes in recent months reflected the strong downward pressures generated by the recession. At the retail level, mortgage interest rates and prices of gasoline, houses, and food all declined in March, and other prices continued to rise at a slower pace than prevailed at the end of 1981. For producers, lower prices for petroleum products were responsible for most of the small decline in March, although food and intermediate materials also were down.

Declining demand for labor and reduced inflation rates have been reflected in more moderate wage increases. The hourly earnings index increased at an annual rate of about 6 percent over the first four months of 1982, a little less than over the fourth quarter of last year and down significantly from the 8-1/2 percent rise posted during 1981. The elimination of scheduled wage increases (but not cost-of-living adjustments) in the Ford and Teamsters contracts held the average first-year wage adjustment in major bargaining agreements to 2.2 percent in the first quarter, down sharply from the increases of nearly 10 percent in both 1980 and 1981.

Outlook. The staff now expects that real GNP will increase only slightly in the current quarter. The inventory adjustment is continuing longer than previously anticipated, but the rate of liquidation should still be well below the first quarter pace. The resulting boost to GNP should be enough to offset the expected decline in real final sales. Sharp reductions are projected for business fixed investment and federal government purchases, while consumption is expected to increase only slightly. The rise in prices in the current quarter has been reduced

substantially in the current projection to reflect lower food and energy prices; the gross domestic business product fixed-weighted price index is now projected to rise at a 5.0 percent annual rate, a percentage point less than in the last Greenbook.

The monetary and fiscal policy assumptions are about the same as in the previous projection. M1 growth is still assumed to lie in the upper part of the Committee's range for 1982 and to decelerate in 1983. Interest rates are expected to decline somewhat from current levels, but remain very high in real terms.

The staff continues to assume that nearly \$30 billion of deficit-reducing measures will be enacted for FY1983. The budget deficit (unified budget basis) is expected to rise from about \$115 billion in FY1982 to \$180 billion in FY1983. The deficit-reducing program assumed by the staff is considerably smaller than the plans now being discussed in the Congress; however, these assumptions do not appear to be unreasonable given the difficulties likely in resolving the large programmatic differences between proposals advanced in the Senate and the House.

The projected increase in real GNP during the last half of 1982 is smaller than in the last Greenbook. Assuming that the inventory correction is completed by mid-summer, there should be a moderate recovery in the second half of the year. Consumer spending is expected to pick up as the second installment of the tax reductions and a substantial increase in social security payments boost disposable income in July. In addition, recent price reductions for food and energy items are expected to leave room in family budgets for expanded discretionary purchases. But the upturn in overall activity is likely to be damped by the effects of continued high interest rates. In particular, real business fixed investment

is projected to continue declining through the third quarter, as a result of high interest rates, low profits, and the wide margin of unused capacity. The external sector also should contribute to the weakness of activity in 1982, as a strong dollar and slow income growth abroad curtail the demand for U.S. exports. The jobless rate is expected to remain close to 9-1/2 percent over the rest of the year.

We expect that real GNP will grow 3-1/4 percent during 1983, a weak recovery by historical standards. While growth in consumption is expected to be moderate, business spending for both inventories and fixed capital is projected to grow very slowly. In this environment, the unemployment rate is expected to improve gradually, ending the year at about 8-3/4 percent.

Price increases throughout 1982 and 1983 are expected to remain very low compared with those since 1978. This reflects the continued economic slack and spillover effects of the recent energy price reductions. The gross domestic business product fixed-weighted price index is expected to rise only 5-1/2 percent over 1982 and 4-3/4 percent during 1983. Labor cost pressures also are expected to ease as high unemployment rates and the lagged effect of improved consumer prices reduce wage demands. Hourly compensation is now projected to rise 7-1/4 percent during 1982 and 6-1/4 percent over 1983, down substantially from the 9-1/4 percent rise last year.

The strength of the recovery in the second half of this year and early 1983 remains very uncertain. The projected turnaround in activity this year hinges on a timely completion of the current inventory correction, and a positive consumer reaction to the tax cut. However, if

businesses continue to liquidate stocks well into the second half of the year, the upturn could be delayed until 1983. In addition, financial constraints on business might lead to a larger or longer contraction in capital spending than that in the current forecast.

STAFF GNP PROJECTIONS

Percent changes, annual rate										
Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)		
3/24/82	5/12/82	3/24/82	5/12/82	Total		Excluding food and energy		3/24/82	5/12/82	
				3/24/82	5/12/82	3/24/82	5/12/82			
Annual changes:										
1980 1/	8.8	8.8	-.2	-.2	9.8	9.8	8.2	8.2	7.1	7.1
1981 1/	11.4	11.4	2.0	2.0	9.4	9.4	9.2	9.2	7.6	7.6
1982	6.2	5.4	-.7	-1.0	6.9	6.5	7.6	7.4	9.0	9.4
1983	8.4	8.0	3.1	2.9	5.4	5.2	5.2	4.9	8.8	9.2
Quarterly changes:										
1981-Q1 1/	19.2	19.2	8.6	8.6	10.5	10.5	8.4	8.4	7.4	7.4
1981-Q2 1/	4.7	4.7	-1.6	-1.6	8.2	8.2	9.6	9.6	7.4	7.4
1981-Q3 1/	11.4	11.4	1.4	1.4	9.9	9.9	11.5	11.5	7.4	7.4
1981-Q4 1/	4.6	4.6	-4.5	-4.5	7.5	7.5	8.2	8.2	8.3	8.3
1982-Q1 1/	.2	-.4	-4.5	-3.9	6.2	5.4	6.7	6.2	8.8	8.8
1982-Q2	8.8	6.4	2.1	.4	5.9	5.0	6.9	6.8	9.2	9.5
1982-Q3	10.9	9.6	5.1	3.9	6.0	6.0	6.1	5.9	9.1	9.6
1982-Q4	9.6	9.0	3.9	3.1	5.7	5.5	5.6	5.2	9.0	9.5
1983-Q1	7.0	7.1	1.9	2.3	5.4	5.2	4.9	4.7	8.9	9.4
1983-Q2	7.0	7.3	2.1	2.5	5.1	4.9	4.7	4.4	8.9	9.3
1983-Q3	8.9	8.7	4.5	4.6	4.6	4.4	4.4	4.2	8.7	9.1
1983-Q4	8.5	8.6	3.1	3.5	4.6	4.4	4.4	4.1	8.6	8.8
Two-quarter changes:										
1981-Q2 1/	11.7	11.7	3.4	3.4	9.2	9.2	9.0	9.0	-.1	-.1
1981-Q4 1/	7.9	7.9	-1.6	-1.6	8.7	8.7	9.8	9.8	.9	.9
1982-Q2	4.4	2.9	-1.3	-1.8	6.0	5.3	6.8	6.5	.9	1.2
1982-Q4	10.3	9.3	4.5	3.5	5.9	5.8	5.8	5.5	-.2	.0
1983-Q2	7.0	7.2	2.0	2.4	5.3	5.1	4.8	4.6	-.1	-.2
1983-Q4	8.7	8.7	3.8	4.1	4.6	4.4	4.4	4.1	-.3	-.5
Four-quarter changes:										
1980-Q4 1/	9.4	9.4	-.3	-.3	9.7	9.7	8.6	8.6	1.5	1.5
1981-Q4 1/	9.8	9.8	.9	.9	9.0	9.0	9.4	9.4	.8	.8
1982-Q4	7.3	6.1	1.6	.8	6.0	5.5	6.3	6.0	.7	1.2
1983-Q4	7.8	7.9	2.9	3.2	5.0	4.8	4.6	4.4	-.4	-.7

1/ Actual.

2/ Percent change from two quarters earlier.

3/ Percent change from four quarters earlier.

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

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2571.7	2564.8	2637.3	2730.6	2853.0	2885.8	2965.0	2998.3
Final purchases	2569.1	2557.4	2653.4	2748.0	2848.5	2862.5	2937.6	2989.0
Private	2052.3	2027.4	2119.9	2189.4	2272.0	2285.1	2348.7	2367.0
Excluding net exports	2044.1	2010.3	2075.4	2166.1	2242.8	2264.3	2319.4	2342.3
Personal consumption expenditures	1631.0	1626.8	1682.2	1751.0	1810.1	1829.1	1883.9	1908.3
Goods	882.0	858.4	883.0	926.8	964.3	962.6	987.5	986.7
Services	749.0	768.4	799.2	824.2	845.8	866.5	896.4	921.5
Gross private domestic investment	415.6	390.9	377.1	397.7	437.1	458.6	463.0	443.3
Residential construction	115.2	93.6	99.2	113.0	116.7	110.7	100.5	94.2
Business fixed investment	297.8	289.8	294.0	302.1	315.9	324.6	335.1	339.8
Change in business inventories	2.5	7.4	-16.0	-17.4	4.5	23.3	27.5	9.4
Nonfarm	1.5	6.1	-12.3	-14.0	6.8	21.5	23.1	3.7
Net exports of goods and services ^{1/}	8.2	17.1	44.5	23.3	29.2	20.8	29.3	24.7
Exports	337.3	333.3	342.4	346.1	367.4	368.2	368.0	365.6
Imports	329.1	316.2	297.9	322.7	338.2	347.5	338.7	341.0
Gov't. purchases of goods and services	516.8	530.0	533.5	558.6	576.5	577.4	588.9	622.0
Federal ^{2/}	190.0	198.7	194.9	212.0	221.6	219.5	226.4	253.3
State and local	326.8	331.3	338.6	346.6	354.9	357.9	362.5	368.7
Gross national product in constant (1972) dollars	1501.9	1463.3	1471.9	1485.6	1516.4	1510.4	1515.8	1498.4
Personal income	2088.2	2114.5	2182.1	2256.2	2319.8	2368.5	2441.7	2486.5
Wage and salary disbursements	1314.7	1320.4	1341.8	1397.8	1442.9	1467.0	1498.5	1522.5
Disposable personal income	1765.1	1784.1	1840.6	1897.0	1947.8	1985.6	2042.0	2088.5
Saving rate (percent)	4.9	6.2	6.1	5.1	4.6	5.4	5.2	6.1
Corporate profits with I.V.A. and C.C. Adj	200.2	169.3	177.9	183.3	203.0	190.3	195.7	177.6
Corporate profits before tax	277.1	217.9	237.6	249.5	257.0	229.0	234.4	212.8
Federal government surplus or deficit (-) (N.I.A. basis)	-36.3	-66.5	-74.2	-67.9	-46.6	-47.2	-55.7	-100.0
High employment surplus or deficit (-) ^{3/}	-17.1	-21.5	-21.1	-13.4	.4	6.6	2.8	-25.7
State and local government surplus or deficit (-) (N.I.A. basis)	26.6	23.9	28.6	37.1	36.9	36.1	37.8	35.9
Excluding social insurance funds	1.3	-1.7	.9	8.1	6.6	4.3	5.1	2.2
Civilian labor force (millions)	106.5	106.8	107.2	107.5	108.1	108.8	108.7	109.2
Unemployment rate (percent)	6.3	7.3	7.6	7.5	7.4	7.4	7.4	8.3
Nonfarm payroll employment (millions)	90.8	90.5	90.2	90.8	91.2	91.5	91.9	91.5
Manufacturing	20.8	20.3	20.0	20.2	20.2	20.4	20.5	20.0
Industrial production (1967=100)	152.6	144.5	142.3	148.7	151.8	152.5	153.0	146.2
Capacity utilization: all mfg. (percent)	83.4	77.9	75.9	79.1	79.9	79.8	79.3	74.8
Materials (percent)	85.8	78.8	75.2	80.1	82.2	81.2	81.1	75.2
Housing starts, private (million units, A.R.)	1.25	1.06	1.39	1.50	1.40	1.17	.96	.87
New auto sales, (millions, A.R.)	10.65	7.68	8.80	9.04	9.96	7.89	9.04	7.37
Domestic models	7.87	5.53	6.51	6.57	7.31	5.63	6.90	5.13
Foreign models	2.77	2.14	2.29	2.47	2.66	2.25	2.14	2.24

- ^{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 \$37.8 billion in 1980-Q4 and a deficit of 52.2 billion in 1981-Q4.

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

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	3.1	-9.9	2.4	3.8	8.6	-1.6	1.4	-4.5
Final purchases	3.1	-10.4	4.1	4.4	6.9	-4.7	.3	-1.8
Private	2.2	-13.3	6.5	4.9	7.3	-4.5	.8	-4.5
Excluding net exports	-.4	-14.4	4.6	8.5	6.7	-3.1	1.9	-3.3
Personal consumption expenditures	.8	-9.8	5.1	7.0	5.8	-2.1	3.3	-2.2
Goods	-.3	-17.7	4.0	10.2	9.8	-5.3	3.8	-5.5
Services	2.1	.0	6.4	3.7	1.4	1.6	2.6	1.7
Gross private domestic investment	-5.6	-28.9	-10.0	11.1	24.2	16.1	3.3	-24.7
Residential structures	-24.2	-60.2	16.0	64.2	3.6	-23.4	-36.2	-27.1
Business fixed investment	2.2	-19.9	-1.5	4.0	13.3	-2.1	6.9	-2.9
Gov't. purchases of goods and services	6.9	2.5	-5.0	2.2	5.4	-5.6	-1.5	10.2
Federal	18.9	11.9	-13.1	2.0	14.8	-8.4	3.1	28.2
National defense	9.8	6.2	-.1	5.9	1.1	2.6	7.9	16.3
State and local	.6	-2.8	.3	2.3	.2	-3.8	-4.2	.1
Disposable personal income	1.3	-4.9	4.1	2.9	3.0	1.4	2.6	1.6
<u>Current dollars</u>								
Gross national product	12.6	-1.1	11.8	14.9	19.2	4.7	11.4	4.6
Final purchases	12.0	-1.8	15.9	15.0	15.5	2.0	10.9	7.2
Private	10.7	-4.8	19.5	13.8	16.0	2.3	11.6	3.2
Excluding net exports	10.6	-6.5	13.6	18.7	14.9	3.9	10.1	4.0
Personal consumption expenditures	12.9	-1.0	14.3	17.4	14.2	4.3	12.5	5.3
Goods	13.1	-10.3	12.0	21.4	17.2	-.7	10.8	-.3
Services	12.7	10.8	17.0	13.1	10.9	10.1	14.6	11.7
Gross private domestic investment	5.6	-21.8	-13.3	23.7	45.9	21.1	3.9	-16.0
Residential structures	-16.7	-56.4	25.7	68.5	14.0	-19.2	-32.1	-22.9
Business fixed investment	11.0	-10.4	6.0	11.5	19.6	11.4	13.6	5.8
Gov't. purchases of goods and services	17.5	10.6	2.6	20.2	13.5	.6	8.2	24.5
Federal	29.5	19.8	-7.5	40.2	19.3	-3.7	13.1	56.7
National defense	23.2	12.4	8.4	35.0	10.4	8.7	16.9	47.0
State and local	11.2	5.6	9.1	9.7	10.0	3.3	5.3	7.1
Disposable personal income	13.5	4.4	13.3	12.8	11.2	8.0	11.8	9.4
Personal income	11.5	5.1	13.4	14.3	11.8	8.7	12.9	7.5
Wage and salary disbursements	10.5	1.8	6.6	17.8	13.5	6.9	8.9	6.6
Corporate profits with IVA & C.C. Adj.	24.8	-48.9	21.9	12.7	50.4	-22.8	11.8	-32.2
Corporate profits before tax	38.6	-61.8	41.4	21.6	12.6	-37.0	9.8	-32.1
Nonfarm payroll employment	1.5	-1.6	-1.0	2.7	1.8	1.4	1.7	-1.8
Manufacturing	-2.4	-9.7	-5.9	3.7	.5	4.2	2.4	-9.4
Nonfarm business sector								
Output per hour	.3	-2.9	3.6	-.2	4.4	1.4	-1.7	-6.9
Compensation per hour	10.3	11.3	9.0	9.8	11.7	9.6	9.5	6.3
Unit labor costs	9.9	14.6	5.3	10.1	7.0	8.1	11.5	14.1
GNP implicit deflator ^{1/}	9.3	9.8	9.2	10.7	9.8	6.4	9.9	9.5
Gross domestic business product								
fixed-weighted price index ^{2/}	10.1	9.8	9.6	9.3	10.5	8.2	9.9	7.5
Excluding food and energy	7.4	9.5	9.3	8.2	8.4	9.6	11.5	8.2
Consumer price index (all urban)	16.5	13.5	7.7	12.8	11.0	7.8	11.8	7.7
Industrial production	.3	-19.6	-6.2	19.2	8.3	1.9	1.3	-16.4

^{1/} Excluding Federal pay increases, rates of change were: 1980-Q1, 9.2 percent; 1980-Q4, 9.7 percent; 1981-Q1, 9.7 percent; 1981-Q4, 7.4 percent.

^{2/} Uses 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.)

	1982				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2995.1	3041.8	3112.2	3179.8	3234.9	3292.2	3361.9	3432.1
Final purchases	3035.1	3060.8	3110.7	3168.4	3222.5	3278.8	3348.1	3417.1
Private	2407.1	2432.1	2476.6	2518.5	2560.9	2605.4	2662.9	2716.0
Excluding net exports	2383.3	2399.2	2452.3	2508.7	2559.5	2608.5	2667.2	2718.1
Personal consumption expenditures	1950.7	1975.5	2028.4	2073.6	2114.4	2154.6	2203.9	2243.8
Goods	1002.9	1005.9	1032.4	1053.5	1072.3	1090.4	1117.2	1135.1
Services	947.8	969.6	996.0	1020.1	1042.1	1064.2	1086.7	1108.7
Gross private domestic investment	392.6	404.7	425.4	446.5	457.5	467.3	477.1	489.3
Residential construction	92.7	93.2	99.7	105.7	110.7	114.2	118.2	123.7
Business fixed investment	339.8	330.5	324.2	329.4	334.4	339.7	345.1	350.6
Change in business inventories	-40.0	-19.0	1.5	11.4	12.4	13.4	13.8	15.0
Nonfarm	-38.8	-19.0	1.5	11.4	12.4	13.4	13.8	15.0
Net exports of goods and services ^{1/}	23.8	32.9	24.3	9.8	1.4	-3.1	-4.3	-2.1
Exports	359.0	359.7	358.6	355.4	360.7	366.5	378.6	392.6
Imports	335.1	326.8	334.3	345.6	359.3	369.6	382.9	394.7
Gov't. purchases of goods and services	628.0	628.7	634.1	649.9	661.6	673.4	685.2	701.1
Federal ^{2/}	255.7	252.4	253.2	264.4	271.9	279.4	287.0	298.6
State and local	372.3	376.3	380.9	385.5	389.7	394.0	398.2	402.5
Gross national product in constant (1972) dollars	1483.6	1485.0	1499.3	1510.9	1519.4	1529.0	1546.4	1559.8
Personal income	2512.7	2551.4	2604.3	2655.8	2704.6	2755.4	2814.2	2867.1
Wage and salary disbursements	1539.0	1552.0	1576.0	1608.4	1633.8	1660.2	1690.2	1725.8
Disposable personal income	2115.3	2147.7	2222.1	2264.4	2313.9	2352.8	2427.9	2469.0
Saving rate (percent)	5.3	5.5	6.3	6.0	6.2	6.0	6.8	6.7
Corporate profits with I.V.A. and C.C. Adj.	146.2	162.9	181.3	189.3	190.2	194.8	207.6	216.5
Corporate profits before tax	166.5	179.0	192.9	199.9	191.5	189.8	196.2	196.9
Federal government surplus or deficit (-) (N.I.A. basis)	-124.5	-132.7	-165.5	-167.6	-177.3	-183.2	-220.8	-226.3
High employment surplus or deficit (-) ^{3/}	-31.2	-22.7	-57.7	-58.0	-63.2	-66.8	-111.0	-116.6
State and local government surplus or deficit (-) (N.I.A. basis)	36.1	39.5	43.4	42.8	42.4	43.9	47.6	50.1
Excluding social insurance funds	1.4	3.3	5.7	3.6	1.7	1.7	3.9	4.9
Civilian labor force (millions)	109.1	109.7	110.0	110.3	110.6	110.9	111.2	111.5
Unemployment rate (percent)	8.8	9.5	9.6	9.5	9.4	9.3	9.1	8.8
Nonfarm payroll employment (millions)	90.9	90.5	90.5	90.7	91.0	91.4	91.9	92.4
Manufacturing	19.5	19.2	19.2	19.3	19.4	19.6	19.8	20.0
Industrial production (1967=100)	141.4	140.3	142.9	145.0	146.4	148.0	150.2	152.0
Capacity utilization: all mfg. (percent)	71.5	70.4	71.2	71.7	71.9	72.2	72.8	73.2
Materials (percent)	71.4	70.1	71.9	73.2	73.7	74.2	75.2	76.1
Housing starts, private (million units, A.R.)	.92	1.00	1.10	1.15	1.20	1.20	1.25	1.25
New auto sales, (millions, A.R.)	8.12	7.60	8.70	8.80	8.95	9.00	9.40	9.40
Domestic models	5.90	5.60	6.40	6.50	6.60	6.60	6.90	6.90
Foreign models	2.22	2.00	2.30	2.30	2.35	2.40	2.50	2.50

^{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 \$85.1 billion in 1982-Q4, and a deficit of \$144.9 billion in 1983-Q4.

May 12, 1982

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

	1982				Projected			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) dollars</u>								
Gross national product	-3.9	.4	3.9	3.1	2.3	2.5	4.6	3.5
Final purchases	1.9	-1.9	1.2	1.8	2.2	2.4	4.6	3.4
Private	2.2	-1.0	1.9	2.0	2.2	2.5	5.2	3.8
Excluding net exports	2.8	-1.7	3.3	3.9	3.1	2.9	4.9	3.4
Personal consumption expenditures	4.0	.8	5.1	3.7	2.9	2.9	5.2	3.1
Goods	4.5	.0	6.2	3.9	2.6	2.6	6.9	3.1
Services	3.4	1.6	4.0	3.5	3.2	3.3	3.3	3.1
Gross private domestic investment	-37.9	3.9	16.0	15.2	4.9	3.9	3.8	5.9
Residential structures	-10.7	-3.7	23.8	19.7	14.6	8.1	9.8	14.8
Business fixed investment	-.7	-14.7	-11.9	.9	1.3	1.6	1.8	2.1
Gov't. purchases of goods and services	.5	-5.3	-1.5	1.2	2.0	2.1	2.2	1.7
Federal	5.8	-10.7	-2.4	4.3	6.9	6.7	6.8	5.0
National defense	.1	5.5	5.9	6.5	12.2	12.3	13.0	9.4
State and local	-2.9	-1.6	-1.0	-.8	-1.1	-.9	-.8	-.6
Disposable personal income	.2	1.8	8.4	2.4	3.8	2.0	8.9	2.6
<u>Current dollars</u>								
Gross national product	-.4	6.4	9.6	9.0	7.1	7.3	8.7	8.6
Final purchases	6.3	3.4	6.7	7.6	7.0	7.2	8.7	8.5
Private	7.0	4.2	7.5	6.9	6.9	7.1	9.1	8.2
Excluding net exports	7.2	2.7	9.2	9.5	8.3	7.9	9.3	7.9
Personal consumption expenditures	9.2	5.2	11.1	9.2	8.1	7.8	9.5	7.4
Goods	6.7	1.2	11.0	8.4	7.3	6.9	10.2	6.6
Services	11.9	9.5	11.3	10.0	8.9	8.8	8.7	8.3
Gross private domestic investment	-38.5	13.0	22.1	21.4	10.2	8.8	8.7	10.6
Residential structures	-5.9	2.0	31.0	26.3	20.3	13.3	14.8	20.0
Business fixed investment	.0	-10.5	-7.4	6.6	6.2	6.5	6.5	6.5
Gov't. purchases of goods and services	3.9	.4	3.5	10.3	7.4	7.3	7.2	9.6
Federal	3.8	-5.1	1.3	18.9	11.8	11.5	11.3	17.2
National defense	4.3	10.4	10.4	22.6	18.0	17.4	18.0	22.2
State and local	3.9	4.3	5.0	4.9	4.4	4.5	4.3	4.4
Disposable personal income	5.2	6.3	14.6	7.8	9.0	6.9	13.4	6.9
Personal income	4.3	6.3	8.6	8.1	7.5	7.7	8.8	7.7
Wage and salary disbursements	4.4	3.4	6.3	8.5	6.5	6.6	7.4	8.7
Corporate profits with IVA & C.C. Adj.	-54.1	54.1	53.4	18.9	1.9	10.0	29.0	18.3
Corporate profits before tax	-62.5	33.4	35.1	15.7	-15.7	-3.6	14.2	1.5
Nonfarm payroll employment	-2.6	-1.7	-.1	1.2	1.3	1.5	2.1	2.4
Manufacturing	-10.2	-5.5	.0	2.3	2.9	3.2	4.2	4.2
Nonfarm business sector								
Output per hour	.3	2.4	4.6	2.6	1.2	1.3	2.4	1.0
Compensation per hour	8.4	7.0	7.0	6.6	6.8	6.2	6.0	5.8
Unit labor costs hour	8.1	4.5	2.3	3.9	5.6	4.8	3.6	4.8
GNP implicit deflator ^{1/}	3.6	6.0	5.5	5.7	4.7	4.6	3.9	4.9
Gross domestic business product								
fixed-weighted price index ^{2/}	5.4	5.0	6.0	5.5	5.2	4.9	4.4	4.4
Excluding food and energy	6.2	6.8	5.9	5.2	4.7	4.4	4.2	4.1
Consumer price index (all urban)	3.2	2.6	6.0	5.6	4.9	4.8	4.8	4.7
Industrial production	-12.7	-3.1	7.6	6.0	3.9	4.4	6.1	4.9

^{1/} Excluding Federal pay increases, the rates of change are: 1982-Q1, 3.6 percent; 1982-Q4, 4.9 percent; 1983-Q1, 4.7 percent; 1983-Q4, 4.2 percent

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

CONFIDENTIAL - FR
CLASSIFICATION

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

	1976	1977	1978	1979	1980	1981	---Projected---	
							1982	1983
Gross national product	1718.0	1918.0	2156.1	2413.9	2626.1	2925.5	3082.2	3330.3
Final purchases	1706.2	1897.0	2133.9	2396.4	2632.0	2909.4	3093.8	3316.6
Private	1344.1	1502.5	1701.3	1922.6	2097.3	2318.2	2458.6	2636.3
Excluding net exports	1330.4	1506.7	1701.9	1909.2	2074.0	2292.2	2435.9	2638.3
Personal consumption expenditures	1084.3	1205.5	1348.7	1510.9	1672.8	1857.8	2007.0	2179.2
Goods	598.5	657.8	729.1	814.5	887.6	975.2	1023.7	1103.7
Services	485.7	547.7	619.6	696.3	785.2	882.6	983.4	1075.4
Gross private domestic investment	257.9	322.3	375.3	415.8	395.3	450.5	417.3	472.8
Residential construction	72.0	95.8	111.3	118.6	105.3	105.5	97.8	116.7
Business fixed investment	174.1	205.5	242.0	279.7	296.0	328.9	331.0	342.4
Change in business inventories	11.8	21.0	22.2	17.5	-5.9	16.2	-11.5	13.6
Nonfarm	13.9	20.2	21.8	13.4	-4.7	13.8	-11.2	13.6
Net exports of goods and services ^{1/}	13.7	-4.2	-6	13.4	23.3	26.0	22.7	-2.0
Exports	170.9	183.3	219.8	281.3	339.8	367.3	358.2	374.6
Imports	157.1	187.5	220.4	267.9	316.5	341.3	335.5	376.6
Gov't. purchases of goods and services	362.1	394.5	432.6	473.8	534.7	591.2	635.2	680.3
Federal ^{2/}	129.2	143.9	153.4	167.9	198.9	230.2	256.4	284.2
State and local	232.9	250.6	279.2	305.9	335.8	361.0	378.8	396.1
Gross national product in constant (1972) dollars	1300.4	1371.7	1436.9	1483.0	1480.7	1510.3	1494.7	1538.6
Personal income	1391.2	1538.0	1721.8	1943.8	2160.2	2404.1	2581.1	2785.3
Wage and salary disbursements	889.9	983.8	1105.2	1236.1	1343.7	1482.7	1568.8	1677.5
Disposable personal income	1194.4	1311.5	1462.9	1641.7	1821.7	2016.0	2187.4	2390.9
Saving rate (percent)	6.9	5.6	5.2	5.2	5.6	5.3	5.8	6.4
Corporate profits with I.V.A. and C.C. Adj.	138.1	164.7	185.5	196.8	182.7	191.7	169.9	202.3
Corporate profits before tax	166.3	192.6	223.3	255.4	245.5	233.3	184.6	193.6
Federal government surplus or deficit (N.I.A. basis)	-53.1	-46.4	-29.2	-14.8	-61.2	-62.4	-147.6	-201.9
High employment surplus or deficit (-)	-20.1	-23.1	-15.7	-2.2	-18.3	-4.0	-42.4	-89.4
State and local government surplus or deficit (-) (N.I.A. basis)	16.6	28.1	29.0	26.7	29.1	36.7	40.5	46.0
Excluding social insurance funds	.9	10.1	9.0	2.9	2.1	4.6	3.5	3.0
Civilian labor force (millions)	96.2	99.0	102.3	105.0	106.9	108.7	109.8	111.0
Unemployment rate (percent)	7.7	7.1	6.1	5.8	7.1	7.6	9.4	9.2
Nonfarm payroll employment (millions)	79.4	82.5	85.7	89.8	90.6	91.5	90.7	91.7
Manufacturing	19.0	19.7	20.5	21.0	20.3	20.3	19.3	19.7
Industrial production (1967=100)	130.5	138.1	146.1	152.5	147.1	151.0	142.4	149.1
Capacity utilization: all manufacturing (percent)	79.5	81.9	84.4	85.6	79.1	78.4	71.2	72.5
Materials (percent)	81.1	82.7	85.6	87.4	80.0	79.9	71.7	74.8
Housing starts, private (million units, A.R.)	1.54	1.99	2.02	1.75	1.29	1.09	1.04	1.22
New auto sales, (millions, A.R.)	10.12	11.13	11.28	10.70	9.04	8.56	8.35	9.19
Domestic models	8.63	9.07	9.29	8.38	6.62	6.24	6.12	6.75
Foreign models	1.50	2.06	1.99	2.32	2.42	2.32	2.22	2.44

^{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

	1976	1977	1978	1979	1980	1981	--Projected--	
							1982	1983
<u>Constant (1972) dollars</u>								
Gross national product	5.4	5.5	4.8	3.2	-.2	2.0	-1.0	2.9
Final purchases	4.2	5.2	4.7	3.5	.7	1.3	-.2	2.2
Private	5.3	6.0	15.4	4.0	.2	1.5	-.3	2.4
Excluding net exports	6.2	6.5	5.2	2.9	-1.0	2.2	.4	3.2
Personal consumption expenditures	5.6	4.9	4.7	2.9	.5	2.5	1.8	3.5
Goods	6.7	5.2	4.2	1.9	-1.4	2.5	1.1	3.7
Services	4.3	4.5	5.4	4.1	2.6	2.6	2.6	3.3
Gross private domestic investment	19.2	15.7	7.6	1.3	-12.5	5.5	-11.7	7.7
Residential structures	21.3	18.6	2.9	-5.2	-18.6	-6.1	-12.6	13.5
Business fixed investment	5.2	11.9	9.1	6.5	-3.0	2.5	-4.4	-1.5
Gov't. purchases of goods and services	.0	2.1	2.0	1.5	2.9	.6	.3	1.0
Federal	-.7	4.1	-.9	1.9	6.3	3.1	3.8	3.9
National defense	-2.3	.8	.0	2.6	5.7	4.2	6.3	9.9
State and local	.5	.9	3.7	1.2	1.0	-.9	-2.0	-1.0
Disposable personal income	3.6	3.6	4.4	3.1	.7	2.2	2.3	4.2
<u>Current dollars</u>								
Gross national product	10.9	11.6	12.4	12.0	8.8	11.4	5.4	8.0
Final purchases	9.6	11.2	12.5	12.3	9.8	10.5	6.3	7.2
Private	10.5	11.8	13.2	13.0	9.1	10.5	6.1	7.2
Excluding net exports	11.8	13.3	12.9	12.2	8.6	10.5	6.3	8.3
Personal consumption expenditures	11.1	11.2	11.9	12.0	10.7	11.1	8.0	8.6
Goods	10.9	9.9	10.8	11.7	9.0	9.9	5.0	7.8
Services	11.2	12.7	13.1	12.4	12.8	12.4	11.4	9.4
Gross private domestic investment	25.1	25.0	16.5	10.8	-4.9	14.0	-7.4	13.3
Residential structures	30.2	33.1	16.1	6.6	-11.3	.2	-7.3	19.3
Business fixed investment	10.3	18.1	17.7	15.6	5.8	11.1	.6	3.5
Gov't. purchases of goods and services	6.5	8.9	9.7	9.5	12.9	10.6	7.4	7.1
Federal	5.3	11.4	6.6	9.5	18.5	15.7	11.4	10.8
National defense	3.7	8.5	7.1	11.2	18.4	17.2	16.2	17.6
State and local	7.3	7.6	11.4	9.6	9.8	7.5	4.9	4.6
Disposable personal income	9.0	9.8	11.5	12.2	11.0	10.7	8.5	9.3
Personal income	10.0	10.6	12.0	12.9	11.1	11.3	7.4	7.9
Wage and salary disbursements	10.4	10.6	12.3	11.8	8.7	10.3	5.8	6.9
Corporate profits with IVA & C.C. Adj.	25.0	19.3	12.6	6.1	-7.2	4.9	-11.3	19.1
Corporate profits before tax	25.9	15.8	15.9	14.4	-3.9	-5.0	-20.9	4.9
Nonfarm payroll employment	3.2	3.9	5.1	3.6	.8	1.1	-1.0	1.1
Manufacturing	3.7	3.6	4.2	2.6	-3.5	-.2	-4.8	2.2
Nonfarm business sector								
Output per hour	3.2	2.0	-.2	-.7	-.3	.9	-.2	2.1
Compensation per hour	8.1	7.6	8.5	9.7	9.9	10.1	7.6	6.5
Unit labor costs	4.7	5.5	8.7	10.4	10.3	9.0	7.8	4.3
GNP implicit deflator	5.2	5.8	7.3	8.5	9.0	9.2	6.4	5.0
Gross domestic business product								
fixed-weighted price index <u>1/</u>	5.5	6.3	7.8	9.7	9.8	9.4	6.5	5.2
Excluding food and energy	6.0	6.5	7.5	8.4	8.2	9.2	7.4	4.9
Consumer price index (all urban)	5.8	6.5	7.7	11.3	13.5	10.3	5.7	5.0
Industrial production	10.8	5.8	5.8	4.4	-3.5	2.7	-5.6	4.7

1/ Uses expenditures in 1972 as weights.

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FEDERAL SECTOR ACCOUNTS

	Fiscal Year 1981*	FY1982e/		FY1983e/		CY 1981*	CY1982e/		FRB Staff Estimates Calendar quarters; unadjusted data							
		Admin.	F.R.	Admin.	F.R.		F.R.	1983								
		1/	Board	1/	Board		Board	1981 IV*	I*	II*	III	IV	I	II	III	
Unified budget receipts ²	599.3	628.4	621.3	665.1	611.6	619.0	616.8	146.0	143.6	183.0	148.7	141.6	138.2	181.5	150.3	
Unified budget outlays ²	657.2	728.9	735.4	767.0	792.4	691.6	734.6	194.2	167.3	185.3	188.5	193.5	197.1	198.0	203.9	
Surplus/deficit(-), unified budget	-57.9	-100.5	-114.1	-101.9	-180.8	-72.5	-117.8	-48.2	-23.7	-2.3	-39.8	-51.9	-58.9	-16.5	-53.6	
Surplus/deficit(-), off-budget agencies ³	-21.0	-20.9	-18.8	-15.8	-18.2	-22.4	-19.3	-3.6	-2.0	-5.6	-7.7	-4.1	-5.5	-4.3	-4.3	
Combined deficit to be financed	-78.9	-121.4	-132.9	-117.7	-199.0	-94.9	-137.1	-51.8	-25.7	-7.9	-47.5	-56.0	-64.4	-20.8	-57.9	
Means of financing combined deficit:																
Net borrowing from public	79.4	118.5	126.6	118.5	203.1	87.3	145.5	35.6	32.8	15.1	43.1	54.5	62.6	25.7	60.3	
Decrease in cash operating balance	2.3	{	3.5	{	-2.1	0.3	-1.1	6.7	-1.0	-5.0	2.8	2.1	0.6	-2.9	-1.9	
Other ⁴	-2.8	2.9	2.8	-0.8	-2.0	7.3	-7.3	9.5	-6.1	-2.2	1.6	-0.6	1.1	-2.0	-0.5	
Cash operating balance, end of period	18.7	n.a.	15.2	n.a.	17.3	12.0	13.1	12.0	13.0	18.0	15.2	13.1	12.5	15.4	17.3	
Memo: Sponsored agency borrowing ⁵	35.7	46.6	22.1	50.1	27.8	30.0	26.1	4.0	1.8	7.7	8.6	8.0	6.6	6.6	6.6	
NIA Budget																
								Seasonally adjusted annual rates								
Receipts	612.5	637.1	615.5	685.3	625.8	626.0	612.6	627.2	610.8	620.0	604.2	615.4	625.2	637.6	625.1	
Expenditures	667.4	744.0	746.1	794.1	812.9	688.4	760.0	727.2	735.1	752.5	769.5	782.8	802.3	820.6	845.8	
Purchases	217.8	252.4	253.6	278.4	275.7	230.2	256.4	253.3	255.7	252.4	253.2	264.4	271.9	279.4	287.0	
Defense	147.1	174.2	174.3	203.5	201.8	154.3	179.3	169.7	171.5	175.8	180.2	189.6	197.6	205.7	214.4	
Nondefense	70.7	78.2	79.3	74.9	73.8	75.9	77.1	83.5	84.1	76.6	73.0	74.8	74.3	73.7	72.6	
All other expenditures	449.6	491.6	492.5	515.7	537.2	458.2	503.6	473.9	479.4	500.1	516.3	518.4	530.4	541.2	558.8	
Surplus/deficit(-)	-54.9	-106.9	-130.6	-108.8	-187.0	-62.4	-147.4	-100.0	-124.5	-132.5	-165.3	-167.4	-177.1	-183.0	-220.6	
High Employment (H.E.) surplus/deficit(-) evaluated at H.E. unemployment rate of:																
5.1 percent	-0.9	n.a.	-34.3	n.a.	-74.8	-4.0	-42.4	-25.7	-31.2	-22.7	-57.7	-58.0	-63.2	-66.8	-111.0	
6.1 percent	-26.5	n.a.	-61.2	n.a.	-102.5	-30.1	-69.4	-52.2	-57.9	-50.4	-84.4	-85.1	-91.2	-95.2	-138.7	
		*--actual			e--estimated				n.a.--not available							

1. OMB Current Budget Estimates, April 1982 and BEA NIA translations, April 1982.

2. Outlays and receipts have been reduced by about \$4.0 billion due to the reclassification of supplemental medical insurance premiums (SMI) from receipts to an offset to outlays.

3. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the Strategic Petroleum Reserve.

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

5. FRB staff estimates include Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage backed securities), Federal Land Banks, Federal Intermediate Credit Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis. FRB and Administration estimates are not strictly comparable.

NOTE: Quarterly figures may not add to yearly totals due to rounding.

DOMESTIC FINANCIAL DEVELOPMENTS

Summary. Most market interest rates have declined on balance since the March FOMC meeting. The further net reductions from highs generally reached in mid-February appear attributable in part to changing expectations produced by signs of continued weak economic activity and reduced inflation and by indications that M1 growth is reversing its early April surge. In addition, credit demands in recent weeks appear to have edged down from first-quarter levels, as weak private sector demands have offset continued relatively strong borrowing by the U.S. Treasury and state and local governments.

For the intermeeting period, short-term rates generally have dropped 1/2 to 1 percentage point. Yields on U.S. Treasury and state and local government bonds show declines in a similar range. Corporate bond yields have fallen somewhat less, while interest rates on conventional home mortgages are off about 1/4 point to 16-3/4 percent.

Business credit demands moderated in April after remaining relatively weak in the first quarter, as business needs for external funds evidently continued to be damped by inventory liquidations and reduced spending on fixed capital. Growth in business loans at banks and in nonfinancial commercial paper continued to slow in April, and public offerings of bonds to domestic investors dropped somewhat below the first quarter's monthly average. U.S. firms continued to issue a fairly substantial volume of bonds in the Euro-bond market, but the total of bonds offered both domestically and in the Euro market appears to have moved down in April.

Credit flows to households increased in the first quarter, as growth in residential mortgages rose from the severely depressed pace of last

year's fourth quarter, partly in response to a pickup in real estate activity. Consumer installment credit, however, changed little in the first quarter, as growth in loans to finance both auto and non-auto installment purchases remained weak. Household borrowing in April appears likely to show little change in pace, if developments in consumer loans and residential mortgages at commercial banks serve as an accurate guide.

In the government sector, the U.S. Treasury, after raising \$32 billion of funds in the market over the first quarter, has borrowed another \$5.5 billion over the first half of the current quarter, a period in which it customarily makes substantial debt paydowns with the proceeds of quarterly and annual tax payments. Borrowing by state and local governments over April and early May picked up from a historically high first quarter volume. Despite the large volume of municipal bonds coming to market (at a record pace in April) tax-exempt bond yields have been moving down relative to other long-term yields, reportedly because of stepped-up demands on the part of property/liability insurance companies and commercial bank trust departments.

The spurt of M1 in April--at nearly a 12 percent annual rate--appears attributable, at least in part, to seasonal adjustment problems. In addition, the growth may reflect continued public demands for precautionary balances at a time of economic uncertainty, as other checkable deposits once again accounted for most of the expansion in M1. The smallness of the runoff in low yielding savings deposits in April provides support for this interpretation.

Despite the strong April advance in M1, growth in M2 slowed somewhat over the month. The reduced rate of advance of the nontransaction compo-

ment largely appears attributable to technical problems which depressed measured levels of overnight RPs and money market mutual funds balances.¹ Small time deposits increased somewhat more rapidly in April reflecting a slight additional strengthening at commercial banks. M3 increased in April at about its March pace.

Total loans and investments at commercial banks expanded at a 7-3/4 percent annual rate in April, the same as in March and down considerably from the pace of the first quarter. Banks added substantially to their holdings of U.S. Treasury securities over the month--in part reflecting acquisitions by their trading departments. Growth in total loans, on the other hand, slowed further.

The sustained weakness of the economy accompanied by high interest rates has continued to cause substantial financial strains. Business failure rates have risen substantially this year, and recently there have been several large corporate filings for bankruptcy. Meanwhile, thrift institutions recorded a further large erosion in their capital positions over the first quarter and the number of mergers of failing institutions has continued to increase. Despite the worsening in financial conditions, however, risk spreads on nonfinancial corporate debt do not appear to have widened significantly in recent weeks and, except for a few isolated cases, the thrifts have not been experiencing sharp deposit withdrawals or currency drains. Indicators of household financial problems have not shown a significant further deterioration in recent months.

Outlook. The recent downtrend in interest rates may well continue over the weeks ahead. An unwinding of the buildup in M1 balances that

1. Commercial banks incorrectly classified overnight RPs as term RPs over the Easter holiday and money market mutual funds balances, which are not seasonally adjusted, were apparently used to meet mid-April tax payments.

occurred through April should make possible an easing of pressures on bank reserves and the federal funds market. And this development could be combined with a further favorable change in investor attitudes on the inflation outlook and a general further moderation of credit demands.

With inventory liquidation expected to continue in the current quarter and fixed investment spending to fall appreciably, total credit needs of the business sector are likely to remain small over the near term. In raising funds to meet their needs, businesses may take the opportunity, as in past periods of falling rates, to step up their bond issuance in an effort to stem the downtrend in the average maturity of their debt.

Residential mortgage debt formation is expected to expand a bit over the quarter, as construction outlays and sales of existing houses edge up, perhaps partly in response to the more favorable rates and terms that may become available with the general downtrend of rates. Consumer credit growth, on the other hand, is expected to remain near the reduced first-quarter pace, reflecting weak demands for autos and other durable goods as well as continued lender reluctance to make such loans, given the relatively narrow differentials between rates on consumer loans and other outlets for loanable funds.

The Treasury has announced that it plans to raise about \$15 billion in the market in the current quarter rather than paying down debt as it usually does. About one-third of this total has been raised to date. Part of these funds are to cover the unusual deficit for the quarter; the remainder will be raised to finance a runoff of nonmarketable issues and to raise the cash balance at the end of the quarter. This balance will be used to help meet a sharp expansion of the deficit in the third quar-

ter that will be triggered by the second phase of the three-year tax cut. Borrowing by the states and localities is expected to continue at the strong first-quarter pace over coming months, reflecting the joint impact of depressed tax revenues and reduced federal grants.

Summary. The dollar continued to move upward following the last FOMC meeting, reaching a new high (on a weighted average basis) in early April. From about mid-April, however, the dollar fell sharply, reflecting in part a decline in U.S. interest rates relative to foreign rates and market anticipations of further such declines. Evidence of further weakening of U.S. economic activity, continued improvement on the price/wage front, and the renewed possibility of a budget compromise contributed to the exchange market's expectations that U.S. interest rates would move down in the near term. News of a current account surplus (n.s.a.) for Germany in March also contributed to the dollar's weakness. Over the whole six-week period, the dollar declined, net, about 4-1/2 percent.

The Mexican peso came under renewed pressure in late April, and the Mexican government responded with a new stabilization program centered around cuts in government expenditures. Mexico is in the process of trying to arrange a jumbo loan from commercial banks to meet anticipated near-term dollar drains from its official

reserves.

Economic activity abroad remains weak, but in most countries inflation is moderating. Industrial production so far this year has declined in Japan, France, and Canada and has been flat in Germany. While industrial production rose in the latest months in the United Kingdom, activity is still at a low level. Unemployment continues to reach new post war highs in nearly every country.

Past restrictive policies abroad (except in France) appear to be achieving their objective of reducing inflation. In Japan the April CPI was only 3-1/2 percent above its year-ago level; in Germany the figure was 5 percent. Data for earlier months for other countries seem to indicate improvement, though rates of price increase are not, of course, down to Japanese and German rates. Only in France, marching to a different drummer, does inflation continue unabated, at 14 percent year-over-year in March.

The U.S. merchandise trade deficit in the first quarter was about \$24 billion (SAAR), down \$13 billion from its fourth-quarter rate as a decrease in imports exceeded a decrease in exports. The decline in imports was split about evenly between the oil and nonoil commodity categories. The value of oil imports, mainly reflecting a decline in volume, was off by about 13 percent from the fourth quarter. Oil import prices were down by about 75 cents, to \$31.53 per barrel in March, bringing the quarterly average price slightly below the fourth-quarter average.

The decline in nonoil imports was concentrated in industrial supplies, machinery, civilian aircraft, and sugar. Declines in the first three reflected weakening U.S. activity; declines in sugar imports reflected sharply falling world prices as well as a reduction in the volume of imports. The President imposed quotas on sugar imports as prices reached U.S. government support levels. The value of automotive imports was little changed from fourth-quarter rates.

Declines in exports in the first quarter were concentrated in metals, machinery, and consumer goods, reflecting weakening activity abroad and lagged effects of the dollar's appreciation.

Capital account transactions data document the increasing involvement of U.S. non-bank residents in offshore financial markets. Credit extended to U.S. residents by foreign branches of U.S. banks increased in March and April, continuing the trend evident since the end of 1980. Eurodollar holdings of U.S. non-bank residents reached \$100 billion in January and February (latest data available).

U.S. corporations raised \$6 billion in the Euro-bond market in the first four months of 1982, compared to only \$1-1/2 billion in the same period last year. (Domestic U.S. bond issues by U.S. corporations amounted to only \$8-1/2 billion in the first four months of this year.) Public utilities, many of which have been downgraded by domestic U.S. rating agencies, substantially increased issues in the Euro-bond market.

Outlook. The outlook for economic activity abroad has been lowered marginally, but recovery is still expected later this year; growth abroad is forecast at about 2-3/4 percent for 1983. Inflation forecasts for the foreign G-10 have been lowered by about 1/2 percent

in both 1982 and 1983, with a projected decline to a 7 percent rate for next year.

The U.S. current account balance projection for 1982 has been substantially revised, and the staff is now forecasting a slight surplus for this year. The actual first quarter trade balance was significantly stronger than the March forecast. It now looks as though U.S. oil consumption will be lower than we had earlier estimated. Demand for oil imports has also been reduced by a run-down in U.S. domestic inventories. In addition, U.S. activity in the second and third quarters is forecast to be weaker than previously projected. The current account is, however, expected to deteriorate sharply later this year and in 1983, with the projected U.S. recovery stronger than that abroad. The forecast for 1983 is a current account deficit of about \$27 billion.

With a current account for 1982 stronger than previously forecast the staff has raised its projected weighted average exchange value for the dollar a year hence. We now see little further net decline in the dollar over the next twelve months, but do expect a more substantial weakening later on as large current account deficits during 1983 are reported.

May 12, 1982

CONFIDENTIAL (PR)
CLASS II FOMC

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

	1981 ANN.	1982 ANN.	1983 ANN.	1982 Q I	1982 ^f Q II	1982 ^f Q III	1982 ^f Q IV	1983 ^f Q I	1983 ^f Q II	1983 ^f Q III	1983 ^f Q IV
1. GNP NET EXPORTS											
CURRENT \$, NET	26.0	22.7	-2.0	23.9	32.9	24.3	9.8	1.4	-3.2	-4.4	-2.0
EXPORTS OF G&S	367.3	358.2	374.6	359.0	359.7	358.6	355.4	360.7	366.5	378.6	392.6
IMPORTS OF G&S	341.4	335.4	376.6	335.1	326.8	334.3	345.6	359.3	369.6	382.9	394.7
CONSTANT 72 \$, NET	44.9	36.0	28.4	37.9	39.6	35.9	30.7	28.3	27.2	28.4	29.9
EXPORTS OF G&S	160.4	151.6	150.1	153.7	153.7	151.3	147.6	147.6	147.9	150.9	154.1
IMPORTS OF G&S	115.5	115.6	121.7	115.8	114.1	115.5	116.9	119.3	120.7	122.5	124.3
TERMS OF TRADE (1972=100) 1/	77.5	81.4	80.6	80.7	81.7	81.8	81.4	81.1	80.9	80.3	80.2
2. U.S. MERCHANDISE TRADE BALANCE 2/											
	-27.9	-26.6	-57.9	-23.8	-16.0	-26.4	-40.4	-50.3	-55.5	-62.2	-63.7
EXPORTS (EXCL. MILITARY)	236.2	218.4	223.3	223.2	219.4	216.4	214.6	216.6	219.5	224.7	232.3
AGRICULTURAL	44.3	43.7	50.7	41.8	42.7	44.1	46.0	48.6	49.9	51.2	53.3
NONAGRICULTURAL	192.0	174.8	172.6	181.4	176.7	172.3	168.6	168.0	169.7	173.5	179.1
IMPORTS	264.1	245.0	281.2	247.0	235.4	242.7	255.0	266.8	275.0	286.9	296.0
PETROLEUM AND PRODUCTS	77.6	60.2	67.9	62.9	57.0	59.2	61.9	64.4	65.9	70.0	71.1
NONPETROLEUM	186.5	184.8	213.3	184.2	178.4	183.5	193.1	202.4	209.1	216.9	225.0
3. U.S. CURRENT ACCOUNT BALANCE											
	6.5	3.9	-27.1	5.6 ^f	14.9	5.0	-9.9	-20.6	-26.8	-30.1	-31.2
OF WHICH: NET INVESTMENT INCOME	36.8	33.4	34.2	32.2 ^f	33.5	34.3	33.7	32.8	31.9	35.6	36.5
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/											
REAL GNP, % CHANGE, ANNUAL RATES	.4	1.1	2.4	1.0	1.2	1.6	2.0	2.9	2.6	2.8	3.0
CONSUMER PRICES, 4/, % CHANGE, ANNUAL RATES	9.7	8.4	7.5	7.9	8.9	7.8	7.6	7.7	7.1	6.9	6.8

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 -- PERCENT 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%).

P/ PR RCTED.