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September 29, 1982

## **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee

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

## DOMESTIC NONFINANCIAL DEVELOPMENTS

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Recent developments. Since the last meeting of the FOMC, no significant signs of economic recovery have emerged. Consumer demand has remained sluggish despite the tax cut, and business outlays have continued to weaken. However, the major part of the cyclical inventory adjustment appears to be completed, and there has been a mild uptrend in housing. At the same time, recent news on consumer prices and labor costs confirms a continuing improvement in the inflation situation.

Nonfarm payroll employment fell 210,000 in August with durable goods manufacturing accounting for more than half of the job losses. The August layoffs brought the level of nonfarm employment almost 2 million below the cyclical peak in July 1981. Although the unemployment rate remained at 9.8 percent in August, weekly data on initial claims for unemployment insurance suggest that further job losses occurred since mid-August.

Industrial production declined 1/2 percent in August with about half of the drop attributable to a sharp reduction in auto assemblies. But output of other consumer goods also weakened, and business equipment production continued to decline. In September, auto assemblies and raw steel output were trimmed again.

Disposable personal income was boosted by \$43 billion (annual rate) in July primarily owing to an infusion from a cost-of-living adjustment to social security benefits and the mid-year tax cut. However, with employment still declining, wage and salary income growth was weak in the months preceding and following the tax cut, and consumers apparently have been cautious in incurring debt. As a result, household spending

for discretionary purchases remained subdued. Sales of domestically-produced automobiles continued below the depressed second-quarter average through early September, although at mid-month consumers did respond to clearance sales on 1982 models. Consumer purchases of general merchandise, apparel, and furniture and appliances in August were at or below the second-quarter level.

Business outlays for capital goods declined sharply in the third quarter, and most indicators point to a further scaling back of fixed investment over the near term. Spending for business equipment was down in both July and August, and new orders for nondefense capital goods fell short of shipments, as they have in each month since July 1981. Outlays generated by commercial construction under way, which had been well-maintained through the early stages of the recession, dropped substantially in July, and contracts for new commercial buildings have fallen appreciably since the beginning of 1981. Furthermore, oil and gas drilling activity continued to fall during August, reflecting the uncertain outlook for petroleum prices.

Housing activity has been picking up gradually since late 1981, paralleling the decline in mortgage rates. Following a surge to a 1.2 million unit annual rate in July, housing starts were at a 1 million unit pace in August--still 5 percent higher than the second-quarter average. Much of the increase in recent months has been attributable to the volatile multi-family sector, although single-family starts also have edged up. Existing home sales, however, remained extremely weak in August.

Lackluster sales and high carrying costs led to a substantial inventory correction during the first half of 1982, and the overall level

of stocks was reduced to pre-recession levels. However, with sales still sluggish, inventory-sales ratios remained relatively high around mid-year suggesting that some further liquidation will be required, particularly among manufacturers of primary metals and machinery. In addition, the anemic pace of auto sales had driven the days' supply of cars on dealers' lots at the end of August to the highest level since last December.

Inflation at the consumer level dropped in August to a 3-1/2 percent annual rate, following a brief surge in the summer that largely reflected a jump in the price of gasoline. In addition to declines posted for gasoline and food prices in August, only moderate increases were reported for a wide range of other goods and services. By most measures, consumer prices have been rising at about a 5 percent annual rate so far this year. At the same time, producer price increases for capital equipment have been slowing, and the costs of intermediate materials have been declining.

Labor cost pressures also have eased noticeably this year and should contribute to a continued moderation of inflation over the near term. Hourly compensation rose at a 6-3/4 percent annual rate over the first half of 1982--down from 8-3/4 percent last year. The downtrend in wage inflation continued into the third quarter, and by August the hourly earnings index was 6-1/2 percent above a year earlier, the lowest 12-month increase since 1973. At the same time, productivity growth, which had been declining during most of 1981, rose a bit in the first half of 1982, leading to further reductions in the growth of labor costs.

Outlook. The staff now estimates that real GNP was about unchanged in the third quarter as a drop in final demand was offset by some inventory accumulation. These new estimates reflect the recent sluggishness in consumer outlays, particularly for durable goods, and weaker net exports than anticipated earlier.

We expect little increase in production and employment along with slow income growth for the next few months. In the fourth quarter, real GNP is projected to increase only slightly. Weakness in business investment spending will continue to be a drag on real activity. Nevertheless, households are expected to gradually increase their consumption relative to income; the saving rate is projected to fall back to 6.7 percent in the fourth quarter from 7.1 percent in the third quarter. Moreover, lower interest rates should continue to bolster housing demand.

Owing largely to this summer's temporary surge in gasoline prices, the index for gross domestic business product prices is estimated to have risen at a 6-1/4 percent annual rate in the third quarter of 1982 compared with a 4-1/4 percent rate over the first half. In the fourth quarter, this measure of inflation is expected to recede to a 5-1/4 percent rate.

The monetary policy assumption underlying the staff projection is little changed from the last Greenbook. The increase in M1 over the remainder of this year is assumed to be consistent with the FOMC's objective of growth around the upper end of the current 2-1/2 to 5-1/2 percent range. In 1983, M1 growth is still assumed to be 4-1/2 percent. Short-term interest rates are expected to remain close to their recent levels in the near term before trending upward moderately during 1983 as

private credit demands expand with rising economic activity. Improving inflation expectations, however, should relieve some of the resulting pressure on long-term rates.

On the fiscal side, the projected deficit for FY 1983 of about \$165 billion is somewhat higher than in the last Greenbook, primarily because of the weaker economic outlook for the balance of this calendar year. The FY 1982 deficit is still estimated to total \$112 billion.

The outlook for economic growth in 1983 is little different from the last Greenbook. Building on the moderate improvement in final demand beginning in the fourth quarter of 1982, real GNP is projected to increase 3-1/4 percent over 1982. Businesses are expected to begin the year with their inventory liquidation essentially completed, leading to an increase in production. A moderate rise in consumer spending is expected to extend into early next year as real income improves. This year's uptrend in housing starts should continue to translate into higher construction spending, and the contraction in business fixed investment is projected to taper off. In the second half, consumer outlays are projected to be boosted by the third stage of the tax cut. Moreover, the pickup in real output growth should support a mild turnaround in business spending for equipment and some cautious stockbuilding.

Because the recovery is relatively weak by historical standards, the slack in labor markets and in industrial capacity is expected to recede very slowly. The unemployment rate is projected to remain close to 10 percent through the middle of next year and still to be above 9-1/2 percent at the end of 1983. This environment should foster a further moderation in wage and price inflation. The passthrough of lower

rates of price increase and the slow pace of hiring are expected to restrain the rate of increase of hourly compensation. A cyclical improvement in productivity growth is likely to ease further the rate of increase in labor costs. The gross domestic business product price index is projected to increase 4-1/2 percent during 1983, down from 5 percent during 1982.

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

September 29, 1982

## STAFF GNP PROJECTIONS

Percent changes, annual rate										
	Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)	
	8/18/82	9/29/82	8/18/82	9/29/82	Total		Excluding food and energy		8/18/82	9/29/82
<b>Annual changes:</b>										
1980 <1>	8.9	8.9	-.4	-.4	10.1	10.1	8.6	8.6	7.1	7.1
1981 <1>	11.6	11.6	1.9	1.9	9.6	9.6	9.4	9.4	7.6	7.6
1982	4.7	4.5	-1.6	-1.7	6.1	6.0	7.1	7.1	9.5	9.5
1983	7.4	6.9	2.4	2.0	5.1	5.0	5.0	5.0	9.7	9.9
<b>Quarterly changes:</b>										
1981 Q1 <1>	19.6	19.6	7.9	7.9	10.4	10.4	8.4	8.4	7.4	7.4
Q2 <1>	5.3	5.3	-1.5	-1.5	8.6	8.6	9.4	9.4	7.4	7.4
Q3 <1>	11.4	11.4	2.2	2.2	9.3	9.3	11.0	11.0	7.4	7.4
Q4 <1>	3.0	3.0	-5.3	-5.3	7.4	7.4	8.6	8.6	8.3	8.3
1982 Q1 <1>	-1.0	-1.0	-5.1	-5.1	4.4	4.4	5.3	5.3	8.8	8.8
Q2 <1>	7.1	6.8	1.7	2.1	4.3	3.8	6.7	5.9	9.5	9.5
Q3	7.5	6.4	1.0	.1	6.5	6.3	5.7	6.1	10.0	10.0
Q4	7.6	6.4	2.3	1.0	5.2	5.2	5.0	5.3	9.9	10.2
1983 Q1	7.5	7.0	2.5	2.2	5.4	5.2	5.6	5.4	9.8	10.1
Q2	6.1	6.5	1.9	2.3	4.6	4.6	4.2	4.4	9.8	10.0
Q3	8.1	7.9	4.2	3.9	4.4	4.5	3.9	4.1	9.7	9.9
Q4	8.2	8.5	3.8	4.0	4.2	4.2	3.7	3.7	9.5	9.7
<b>Two-quarter changes: &lt;2&gt;</b>										
1981 Q2 <1>	12.2	12.2	3.1	3.1	9.5	9.5	8.9	8.9	-.1	-.1
Q4 <1>	7.1	7.1	-1.6	-1.6	8.3	8.3	9.8	9.8	.9	.9
1982 Q2 <1>	3.0	2.8	-1.8	-1.6	4.4	4.2	6.0	5.6	1.2	1.2
Q4	7.5	6.4	1.6	.5	5.8	5.8	5.4	5.7	.4	.7
1983 Q2	6.8	6.8	2.2	2.2	5.0	4.9	4.9	4.9	-.1	-.2
Q4	8.1	8.2	4.0	3.9	4.3	4.3	3.8	3.9	-.3	-.3
<b>Four-quarter changes: &lt;3&gt;</b>										
1980 Q4 <1>	9.4	9.4	-.7	-.7	10.3	10.3	9.4	9.4	1.5	1.5
1981 Q4 <1>	9.6	9.6	.7	.7	8.9	8.9	9.3	9.3	.8	.8
1982 Q4	5.2	4.6	-.1	-.5	5.1	5.0	5.7	5.6	1.6	1.9
1983 Q4	7.5	7.5	3.1	3.1	4.6	4.6	4.4	4.4	-.4	-.5

&lt;1&gt; Actual.

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

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

September 29, 1982

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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.)

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2575.9	2573.4	2643.7	2739.4	2864.9	2901.8	2980.9	3003.2
Final purchases	2576.6	2573.9	2664.8	2757.1	2852.7	2877.2	2949.1	2989.9
Private	2057.4	2037.9	2126.3	2197.3	2274.6	2294.0	2348.9	2363.6
Excluding net exports	2043.4	2013.7	2087.3	2173.8	2243.4	2270.3	2323.0	2340.1
Personal consumption expenditures	1618.7	1622.2	1682.0	1745.8	1799.9	1819.4	1868.8	1884.5
Goods	871.4	855.7	886.4	925.2	957.5	960.0	982.5	976.1
Services	747.3	766.6	795.6	820.6	842.4	859.4	886.3	908.3
Gross private domestic investment	424.0	391.0	384.1	410.3	455.7	475.5	486.0	468.9
Residential structures	113.5	91.2	97.6	110.5	113.6	109.5	101.2	95.5
Business fixed investment	311.2	300.2	307.8	317.5	330.0	341.3	353.0	360.2
Change in business inventories	-.7	-.4	-21.2	-17.7	12.2	24.6	31.8	13.2
Nonfarm	.7	4.0	-15.4	-12.3	10.0	19.3	24.6	6.0
Net exports of goods and services <1>	14.0	24.2	39.0	23.5	31.2	23.7	25.9	23.5
Exports	335.7	337.3	337.2	346.7	365.4	368.9	367.2	367.9
Imports	321.7	313.1	298.2	323.2	334.2	345.1	341.3	344.4
Gov't. purchases of goods and services	519.2	536.0	538.5	559.8	578.1	583.2	600.2	626.3
Federal <2>	189.6	198.8	193.3	207.0	217.0	218.2	230.0	250.5
State and local	329.6	337.2	345.2	352.8	361.1	365.0	370.1	375.7
Gross national product in constant (1972) dollars	1494.9	1457.8	1463.8	1479.4	1507.8	1502.2	1510.4	1490.1
Personal income	2086.8	2109.6	2185.3	2260.0	2330.0	2380.6	2458.2	2494.6
Wage and salary disbursements	1319.7	1332.1	1360.5	1412.2	1452.8	1479.4	1512.3	1531.2
Disposable personal income	1766.9	1781.0	1845.5	1902.9	1958.7	1995.5	2060.0	2101.4
Saving rate (percent)	5.5	6.1	6.1	5.5	5.4	6.1	6.5	7.5
Corporate profits with I.V.A. and C.C. Adj.	195.3	172.2	177.8	181.2	200.3	185.1	193.1	183.9
Corporate profits before tax	268.2	217.6	238.1	245.9	253.1	225.4	233.3	216.5
Federal government surplus or deficit (-) (N.I.A. basis)	-39.7	-67.5	-73.1	-65.2	-39.7	-40.5	-58.0	-101.7
High employment surplus or deficit (-) <3>	-18.4	-20.3	-19.3	-10.6	10.4	22.0	5.9	-20.3
State and local government surplus or deficit(-) (N.I.A. basis)	29.1	23.3	27.1	33.0	31.3	32.9	33.5	29.1
Excluding social insurance funds	3.3	-2.8	-1.0	3.9	1.1	1.7	1.2	-4.2
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)	90.9	90.3	89.9	90.5	90.9	91.2	91.4	91.0
Manufacturing	20.9	20.3	19.9	20.1	20.2	20.3	20.3	19.9
Industrial production (1967=100)	152.7	144.5	142.3	148.8	151.8	152.5	153.0	146.3
Capacity utilization: all manufacturing (percent)	83.4	77.9	75.9	79.1	79.9	79.8	79.2	74.8
Materials (percent)	85.8	78.9	75.2	80.1	82.2	81.2	81.2	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	7.36
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	2.23

<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 \$30.9 billion in 1980-Q4, and a deficit of \$43.3 billion in 1981-Q4.

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

September 29, 1982

	1980				1981			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
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Constant (1972) Dollars								
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Gross national product	1.5	-9.6	1.6	4.3	7.9	-1.5	2.2	-5.3
Final purchases	1.6	-9.6	3.3	3.7	5.4	-4.0	1.0	-2.3
Private	.8	-12.4	5.4	4.7	5.5	-4.0	.4	-4.4
Excluding net exports	-1.3	-13.7	5.7	7.6	4.7	-2.8	2.2	-3.6
Personal consumption expenditures	-7	-8.7	5.4	5.7	4.4	-2.7	2.9	-3.3
Goods	-2.3	-16.1	5.7	8.6	6.9	-5.1	4.0	-6.2
Services	1.2	.4	5.1	2.6	1.5	.1	1.7	.0
Gross private domestic investment	-4.5	-32.5	-5.1	22.6	25.0	14.9	6.9	-22.6
Residential structures	-21.6	-61.7	20.4	59.8	1.0	-17.4	-31.9	-25.3
Business fixed investment	2.5	-20.4	3.5	6.6	8.0	1.1	9.3	.6
Gov't. purchases of goods and services	5.2	3.1	-4.7	-.3	5.2	-4.1	3.6	7.0
Federal	12.3	10.5	-12.5	-2.6	12.2	-3.2	14.8	20.4
National defense	13.2	.5	-2.5	-2.1	8.0	11.5	7.6	10.1
State and local	1.2	-1.1	.3	1.0	1.3	-4.6	-2.7	-8
Disposable personal income	1.1	-6.6	5.2	3.0	3.7	.6	4.8	1.2
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Current Dollars								
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Gross national product	12.2	-.4	11.4	15.3	19.6	5.3	11.4	3.0
Final purchases	11.8	-.4	14.9	14.6	14.6	3.5	10.4	5.7
Private	10.2	-3.7	18.5	14.0	14.8	3.5	9.9	2.5
Excluding net exports	9.5	-5.7	15.4	17.6	13.4	4.9	9.6	3.0
Personal consumption expenditures	10.7	.9	15.6	16.1	13.0	4.4	11.3	3.4
Goods	9.4	-7.0	15.1	18.7	14.7	1.0	9.7	-2.6
Services	12.3	10.7	16.0	13.2	11.1	8.3	13.2	10.3
Gross private domestic investment	7.1	-27.6	-6.8	30.1	52.2	18.5	9.2	-13.3
Residential structures	-14.0	-58.2	31.0	64.5	11.5	-13.4	-27.0	-20.8
Business fixed investment	13.3	-13.3	10.4	13.3	16.7	14.5	14.3	8.4
Gov't. purchases of goods and services	18.5	13.6	1.9	16.8	13.7	3.6	12.2	18.6
Federal	29.5	20.8	-10.5	31.3	20.9	2.2	23.5	40.7
National defense	28.8	10.4	1.7	25.3	15.4	22.1	10.8	36.7
State and local	12.7	9.6	9.8	9.2	9.7	4.4	5.7	6.2
Disposable personal income	12.7	3.2	15.3	13.0	12.3	7.9	13.4	8.3
Personal income	10.7	4.4	15.1	14.4	13.0	9.0	13.7	6.1
Wage and salary disbursements	11.4	3.8	8.8	16.1	12.0	7.5	9.2	5.1
Corporate profits with I.V.A. and C.C. Adj.	29.4	-39.6	13.7	7.9	49.3	-27.1	18.4	-17.7
Corporate profits before tax	34.2	-56.7	43.4	13.8	12.2	-37.1	14.8	-25.8
Nonfarm payroll employment	1.8	-2.3	-1.8	2.7	1.8	1.0	.8	-1.8
Manufacturing	-1.2	-10.4	-7.5	4.2	1.3	2.8	.1	-8.1
Nonfarm business sector								
Output per hour	-.4	-4.6	3.4	3.1	4.9	-1.3	-.3	-3.5
Compensation per hour	11.9	10.2	10.4	9.8	11.8	7.1	9.0	7.3
Unit labor costs	12.4	15.5	6.8	6.5	6.6	8.6	9.3	11.2
GNP implicit deflator <1>	10.5	10.1	9.6	10.5	10.9	6.8	9.0	8.8
Gross domestic business product								
fixed-weighted price index <2>	11.0	10.4	9.9	10.0	10.4	8.6	9.3	7.4
Excluding food and energy	8.7	9.6	9.7	9.7	8.4	9.4	11.0	8.6
Consumer price index (all urban)	16.5	13.5	7.7	12.8	11.0	7.8	11.8	7.7
Industrial production	.4	-19.8	-5.8	19.3	8.4	1.9	1.4	-16.6

<1> Excluding Federal pay increases, rates of change were: 1980-Q1, 10.5 percent; 1980-Q4, 9.4 percent; 1981-Q1, 10.8 percent; 1981-Q4, 7.8 percent.

<2> Uses expenditures in 1972 as weights.

September 29, 1982

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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.)

	-----Projected-----							
	1982				1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2995.5	3045.2	3093.0	3141.3	3195.2	3245.8	3308.1	3376.4
Final purchases	3031.1	3061.4	3082.3	3144.3	3194.2	3240.8	3298.1	3362.4
Private	2401.0	2430.5	2435.3	2482.8	2522.7	2558.5	2604.5	2653.6
Excluding net exports	2369.7	2395.6	2430.6	2475.7	2526.5	2569.8	2620.0	2672.7
Personal consumption expenditures	1919.4	1947.8	1991.2	2034.0	2074.4	2107.9	2150.7	2193.3
Goods	987.0	995.7	1011.3	1033.6	1049.8	1064.5	1083.7	1105.7
Services	932.4	952.1	979.9	1000.4	1024.6	1043.4	1067.0	1087.6
Gross private domestic investment	414.8	431.5	450.1	438.7	453.1	466.9	479.3	493.4
Residential structures	93.4	95.5	98.5	104.0	113.0	119.5	122.0	122.5
Business fixed investment	357.0	352.2	340.9	337.7	339.1	342.4	347.3	356.9
Change in business inventories	-35.6	-16.2	10.7	-3.0	1.0	5.0	10.0	14.0
Nonfarm	-36.0	-15.0	10.7	-3.0	1.0	5.0	10.0	14.0
Net exports of goods and services <1>	31.3	34.9	4.7	7.1	-3.8	-11.3	-15.5	-19.1
Exports	359.9	365.8	346.5	340.6	338.9	346.8	358.2	371.9
Imports	328.6	330.9	341.8	333.5	342.7	358.1	373.7	391.0
Gov't. purchases of goods and services	630.1	630.9	647.0	661.5	671.5	682.3	693.6	708.8
Federal <2>	249.7	244.3	255.0	264.7	270.1	276.6	283.7	294.6
State and local	380.4	386.6	392.0	396.8	401.4	405.7	409.9	414.2
Gross national product in constant (1972) dollars	1470.7	1478.4	1478.6	1482.2	1490.2	1498.6	1512.9	1527.8
Personal income	2510.5	2552.7	2600.5	2641.6	2679.6	2719.6	2767.3	2813.5
Wage and salary disbursements	1541.6	1556.6	1573.1	1597.7	1620.5	1643.0	1669.1	1701.4
Disposable personal income	2117.1	2151.5	2207.6	2244.6	2282.8	2314.3	2372.9	2409.5
Saving rate (percent)	6.6	6.7	7.1	6.7	6.4	6.2	6.7	6.3
Corporate profits with I.V.A. and C.C. Adj.	157.1	155.4	164.1	166.0	170.2	177.5	191.5	204.7
Corporate profits before tax	171.6	171.7	177.7	174.0	172.8	173.5	180.3	184.5
Federal government surplus or deficit (-) (N.I.A. basis)	-118.4	-119.6	-155.3	-162.2	-159.6	-164.8	-193.3	-197.4
High employment surplus or deficit (-) <3>	-17.0	-3.9	-35.3	-32.5	-21.8	-22.5	-53.4	-58.0
State and local government surplus or deficit (-) (N.I.A. basis)	27.7	32.1	35.6	33.7	34.6	36.1	39.0	42.2
Excluding social insurance funds	-6.8	-3.6	-1.3	-4.4	-4.7	-4.4	-2.7	-.7
Civilian labor force (millions)	109.1	110.2	110.6	110.8	111.1	111.4	111.6	112.0
Unemployment rate (percent)	8.8	9.5	10.0	10.2	10.1	10.0	9.9	9.7
Nonfarm payroll employment (millions)	90.4	90.0	89.5	89.5	89.7	89.9	90.3	90.8
Manufacturing	19.4	19.1	18.7	18.6	18.6	18.7	18.9	19.2
Industrial production (1967=100)	141.7	139.3	138.1	139.3	141.2	143.1	146.6	149.1
Capacity utilization: all manufacturing (percent)	71.6	70.3	69.5	69.8	70.3	70.9	72.4	73.6
Materials (percent)	72.0	69.6	68.7	69.2	70.2	71.2	73.3	75.1
Housing starts, private (million units, A.R.)	.92	.95	1.10	1.20	1.25	1.25	1.20	1.20
New auto sales (millions, A.R.)	8.12	7.53	7.70	8.40	8.60	8.80	9.20	9.20
Domestic models	5.90	5.53	5.50	6.10	6.30	6.50	6.80	6.80
Foreign models	2.22	1.99	2.20	2.30	2.30	2.30	2.40	2.40

<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 \$57.3 billion in 1982-Q4, and a deficit of \$84.4 billion in 1983-Q4.

CONFIDENTIAL - FR  
CLASS II FOMC

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

	-----Projected-----							
	1982				1983			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
-----Constant (1972) Dollars-----								
Gross national product	-5.1	2.1	.1	1.0	2.2	2.3	3.9	4.0
Final purchases	.2	-.9	-1.7	1.9	1.7	1.8	3.3	3.6
Private	1.0	.2	-3.3	2.3	1.8	1.8	3.5	4.0
Excluding net exports	.9	.6	-.4	2.4	3.0	2.2	3.5	3.9
Personal consumption expenditures	2.5	2.5	1.8	3.5	2.6	1.7	3.7	3.7
Goods	2.0	2.5	.0	5.5	2.0	1.7	3.7	4.5
Services	3.0	2.4	3.9	1.3	3.3	1.7	3.7	2.7
Gross private domestic investment	-36.5	14.9	2.4	-9.5	8.2	8.0	7.0	8.3
Residential structures	-10.2	12.9	9.0	19.5	33.4	19.7	4.1	-2.4
Business fixed investment	-5.0	-11.8	-14.5	-8.1	-2.3	.4	2.4	7.5
Gov't. purchases of goods and services	-2.9	-5.3	5.0	.4	1.3	2.0	2.2	1.9
Federal	-5.5	-13.5	13.8	2.3	4.6	6.4	6.6	5.2
National defense	-7.9	21.4	8.5	2.2	6.0	10.1	10.9	8.9
State and local	-1.1	.4	-.3	-.9	-.8	-.9	-.7	-.3
Disposable personal income	-1.9	3.1	3.4	1.6	1.5	.8	5.7	1.9
-----Current Dollars-----								
Gross national product	-1.0	6.8	6.4	6.4	7.0	6.5	7.9	8.5
Final purchases	5.6	4.1	2.8	8.3	6.5	6.0	7.3	8.0
Private	6.5	5.0	.8	8.0	6.6	5.8	7.4	7.8
Excluding net exports	5.2	4.4	6.0	7.6	8.5	7.0	8.0	8.3
Personal consumption expenditures	7.6	6.1	9.2	8.9	8.2	6.6	8.4	8.2
Goods	4.5	3.6	6.4	9.1	6.4	5.7	7.4	8.4
Services	11.0	8.7	12.2	8.6	10.0	7.5	9.4	7.9
Gross private domestic investment	-38.8	17.1	18.4	-9.8	13.8	12.8	11.1	12.3
Residential structures	-8.4	9.4	13.2	24.3	39.4	25.1	8.6	1.6
Business fixed investment	-3.5	-5.3	-12.2	-3.7	1.7	3.9	5.8	11.5
Gov't. purchases of goods and services	2.4	.6	10.6	9.3	6.2	6.6	6.8	9.1
Federal	-1.4	-8.3	18.7	16.1	8.4	10.0	10.7	16.3
National defense	-1.8	26.4	13.8	17.7	11.0	14.4	15.8	21.0
State and local	5.0	6.7	5.7	5.0	4.7	4.4	4.2	4.3
Disposable personal income	3.0	6.7	10.8	6.9	7.0	5.6	10.5	6.3
Personal income	2.6	6.9	7.7	6.5	5.9	6.1	7.2	6.8
Wage and salary disbursements	2.7	3.9	4.3	6.4	5.8	5.7	6.5	8.0
Corporate profits with I.V.A. and C.C. Adj.	-46.7	-4.3	24.4	4.7	10.5	18.1	35.5	30.7
Corporate profits before tax	-60.5	.2	14.9	-8.1	-2.7	1.5	16.6	9.6
Nonfarm payroll employment	-2.4	-1.7	-2.5	.3	.7	1.1	1.6	2.2
Manufacturing	-9.0	-7.2	-7.0	-2.8	.1	1.8	5.4	6.2
Nonfarm business sector								
Output per hour	.6	.5	2.5	1.0	2.0	1.2	2.0	1.7
Compensation per hour	7.7	6.0	6.5	5.9	6.0	5.0	5.1	4.9
Unit labor costs	7.1	5.5	3.9	4.9	4.0	3.8	3.1	3.1
GNP implicit deflator <1>	4.3	4.6	6.4	5.4	4.8	4.1	3.9	4.3
Gross domestic business product								
fixed-weighted price index <2>	4.4	3.8	6.3	5.2	5.2	4.6	4.5	4.2
Excluding food and energy	5.3	5.9	6.1	5.3	5.4	4.4	4.1	3.7
Consumer price index (all urban)	3.2	4.6	8.1	4.4	5.6	5.0	4.9	4.7
Industrial production	-11.8	-6.7	-3.4	3.5	5.6	5.5	10.1	7.0

<1> Excluding Federal pay increases, the rates of change are: 1982-Q1, 4.2 percent; 1982-Q4, 4.7 percent; 1983-Q1, 4.7 percent; 1983-Q4, 3.7 percent.

<2> Uses expenditures in 1972 as weights.

September 29, 1982

CONFIDENTIAL - FR  
CLASS II FOMCGROSS 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	1918.3	2163.9	2417.8	2633.1	2937.7	3068.7	3281.4
Final purchases	1706.2	1895.3	2137.4	2403.5	2643.1	2917.3	3079.8	3273.9
Private	1344.1	1501.5	1705.5	1929.1	2104.7	2320.4	2437.4	2584.8
Excluding net exports	1330.3	1505.5	1706.6	1915.9	2079.5	2294.3	2417.9	2597.2
Personal consumption expenditures	1084.3	1204.4	1346.5	1507.2	1667.2	1843.2	1973.1	2131.6
Goods	598.5	657.0	728.5	813.5	884.7	969.1	1006.9	1075.9
Services	485.7	547.4	618.0	693.7	782.5	874.1	966.2	1055.6
Gross private domestic investment	257.9	324.1	386.6	423.0	402.3	471.5	433.8	473.2
Residential construction	72.0	95.8	111.2	118.6	103.2	104.9	97.8	119.2
Business fixed investment	174.1	205.2	248.9	290.2	309.2	346.1	346.9	346.4
Change in business inventories	11.8	23.0	26.5	14.3	-10.0	20.5	-11.0	7.5
Nonfarm	13.9	21.9	25.4	8.6	-5.7	15.0	-10.8	7.5
Net exports of goods and services <1>	13.8	-4.0	-1.1	13.2	25.2	26.1	19.5	-12.4
Exports	170.9	182.7	218.7	281.4	339.2	367.3	353.2	353.9
Imports	157.1	186.7	219.8	268.1	314.0	341.3	333.7	366.4
Gov't. purchases of goods and services	362.1	393.8	431.9	474.4	538.4	596.9	642.4	689.0
Federal <2>	129.2	143.4	153.6	168.3	197.2	228.9	253.4	281.2
State and local	232.9	250.4	278.3	306.0	341.2	368.0	388.9	407.8
Gross national product in constant (1972) dollars	1298.2	1369.7	1438.6	1479.4	1474.0	1502.6	1477.5	1507.4
Personal income	1391.2	1540.4	1732.7	1951.2	2160.4	2415.8	2576.3	2745.0
Wage and salary disbursements	889.9	983.2	1106.3	1237.6	1356.1	1493.9	1567.2	1658.5
Disposable personal income	1194.4	1314.0	1474.0	1650.2	1824.1	2029.1	2180.2	2344.9
Saving rate (percent)	6.9	5.9	6.1	5.9	5.8	6.4	6.8	6.4
Corporate profits with I.V.A. and C.C.Adj.	138.1	167.3	192.4	194.8	181.6	190.6	160.7	186.0
Corporate profits before tax	166.3	194.7	229.1	252.7	242.4	232.1	173.8	177.8
Federal government surplus or deficit(-) (N.I.A. basis)	-53.1	-45.9	-29.5	-16.1	-61.4	-60.0	-138.9	-178.8
High employment surplus or deficit(-)	-16.6	-20.4	-15.9	-1.9	-17.1	4.5	-22.2	-38.9
State and local government surplus or deficit (-) (N.I.A. basis)	16.6	28.0	30.3	30.4	28.1	31.7	32.3	38.0
Excluding social insurance funds	.9	10.1	10.0	6.6	.9	-.1	-4.0	-3.1
Civilian labor force (millions)	96.2	99.0	102.3	105.0	106.9	108.7	110.2	111.5
Unemployment rate (percent)	7.7	7.1	6.1	5.8	7.1	7.6	9.6	9.9
Nonfarm payroll employment (millions)	79.4	82.5	86.7	89.8	90.4	91.1	89.9	90.2
Manufacturing	19.0	19.7	20.5	21.0	20.3	20.2	19.0	18.9
Industrial production (1967=100)	130.4	138.1	146.1	152.5	147.0	150.9	139.6	145.0
Capacity utilization: all manufacturing (percent)	79.5	81.9	84.4	85.6	79.1	78.4	70.3	71.8
Materials (percent)	81.1	82.7	85.6	87.4	80.0	79.9	69.9	72.5
Housing starts, private (million units, A.R.)	1.54	1.96	2.00	1.72	1.30	1.10	1.04	1.23
New auto sales (millions, A.R.)	10.12	11.13	11.29	10.68	9.04	8.56	7.94	8.95
Domestic models	8.63	9.07	9.29	8.36	6.62	6.24	5.76	6.60
Foreign models	1.49	2.06	2.00	2.32	2.42	2.32	2.18	2.35

<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.

CONFIDENTIAL - FR  
CLASS II FOMC

PERCENT CHANGES IN GROSS NATIONAL PRODUCT  
AND RELATED ITEMS

	1976	1977	1978	1979	1980	1981	--Projected--	
							1982	1983
<hr/>								
Constant (1972) Dollars								
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Gross national product	5.4	5.5	5.0	2.8	-4	1.9	-1.7	2.0
Final purchases	4.2	5.1	4.9	3.5	.5	1.0	-.8	1.5
Private	5.3	6.0	5.6	4.0	.0	1.0	-1.0	1.5
Excluding net exports	6.2	6.5	5.5	2.9	-1.1	1.8	-.2	2.3
Personal consumption expenditures	5.6	5.0	4.5	2.7	.3	1.8	1.1	2.7
Goods	6.7	5.1	4.2	1.9	-1.5	1.9	.3	2.7
Services	4.3	4.9	4.8	3.7	2.4	1.7	2.0	2.7
Gross private domestic investment	19.2	16.1	10.5	-.2	-11.8	8.3	-11.4	4.1
Residential structures	21.3	18.6	2.8	-5.3	-20.1	-4.9	-9.4	17.4
Business fixed investment	5.3	11.7	12.8	7.3	-2.2	3.6	-4.7	-4.1
Gov't. purchases of goods and services	.0	1.5	2.0	1.3	2.3	.9	.3	1.4
Federal	-.6	3.7	-.1	1.8	4.3	3.7	2.6	4.6
National defense	-2.3	.8	.4	2.6	4.0	4.9	6.4	8.0
State and local	.4	.2	3.3	1.1	1.1	-.8	-1.1	-.7
Disposable personal income	3.6	4.0	4.9	2.7	.2	2.5	1.5	2.3
<hr/>								
Current Dollars								
<hr/>								
Gross national product	10.9	11.7	12.8	11.7	8.9	11.6	4.5	6.9
Final purchases	9.6	11.1	12.8	12.4	10.0	10.4	5.6	6.3
Private	10.5	11.7	13.6	13.1	9.1	10.2	5.0	6.0
Excluding net exports	11.8	13.2	13.4	12.3	8.5	10.3	5.4	7.4
Personal consumption expenditures	11.0	11.1	11.8	11.9	10.6	10.6	7.0	8.0
Goods	10.9	9.8	10.9	11.7	8.8	9.5	3.9	6.9
Services	11.2	12.7	12.9	12.2	12.8	11.7	10.5	9.3
Gross private domestic investment	25.1	25.7	19.3	9.4	-4.9	17.2	-8.0	9.1
Residential structures	30.2	33.1	16.1	6.6	-13.0	1.7	-6.8	21.9
Business fixed investment	10.4	17.9	21.3	16.6	6.5	12.0	.2	-.2
Gov't. purchases of goods and services	6.5	8.8	9.7	9.8	13.5	10.9	7.6	7.3
Federal	5.3	11.0	7.1	9.6	17.1	16.1	10.7	11.0
National defense	3.6	8.0	8.0	11.5	17.5	17.0	16.1	15.3
State and local	7.2	7.5	11.2	9.9	11.5	7.9	5.7	4.8
Disposable personal income	9.0	10.0	12.2	12.0	10.5	11.2	7.4	7.6
Personal income	10.0	10.7	12.5	12.6	10.7	11.8	6.6	6.5
Wage and salary disbursements	10.4	10.5	12.5	11.9	9.6	10.2	4.9	5.8
Corporate profits with I.V.A. and C.C.Adj.	25.0	21.1	15.0	1.3	-6.8	5.0	-15.7	15.8
Corporate profits before tax	25.9	17.1	17.7	10.3	-4.0	-4.3	-25.1	2.3
Nonfarm payroll employment	3.2	3.9	5.1	3.6	.6	.8	-1.4	.4
Manufacturing	3.7	3.6	4.2	2.6	-3.6	-.6	-6.0	-.5
Nonfarm business sector								
Output per hour	3.2	2.2	.6	-1.3	-.9	1.4	-.2	1.6
Compensation per hour	8.1	7.5	8.6	9.3	10.2	9.7	7.1	5.7
Unit labor costs	4.7	5.2	8.0	10.7	11.2	8.1	7.3	4.0
GNP implicit deflator	5.2	5.8	7.4	8.6	9.3	9.4	6.2	4.8
Gross domestic business product								
fixed-weighted price index <1>	5.5	6.1	8.0	9.9	10.1	9.6	6.0	5.0
Excluding food and energy	6.1	6.3	7.8	8.6	8.6	9.4	7.1	5.0
Consumer price index (all urban)	5.7	6.5	7.7	11.3	13.5	10.3	6.3	5.4
Industrial production	10.7	5.9	5.8	4.4	-3.6	2.6	-7.5	3.9

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS

September 29, 1982

Fiscal Year	FY1982e/		FY1983e/2/		CY1982e/		FRB Staff Estimates Calendar quarters; unadjusted data									
	1981*	Admin.	F.R.	Admin.	F.R.	CY 1981*	F.R.	1981				1982			1983	
		1/	Board	1/	Board			IV*	I*	II*	III	IV	I	II	III	
Unified budget receipts	599.3	622.1	616.9	646.5	618.8	619.1	609.0	146.0	143.6	178.9	148.4	138.1	141.9	184.6	154.3	
Unified budget outlays	657.2	731.0	728.7	761.5	785.0	691.6	728.9	194.2	167.3	181.4	185.8	194.4	195.8	193.6	201.2	
Surplus/deficit(-), unified budget	-57.9	-108.9	-111.7	-115.0	-166.2	-72.5	-119.9	-48.2	-23.7	-2.5	-37.4	-56.3	-54.0	-9.0	-46.9	
Surplus/deficit(-), off-budget agencies <sup>3</sup>	-21.0	-19.3	-16.6	-14.9	-14.6	-22.4	-15.8	-3.6	-2.0	-5.8	-5.2	-2.8	-3.6	-4.1	-4.1	
Combined deficit to be financed	-78.9	-128.2	-128.3	-129.9	-180.8	-94.9	-135.7	-51.8	-25.7	-8.3	-42.6	-59.1	-57.6	-13.1	-51.0	
Means of financing combined deficit:																
Net borrowing from public	79.4	126.7	134.4	126.0	174.3	87.3	146.9	35.6	32.8	9.0	57.0	48.1	54.9	15.8	55.5	
Decrease in cash operating balance	2.3		-9.8		8.6	0.3	-3.4	6.7	-1.0	2.0	-17.5	13.1	1.9	0.4	-6.8	
Other <sup>4</sup>	-2.8	(1.4)	3.7	(3.9)	-2.1	7.3	-7.9	9.5	-6.1	-2.8	3.1	-2.1	0.8	-3.1	2.3	
Cash operating balance, end of period	18.7	n.a.	28.5	n.a.	19.9	12.0	15.4	12.0	13.0	11.0	28.5	15.4	13.5	13.1	19.9	
Memo: Sponsored agency borrowing <sup>5</sup>	35.7	46.6	20.1	50.1	27.5	30.0	22.3	4.0	1.6	9.1	5.4	6.2	6.7	7.4	7.2	
<b>NIA Budget</b>																
								Seasonally adjusted annual rates								
Receipts	615.5	n.a.	616.4	n.a.	632.8	628.2	614.6	625.7	609.9	617.0	613.0	618.4	634.0	643.2	635.6	
Expenditures	666.3	n.a.	740.1	n.a.	802.8	688.2	753.5	727.4	728.3	736.6	768.3	780.6	793.6	808.0	828.9	
Purchases	218.1	n.a.	249.9	n.a.	273.8	228.9	253.5	250.5	249.7	244.3	255.0	264.7	270.1	276.6	283.7	
Defense	146.5	n.a.	172.8	n.a.	198.5	153.7	178.5	166.9	166.2	176.2	182.0	189.6	194.6	201.2	208.7	
Nondefense	71.5	n.a.	77.1	n.a.	75.3	75.2	75.0	83.6	83.5	68.2	73.0	75.1	75.5	75.4	75.0	
All other expenditures	448.2	n.a.	490.2	n.a.	529.0	459.3	500.0	476.9	478.6	492.3	513.3	515.9	523.5	531.4	545.2	
Surplus/deficit(-)	-50.9	n.a.	-123.8	n.a.	-170.0	-60.0	-138.9	-101.7	-118.4	-119.6	-155.3	-162.2	-159.6	-164.8	-193.3	
High Employment (H.E.) surplus/deficit(-) evaluated at H.E. unemployment rate of:																
5.1 percent	6.9	n.a.	-19.1	n.a.	-32.5	4.5	-22.2	-20.3	-17.0	-3.9	-35.3	-32.5	-21.8	-22.5	-53.4	
6.1 percent	-17.7	n.a.	-46.8	n.a.	-61.1	-20.8	-50.4	-43.3	-41.4	-30.7	-59.9	-57.3	-47.3	-48.5	-79.4	

\*—actual

e—estimated

n.a.—not available

- OMB Mid-Session Review of the 1983 Budget, July 1982.
- In the First Concurrent Resolution on the Budget — Fiscal Year 1983, the Congress recommended revenues of \$665.9 billion and outlays of \$769.8 billion.
- Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank and (beginning in FY1982) the Strategic Petroleum Reserve.

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

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Recent developments. M1 has surged in August and September, growing at an annual rate of 10-1/2 percent in August and even more rapidly in September, after three months of small net declines. Although the recent strength in M1 may in part be attributable to some special factors, such as an increased volume of financial transactions and the accumulation of liquid balances out of the July tax cut, it likely also reflects the effects on the demand for liquid deposits associated with the sizable declines in interest rates since July. Broader money supply measures accelerated in August, spurred in part by sizable inflows to money market funds whose yield declines lagged those in the market. Growth in M2 and M3 is estimated to have slowed sharply in September when money market fund inflows slowed, small time deposit growth moderated and large time deposits and term RPs declined.

With M1 strengthening, bank reserve positions have tightened on balance over the intermeeting period, contributing to a rise in the federal funds rate from around 9 percent just before the August FOMC meeting to the current 9-3/4 to 10-1/2 percent range. Other private short-term market rates generally have moved up 3/4 to 1-3/4 percentage points, but Treasury bill rates are little changed from their levels at the time of the August FOMC meeting. In long-term markets, bond yields have declined somewhat since the August FOMC meeting, evidently reacting to the generally weak incoming economic data. Stock prices have risen 5 to 10 percent, extending the rally begun just before the August FOMC meeting.

The disparate movements in interest rates on private and Treasury short-term obligations apparently reflected investors' heightened awareness

of--and aversion to--risk, as potential difficulties of banks with their foreign credits seemed to mount and prospects for a weak economic recovery promised little relief from stress on domestic businesses. Risk premia in bond yields are sizable and have widened somewhat in recent months. Nonetheless, credit reportedly remains available to lower-rated bond issuers, and in short-term markets businesses have successfully turned to bank sources when lowered credit ratings have made commercial paper issuance difficult. In the household sector delinquencies on mortgage debt have increased further, but installment loan problems continue low and bankruptcies remain below the rates reached last spring.

Spurred by the declines in long-term yields, businesses have stepped up their bond issuance substantially in August and September. With overall borrowing needs apparently declining somewhat at the same time, businesses have been able to reduce significantly their reliance on shorter-term sources of funds. Commercial paper outstanding has declined over the two months, and business borrowing at banks dropped off sharply in August; although bank business lending appears to have picked up in September, this has been associated in large part with borrowing to fund the retirement of stock in corporate takeovers.

Household borrowing appears to have diminished a bit in July and August. Total consumer installment credit growth slowed in July, and remained weak at commercial banks in August. In home mortgage markets, sizable declines in yields have been registered since July; at least through August, however, incoming data did not indicate a pickup in activity.

Tax-exempt financing by state and local governments has become a more important source of funds to the home mortgage market in the third quarter, as sales of mortgage revenue bonds have more than doubled from the pace of the past year and a half following modification and clarification of the rules governing issuance of these obligations. Sales of tax-exempt bonds for other purposes also have picked up somewhat as bond yields have fallen, and total issuance of tax-exempt bonds rose to a record level in August and remained robust in September. Borrowing by the federal government has increased substantially further in recent months to finance a huge deficit and a massive build-up in the Treasury's cash balance in anticipation of possible difficulties that might have arisen had the statutory debt limit not been acted upon by September 30.

Outlook. With the economy likely to demonstrate little strength in the near term and inflation continuing to abate, demands for money and credit are expected to produce little net movement in interest rates from recent levels. In such a financial and economic environment businesses are likely to continue to encounter substantial difficulties, with adverse implications for banks and other lenders, and investors probably will remain apprehensive about risk. The staff's forecast assumes that financial markets will continue to handle such developments in an orderly fashion, without disruptive shifts in the ability or willingness of lenders to extend credit, and without major increases in demands for money for precautionary purposes.

Business needs for external financing are expected to ease slightly further in the fourth quarter as inventories are run off and plant and equipment spending declines. With long-term rates remaining around current lower levels, bond issuance should continue at the more rapid pace

## INTERNATIONAL DEVELOPMENTS

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Recent developments. The exchange value of the dollar tended upward, with only a few short-lived declines, from the beginning of the year to July, and has held around the July high through September. Since the last FOMC meeting, when the dollar was temporarily depressed the trade-weighted average value of the dollar has risen about 4-1/2 percent. The dollar's average value in the July-September period this year has been about 35 percent above its 1980 average. During September fluctuations in the spread between interest rates on dollar assets and other assets have been moderate, with dollar rates turning up against foreign rates.

Several currencies have come under pressure since the last FOMC meeting. Within the European Monetary System the French franc, Belgian franc and Danish krone all weakened against the German mark, especially when a shift from the Schmidt government to a more conservative coalition seemed likely. The French franc came under pressure early in September. The pressure eased when the French government arranged a Eurocurrency credit of \$4 billion. Pressure on the Danish krone diminished after a change in government and announcement of strong liquidity-tightening measures by the central bank. In the case of Sweden, a conservative government was voted out,

The pace of economic activity abroad slowed further in the second quarter, with industrial production dropping in most industrial countries, and real GDP performing only slightly better. Consistent signs of recovery are lacking, and such forward-looking indicators as surveys of investment intentions suggest weakness for the remainder of the year. Unemployment in the European Community averaged 9.4 percent in July, and the August rate in Canada was 12.2 percent. Consumer price inflation continues to decelerate in major foreign countries, but rather unevenly. Italy, Germany and France are having somewhat less success in reducing the rate of inflation, while inflation has been dropping relatively quickly in Britain.

At the end of August a \$1.85 billion credit for Mexico was announced, to be supplied by the United States, other G-10 member countries, Spain and Switzerland. Mexico's decisions to nationalize private Mexican banks, institute comprehensive controls on capital and current transactions, and peg the currency while inflation soars, have clouded progress on negotiations for a stabilization program approved by the IMF. Mexico has arranged postponement of principal on debts due to private banks through late November. As part of a spreading economic crisis in Latin America, Bolivia has fallen into arrears on a relatively small amount of debt, Argentina's weakening ability to make external payments has raised concerns, and there are similar concerns about Brazil, Chile and others.

In the U.S. international accounts, the merchandise trade deficit rose sharply in August, raising the July-August rate to about twice the rate in the first half. Exports in July-August declined moderately,

mainly because of reduced agricultural exports, while imports rose considerably. The jump in imports reflected higher prices and quantities for oil imports and a lesser increase in other imports. The overall current account surplus in the second quarter was \$8 billion (SAAR), a small increase over the first-quarter rate mainly as a result of higher net interest receipts from abroad.

Available data on private capital flows indicate sizeable net outflows since June. U.S. banking offices' net liabilities to affiliated foreign offices were reduced by \$6 billion (on a daily average basis) through August, and were reduced further in early September. U.S.-chartered banks have become net suppliers of funds to their foreign offices. Banks also continued to increase their net claims on unaffiliated foreigners by substantial amounts through July. Somewhat offsetting these outflows, foreign branches of U.S. banks increased their claims on U.S. nonbanks by about \$2 billion from June to early September. Private securities transactions resulted in small net outflow in July; foreign participation in the stock market upsurge in August is reported to have been small.

Outlook. The prospects for economic recovery abroad this year grow dimmer as the slowdown continues and policy remains geared primarily to curbing inflation and seeking ways to reduce budget deficits. While an upturn is still projected by the end of this year, this year's growth rate (Q4-Q4) is now expected to be under 1 percent for the major foreign countries, and next year's is expected to be about 2-1/2 percent. The combination of weak demand abroad and, especially, the appreciation of the dollar, is projected to produce a doubling of the

U.S. trade deficit to about a \$65 billion rate next year. That is close to last month's projection, but the projection of the current account deficit has been raised to about \$39 billion, mainly because of the likely drop in investment income and border receipts from Mexico.

The weighted average value of the dollar has held relatively firm at a high level for several months, despite the downward pressure that might be expected from the relatively sharp drop in dollar interest rates. However, the staff expects that as the market observes the steep rise in the U.S. trade and current account deficits over the next year the exchange value of the dollar will decline substantially.

September 29, 1982

CONFIDENTIAL (FR)  
CLASS II FOMC

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

	1981 ANN.	1982 <sup>P</sup> ANN.	1983 <sup>P</sup> ANN.	1982 Q I	1982 Q II	1982 <sup>P</sup> Q III	1982 <sup>P</sup> Q IV	1983 <sup>P</sup> Q I	1983 <sup>P</sup> Q II	1983 <sup>P</sup> Q III	1983 <sup>P</sup> Q IV
<b>1. GNP NET EXPORTS</b>											
CURRENT \$, NET	26.1	19.5	-12.4	31.3	34.9	4.7	7.2	-3.8	-11.3	-15.5	-19.1
EXPORTS OF G&S	367.4	353.2	353.9	359.9	365.8	346.5	340.6	338.9	346.8	358.2	371.9
IMPORTS OF G&S	341.3	333.7	366.4	328.6	330.9	341.8	333.5	342.7	358.1	373.7	391.0
CONSTANT 72 \$, NET	42.0	31.7	23.3	37.0	35.7	27.1	27.2	24.0	22.8	23.0	23.4
EXPORTS OF G&S	158.4	148.8	144.3	151.7	154.4	146.2	143.0	140.7	142.5	145.4	148.7
IMPORTS OF G&S	116.4	117.1	121.0	114.7	118.7	119.1	115.8	116.8	119.7	122.4	125.3
TERMS OF TRADE (1972=100) 1/	79.0	83.3	81.0	82.9	84.9	82.6	82.7	82.0	81.4	80.7	80.1
<b>2. U.S. MERCHANDISE TRADE BALANCE 2/</b>											
EXPORTS (EXCL. MILITARY)	236.3	214.5	207.1	223.1	220.4	208.5	205.9	203.1	203.7	207.5	213.9
AGRICULTURAL	44.3	40.8	45.2	42.0	42.7	36.5	42.0	43.0	44.2	45.8	47.6
NONAGRICULTURAL	192.0	173.7	161.9	181.1	177.7	172.0	164.0	160.1	159.5	161.7	166.3
IMPORTS	264.1	249.2	273.4	246.6	243.5	256.5	250.0	256.8	266.7	278.6	291.5
PETROLEUM AND PRODUCTS	77.6	60.6	64.4	62.6	53.7	66.0	60.0	60.1	62.6	66.2	68.8
NONPETROLEUM	186.6	188.6	209.0	184.0	189.8	190.5	190.0	196.7	204.1	212.3	222.7
<b>3. U.S. CURRENT ACCOUNT BALANCE</b>											
OF WHICH: NET INVESTMENT INCOME	4.5	-5.7	-38.9	4.4	8.3	-19.2	-16.1	-27.2	-36.3	-43.2	-48.8
<b>4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES, 3/</b>											
REAL GNP, % CHANGE, ANNUAL RATES	.4	.4	2.0	-.2	.0	-.8	1.7	2.5	2.3	2.6	3.0
CONSUMER PRICES, % CHANGE, ANNUAL RATES	9.7	8.4	7.4	7.9	9.1	6.8	7.6	7.8	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 -- PERCENT SHARE IN TEN-COUNTRY TOTAL MULTILATERAL TRADE. GERMANY (20.8%), JAPAN (13.6%), FRANCE (13.1%), UNITED KINGDOM (11.9%), CANADA (9.1%), ITALY (9.0%), THE NETHERLANDS (8.3%), BELGIUM (6.4%), SWEDEN (4.2%), SWITZERLAND (3.6%).

P/ PROJECTED.