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August 17, 1983

SUMMARY AND OUTLOOK

By the Staff
Board of Governors
of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

Recent developments. This spring's vigorous expansion in production and employment extended into July, and early indicators of sales in the third quarter generally remain favorable. To date, the recovery continues to be accompanied by reduced rates of inflation.

The index of industrial production increased 1.8 percent in July, after rising a little more than 1 percent a month in May and June. The sizable jump in production of consumer goods last month was led by a large gain in output of home goods and by another step up in auto assemblies, from a 6.8 million unit annual rate in June to a 7.4 million unit pace in July. With auto stocks very lean, current schedules call for further production increases in August and September. Output of business equipment rose another 1 percent in July, somewhat less than the average increase in the preceding four months. A substantial rise in the production of construction supplies contributed to the rise in the index for intermediate products. Among materials, production of metals was particularly strong last month, and rising demand was reflected in a spurt in spot prices of these commodities.

The July labor market reports showed another sharp improvement in labor demand, and the civilian unemployment rate dropped 1/2 percentage point to 9-1/2 percent. With the rapid rise in employment during the past two months, the cumulative cyclical rebound in jobs is now one of the best in the postwar period. In July, additions to payrolls were especially large in manufacturing and in the service industries.

Retail sales leveled off in June and July, after a second-quarter spending spree in which consumer outlays rose much faster than current

income. The flattening out of sales in recent months was widespread by type of store. Domestic autos sold at a 7-1/4 million unit annual rate for a second month in July but advanced a little further in early August. Although the rise in spending tapered off, consumers apparently were still very optimistic through July about prospects for economic activity and their personal financial situation. Respondents to the Michigan Survey reportedly were more willing to incur new debt than at any time in the past three years, although there was a sharp increase in the proportion expecting higher interest rates.

Housing starts stayed at a 1-3/4 million unit annual rate in July. Single-family building was cut back again, but starts of multifamily dwellings rose sharply. Home sales through June continued at their much-improved rate; however, the sharp drop in applications for FHA mortgages, along with various qualitative reports, suggests that rising mortgage rates have begun to discourage homebuyers.

In the business sector, the recovery in equipment spending became more broadly based during the second quarter, although investment in structures remained weak. The pickup in outlays for producers' durable equipment reflected not only purchases of motor vehicles and office and store machinery, which had begun rising during the first quarter, but also increased spending for heavy industrial machinery. Moreover, advance indicators of equipment spending are quite positive, with new orders for nondefense capital goods up 14 percent between the first and second quarters.

Business inventories declined in June, mainly reflecting a reduction in manufacturing stocks of \$11-1/2 billion (annual rate) in book value terms. At least some of the liquidation probably was unintended, as factory shipments rose to their highest level in two years and the book-value inventory-sales ratio in manufacturing dropped to a 30-year low. At the retail level, stocks rose a bit in June, but with sales strong, stock-sales ratios generally were lower. In July, the supply of domestic autos continued to hover just below the 50-day mark--historically quite lean.

In general, measures of labor compensation show some further deceleration in wages over the first half of 1983, and in July, the hourly earnings index rose at only a 3 percent annual rate. The major factors in the slowing of wages have been low rates of actual and expected inflation as well as the effects of continued high unemployment, particularly in construction and durable manufacturing. Hourly compensation in the nonfarm business sector rose at a 5-3/4 percent annual rate over the first half of 1983, down from an increase of 7-1/4 percent during 1982. With the cyclical rebound in labor productivity in the first half of this year, unit labor costs rose at a 1-1/2 percent annual rate, the slowest two-quarter rise since mid-1975.

On balance, both the consumer and producer price indexes have risen so far this year at rates well below 1982 averages. In June, the CPI increased at a 2-1/2 percent annual rate, after an energy-related spurt in the preceding two months; excluding food and energy, consumer

prices rose in June at close to the 4 percent rate maintained so far this year, compared with last year's rise of 6 percent. In July, much smaller increases in energy prices lowered the PPI rise for finished goods to 1-1/4 percent at an annual rate; capital equipment prices were up at only a 1-3/4 percent annual rate. Food prices were lower at both the crude and finished levels in July, but crop conditions have worsened considerably since mid-July, and prices for farm crops and livestock have begun to rise sharply.

Outlook. The staff expects that growth in real GNP will remain vigorous at an 8-1/4 percent annual rate in the third quarter, after an 8-3/4 percent rise in the second quarter. An important factor in the continued strength in the third quarter is some projected rebuilding of inventories, which were pared to very low levels in the second quarter. At the same time, the advance in final sales this quarter is projected to be somewhat less robust than during the spring. Spurred by the July 1 tax cut, real consumer spending is expected to rise at a 5-3/4 percent annual rate--a brisk gain, but down sharply from the 10 percent surge in outlays during the second quarter. And, gains in spending on residential construction are projected to slow. The principal drag on economic activity continues to be the external sector, reflecting the strength of the dollar and the relatively rapid increase in domestic demand.

For monetary policy the staff projection assumes that growth in M2 will be around the middle of the FOMC's 7 to 10 percent target range in 1983 and will run about 8 percent in 1984. Interest rates are projected to remain close to current levels in the near term and then to

retrace a substantial part of their recent runup during 1984. For fiscal policy, the staff's estimate of the budget deficit for fiscal year 1984 has been lowered to \$192 billion, reflecting the projection of somewhat stronger economic activity.

The projected path for economic activity over the next year and a half is much the same as reported to the FOMC in July. Growth in real GNP is expected to moderate to a 4-3/4 percent annual rate by the final quarter of this year and to average 4 percent over the four quarters of 1984. The cyclical rebuilding of nonfarm inventories is expected to be completed this year, and subsequently businesses are projected to keep stocks closely in line with sales.¹ The impetus to consumer spending from the recent tax cut as well as earlier financial developments--the decline in interest rates and increases in stock market values--is expected to fade by year-end. Subsequently, households are projected to increase their outlays more in line with growth of current income. Higher mortgage interest rates are projected to bring a temporary dip in housing starts in the near term; then, with rates declining in 1984, starts are expected to return to the 1-3/4 million unit range. Business investment spending should continue to grow steadily as the slack in unused capacity narrows, and the external sector is expected to become a source of strength next year.

1. The effect of the Payment-in-Kind grain transfer is to raise farm inventory investment by \$10 billion and \$24 billion (annual rates) in the third and fourth quarters of 1983 and by \$5 billion (annual rate) in the first quarter of 1984. Federal purchases in each quarter are correspondingly lower, leaving GNP unaffected by the transfer.

Labor market conditions have improved markedly in the past several months, and the civilian unemployment rate is now expected to decline to 9 percent by the fourth quarter of this year--1-3/4 percentage points below the cyclical peak a year earlier. With growth of real activity slowing next year, the jobless rate is projected to recede more gradually, reaching 8-1/2 percent by the end of 1984. The continued slack in labor utilization along with this year's low rate of inflation should keep exerting a moderating influence on wage increases in 1984. However, rising profitability and greater confidence that the expansion will be sustained should offset some of the downward pressure, and an increase in payroll taxes will add to labor costs. Thus, hourly compensation is projected to rise 5-1/4 percent over the four quarters of 1984, a little faster than in 1983.

In the near term, inflation is projected to average slightly lower than during the second quarter. The sharp rebound in gasoline prices is over, food price increases should be small in the very near term, and price increases for other consumer and investment items are expected to be at or below the rates that prevailed earlier this year. During 1984, however, the rate of price increase is projected to be a bit higher than during 1983. In general, this reflects the gradual firming of labor and product markets and the assumed depreciation of the dollar. In addition, the effects of this summer's drought on crop supplies is expected to lift food prices by year-end, and in 1984, rising food prices should further add to consumer price inflation. The increase in the gross domestic business product fixed-weighted price index is projected

to be around 4-1/4 percent at an annual rate in the second half of 1983 and to rise to a 4-3/4 percent rate in the second half of 1984.

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

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STAFF GNP PROJECTIONS

Percent changes, annual rate										
	Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)	
	7/6/83	8/17/83	7/6/83	8/17/83	Total		Excluding food and energy		7/6/83	8/17/83
Annual changes:										
1981 <1>	11.6	12.2	1.9	2.6	9.6	9.5	9.4	9.3	7.6	7.6
1982 <1>	4.1	4.0	-1.7	-1.9	5.9	6.0	6.9	6.9	9.7	9.7
1983	7.7	7.9	3.2	3.2	4.3	4.4	4.9	5.2	9.8	9.7
1984	8.7	9.4	4.9	5.0	4.2	4.5	4.1	4.3	8.9	8.6
Quarterly changes:										
1982 Q1 <1>	-1.0	-1.4	-5.1	-5.5	4.4	4.9	5.3	5.8	8.8	8.8
Q2 <1>	6.8	6.6	2.1	1.0	3.8	4.5	5.9	6.4	9.4	9.4
Q3 <1>	5.8	2.7	.7	-1.0	5.9	5.8	5.2	5.4	10.0	10.0
Q4 <1>	2.6	2.5	-1.1	-1.3	4.3	3.8	4.7	3.9	10.7	10.7
1983 Q1 <1>	8.3	8.2	2.6	2.6	3.0	3.6	5.5	6.7	10.3	10.3
Q2 <1>	11.4	13.5	7.5	8.7	5.1	5.3	4.6	4.7	10.0	10.1
Q3	10.6	12.4	7.1	8.2	4.6	4.3	4.3	4.4	9.6	9.3
Q4	8.2	8.6	5.0	4.8	3.7	4.5	3.7	4.3	9.4	9.0
1984 Q1	7.9	8.7	4.3	4.1	4.0	4.2	3.9	4.0	9.2	8.8
Q2	8.3	8.6	4.2	4.1	4.2	4.5	4.2	4.3	9.0	8.7
Q3	8.6	8.5	4.1	3.8	4.4	4.7	4.4	4.5	8.8	8.5
Q4	8.6	8.6	4.1	3.8	4.4	4.9	4.4	4.8	8.6	8.4
Two-quarter changes: <2>										
1982 Q2 <1>	2.8	2.5	-1.6	-2.3	4.2	4.7	5.6	6.1	1.1	1.1
Q4 <1>	4.2	2.6	-.2	-1.2	5.1	4.7	5.0	4.6	1.3	1.3
1983 Q2 <1>	9.8	10.8	5.0	5.6	4.0	4.4	5.0	5.7	-.7	-.6
Q4	9.4	10.5	6.0	6.5	4.1	4.4	4.0	4.4	-.6	-1.1
1984 Q2	8.1	8.7	4.2	4.1	4.1	4.4	4.1	4.1	-.4	-.3
Q4	8.6	8.5	4.1	3.8	4.4	4.8	4.4	4.6	-.4	-.3
Four-quarter changes: <3>										
1981 Q4 <1>	9.6	10.8	.7	2.0	8.9	8.7	9.3	9.2	.9	.9
1982 Q4 <1>	3.5	2.6	-.9	-1.7	4.7	4.7	5.3	5.4	2.4	2.4
1983 Q4	9.6	10.7	5.5	6.0	4.1	4.4	4.5	5.0	-1.3	-1.7
1984 Q4	8.3	8.6	4.2	4.0	4.3	4.6	4.2	4.4	-.8	-.6

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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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.)

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	2866.6	2912.5	3004.9	3032.2	3021.4	3070.2	3090.7	3109.6
Final sales	2855.7	2897.5	2971.4	3017.9	3047.1	3081.4	3095.6	3165.9
Private	2279.4	2314.0	2371.1	2395.1	2417.3	2449.8	2439.9	2486.2
Domestic final purchases	2247.5	2292.9	2348.3	2365.9	2387.4	2416.5	2439.0	2480.6
Personal consumption expenditures	1802.8	1835.8	1886.1	1904.1	1938.9	1972.8	2008.8	2046.9
Goods	953.2	964.0	984.6	978.5	989.1	997.6	1010.0	1025.1
Services	849.6	871.8	901.5	925.6	949.7	975.2	998.9	1021.8
Gross private domestic investment	455.5	472.1	495.8	476.2	422.9	432.5	425.3	377.4
Residential structures	111.6	109.5	101.7	94.3	87.3	91.0	87.9	96.8
Business fixed investment	333.1	347.6	360.6	367.6	361.3	352.7	342.3	337.0
Change in business inventories	10.9	15.0	33.6	14.3	-25.7	-11.2	-4.9	-56.4
Nonfarm	8.1	5.0	24.1	6.2	-27.6	-8.8	-2.3	-53.7
Net exports of goods and services <1>	31.9	21.1	22.8	29.2	29.9	33.3	.9	5.6
Exports	367.3	369.2	367.5	371.0	358.4	364.5	346.0	321.6
Imports	335.4	348.1	344.7	341.7	328.5	331.2	345.0	316.1
Gov't. purchases of goods and services	576.3	583.5	600.3	622.8	629.8	631.6	655.7	679.7
Federal <2>	215.7	220.4	232.4	248.5	249.7	244.1	261.7	279.2
State and local	360.5	363.2	367.9	374.3	380.0	387.5	394.0	400.5
Gross national product in constant (1972) dollars	1510.1	1512.5	1525.8	1506.9	1485.8	1489.3	1485.7	1480.7
Personal income	2338.3	2394.2	2490.9	2516.6	2528.1	2563.2	2591.3	2632.0
Wage and salary disbursements	1451.7	1478.1	1512.3	1530.6	1542.8	1563.8	1579.8	1586.0
Disposable personal income	1967.6	2010.4	2092.0	2120.5	2127.9	2159.0	2191.5	2227.8
Saving rate (percent)	5.7	6.0	7.2	7.5	6.1	5.9	5.6	5.4
Corporate profits with I.V.A. and C.C. Adj.	194.7	185.0	197.6	192.0	162.0	166.8	168.5	161.9
Corporate profits before tax	243.9	219.0	227.7	217.2	173.2	178.8	177.3	167.5
Federal government surplus or deficit (-) (N.I.A. basis)	-43.4	-47.3	-62.4	-95.8	-108.5	-113.2	-158.3	-208.2
High employment surplus or deficit (-) <3>	5.8	10.3	-6.3	-22.6	-12.8	-6.9	-38.3	-72.3
State and local government surplus or deficit(-) (N.I.A. basis)	35.3	36.7	37.3	32.0	28.8	32.0	31.3	32.9
Excluding social insurance funds	5.4	6.1	5.9	.2	-3.5	-.8	-2.1	-1.2
Civilian labor force (millions)	108.2	108.8	108.6	109.1	109.3	110.1	110.6	111.0
Unemployment rate (percent)	7.4	7.4	7.4	8.3	8.8	9.4	10.0	10.7
Nonfarm payroll employment (millions)	91.0	91.2	91.4	91.0	90.3	89.9	89.3	88.8
Manufacturing	20.2	20.3	20.3	19.9	19.4	19.1	18.7	18.3
Industrial production (1967=100)	151.8	152.5	153.0	146.3	141.7	139.4	138.2	135.2
Capacity utilization: all manufacturing (percent)	80.6	80.8	80.3	75.9	72.9	71.6	71.0	69.0
Materials (percent)	82.7	81.9	82.0	76.2	73.0	70.7	69.4	67.1
Housing starts, private (million units, A.R.)	1.39	1.18	.96	.87	.90	.95	1.12	1.26
New auto sales (millions, A.R.)	9.96	7.89	9.04	7.36	8.12	7.53	7.78	8.57
Domestic models	7.31	5.63	6.90	5.13	5.90	5.53	5.56	6.08
Foreign models	2.66	2.25	2.14	2.23	2.22	1.99	2.22	2.49

<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 \$46.0 billion in 1981-Q4, and a deficit of \$97.3 billion in 1982-Q4.

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

	1981				1982			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	9.0	.7	3.6	-4.9	-5.5	1.0	-1.0	-1.3
Final sales	6.8	-.9	1.6	-2.3	-1.3	-.8	-1.5	4.5
Private	7.3	-.6	1.1	-3.7	-1.6	.1	-4.0	3.0
Domestic final purchases	6.6	.8	2.6	-3.9	.0	.8	-.9	3.4
Personal consumption expenditures	5.9	.5	3.5	-3.0	2.4	3.1	.9	3.6
Goods	8.3	-1.6	3.5	-6.8	2.0	1.5	-.1	5.1
Services	3.3	2.8	3.6	1.4	2.9	4.7	2.1	1.9
Gross private domestic investment	26.3	12.9	12.3	-22.4	-34.1	3.4	-5.8	-34.6
Residential structures	-2.3	-11.7	-30.7	-30.2	-28.5	17.9	-13.0	53.2
Business fixed investment	13.2	6.0	8.7	-1.6	-5.9	-14.3	-8.8	-6.6
Gov't. purchases of goods and services	4.5	-2.0	3.8	3.9	-.2	-5.0	9.4	10.6
Federal	12.5	2.2	15.2	10.0	.2	-14.0	26.3	28.3
National defense	6.7	13.4	6.3	7.5	-1.3	13.0	14.0	5.1
State and local	.1	-4.6	-2.7	.2	-.5	1.3	-.4	-.1
Disposable personal income	4.4	1.9	8.9	-1.4	-3.4	1.9	-.3	2.6
<u>Current Dollars</u>								
Gross national product	20.5	6.6	13.3	3.7	-1.4	6.6	2.7	2.5
Final sales	16.1	6.0	10.6	6.4	3.9	4.6	1.9	9.4
Private	16.9	6.2	10.2	4.1	3.8	5.5	-1.6	7.8
Domestic final purchases	15.3	8.3	10.0	3.0	3.7	5.0	3.8	7.0
Personal consumption expenditures	14.7	7.5	11.4	3.9	7.5	7.2	7.5	7.8
Goods	16.6	4.6	8.8	-2.5	4.4	3.5	5.1	6.1
Services	12.7	10.9	14.3	11.1	10.8	11.2	10.1	9.5
Gross private domestic investment	49.9	15.4	21.6	-14.9	-37.8	9.5	-6.5	-38.0
Residential structures	7.9	-7.5	-25.6	-26.0	-26.5	18.2	-13.0	46.9
Business fixed investment	21.4	18.7	15.8	8.0	-6.7	-9.1	-11.3	-6.0
Gov't. purchases of goods and services	12.9	5.1	12.0	15.9	4.6	1.2	16.1	15.5
Federal	18.8	8.9	23.6	30.7	2.1	-8.7	32.1	29.5
National defense	12.9	23.8	10.2	33.9	3.5	18.0	20.8	16.5
State and local	9.6	2.9	5.3	7.2	6.2	8.1	6.8	6.8
Disposable personal income	13.1	9.0	17.2	5.6	1.4	6.0	6.1	6.8
Personal income	13.6	9.9	17.2	4.2	1.8	5.7	4.5	6.4
Wage and salary disbursements	11.7	7.5	9.6	4.9	3.2	5.6	4.2	1.6
Corporate profits with I.V.A. and C.C. Adj.	51.1	-18.5	30.2	-10.9	-49.3	12.4	4.1	-14.8
Corporate profits before tax	17.2	-35.0	16.9	-17.2	-59.6	13.6	-3.3	-20.3
Nonfarm payroll employment	1.7	.9	1.1	-1.8	-3.0	-1.8	-2.7	-2.3
Manufacturing	.8	2.4	.1	-7.2	-9.5	-7.5	-7.7	-8.6
Nonfarm business sector								
Output per hour	5.2	.4	3.8	-4.4	.1	-.4	2.3	1.3
Compensation per hour	11.5	7.3	9.6	7.6	10.0	5.8	7.2	5.8
Unit labor costs	6.0	6.9	5.6	12.6	9.9	6.2	4.7	4.4
GNP implicit deflator <1>	10.6	5.9	9.4	9.0	4.3	5.6	3.7	3.8
Gross domestic business product								
fixed-weighted price index <2>	10.6	8.1	9.2	7.2	4.9	4.5	5.8	3.8
Excluding food and energy	9.0	8.9	10.6	8.2	5.8	6.4	5.4	3.9
Consumer price index (all urban)	10.5	8.5	12.1	7.1	3.0	5.3	7.7	1.9
Industrial production	8.4	1.9	1.4	-16.6	-11.8	-6.5	-3.4	-8.2

<1> Excluding Federal pay increases, rates of change were: 1981-Q1, 10.5 percent; 1981-Q4, 8.1 percent; 1982-Q1, 4.2 percent; 1982-Q4, 3.5 percent.

<2> Uses expenditures in 1972 as weights.

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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-----							
	1983				1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross national product	3171.5	3273.7	3370.8	3440.9	3513.8	3586.7	3660.2	3736.1
Final sales	3210.9	3284.2	3342.9	3385.1	3473.6	3554.7	3628.2	3704.1
Private	2533.5	2600.9	2645.6	2686.7	2738.2	2800.6	2857.6	2918.5
Domestic final purchases	2516.5	2613.4	2680.0	2735.9	2793.3	2855.0	2914.4	2976.1
Personal consumption expenditures	2073.0	2151.3	2203.7	2251.9	2296.7	2340.9	2383.3	2429.6
Goods	1035.6	1077.9	1100.9	1124.5	1148.0	1168.1	1188.1	1207.8
Services	1037.4	1073.4	1102.8	1127.4	1148.7	1172.8	1195.2	1221.8
Gross private domestic investment	404.1	451.5	504.1	539.8	536.8	546.1	563.1	578.5
Residential structures	111.3	126.8	134.5	133.5	137.0	144.5	151.0	154.5
Business fixed investment	332.1	335.3	341.8	350.5	359.6	369.6	380.1	392.0
Change in business inventories	-39.4	-10.6	27.8	55.8	40.2	32.0	32.0	32.0
Nonfarm	-39.0	-8.6	17.8	31.8	37.2	44.0	44.0	44.0
Net exports of goods and services <1>	17.0	-12.5	-34.4	-49.2	-55.1	-54.4	-56.8	-57.6
Exports	326.9	321.7	328.0	333.9	343.7	357.0	366.6	380.5
Imports	309.9	334.3	362.4	383.1	398.8	411.4	423.4	438.1
Gov't. purchases of goods and services	677.4	683.3	697.3	698.4	735.4	754.1	770.6	785.6
Federal <2>	273.5	274.8	279.8	271.6	299.0	308.7	316.5	322.1
State and local	404.0	408.6	417.5	426.8	436.4	445.4	454.1	463.5
Gross national product in constant (1972) dollars	1490.1	1521.4	1551.9	1570.2	1586.0	1602.0	1617.1	1632.4
Personal income	2657.7	2715.0	2789.8	2863.3	2894.6	2946.1	3007.5	3066.5
Wage and salary disbursements	1610.7	1649.6	1693.7	1728.2	1761.9	1795.3	1829.6	1863.7
Disposable personal income	2255.9	2302.8	2383.0	2444.0	2473.3	2517.5	2567.9	2617.2
Saving rate (percent)	5.4	3.9	4.8	5.2	4.4	4.3	4.5	4.5
Corporate profits with I.V.A. and C.C. Adj.	181.8	212.1	235.5	241.4	245.5	257.9	265.1	278.3
Corporate profits before tax	169.7	197.6	215.0	216.4	217.5	226.9	232.0	243.1
Federal government surplus or deficit (-) (N.I.A. basis)	-183.3	-165.3	-190.0	-191.8	-186.7	-185.6	-184.1	-181.8
High employment surplus or deficit (-) <3>	-44.9	-34.2	-70.8	-75.9	-73.0	-76.2	-77.8	-77.9
State and local government surplus or deficit (-) (N.I.A. basis)	40.4	51.3	58.8	60.0	56.8	54.1	51.3	48.3
Excluding social insurance funds	5.5	15.7	22.5	23.0	19.1	15.7	12.2	8.5
Civilian labor force (millions)	110.5	111.2	112.0	112.4	112.9	113.3	113.8	114.3
Unemployment rate (percent)	10.3	10.1	9.3	9.0	8.8	8.7	8.5	8.4
Nonfarm payroll employment (millions)	88.8	89.4	90.6	91.4	92.0	92.6	93.3	93.9
Manufacturing	18.3	18.5	18.9	19.2	19.5	19.8	20.1	20.4
Industrial production (1967=100)	138.5	144.4	150.1	152.7	155.0	157.1	159.2	161.4
Capacity utilization: all manufacturing (percent)	70.7	73.7	76.4	77.5	78.2	78.9	79.6	80.3
Materials (percent)	70.1	73.5	76.4	77.9	79.3	80.5	81.5	82.5
Housing starts, private (million units, A.R.)	1.69	1.69	1.65	1.55	1.60	1.70	1.75	1.80
New auto sales (millions, A.R.)	8.46	9.08	9.80	9.70	9.90	9.70	9.90	10.00
Domestic models	6.06	6.81	7.40	7.40	7.50	7.50	7.60	7.60
Foreign models	2.40	2.27	2.40	2.30	2.40	2.20	2.30	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 5.0 percent high employment unemployment rate. Evaluated at a 6.0 percent unemployment rate, the high employment budget would show a deficit of \$102.2 billion in 1983-Q4, and a deficit of \$106.3 billion in 1984-Q4.

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

	1983				Projected 1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	2.6	8.7	8.2	4.8	4.1	4.1	3.8	3.8
Final sales <1>	.6	5.5	3.6	1.4	6.5	5.1	3.9	3.9
Private	3.0	7.1	3.8	3.0	4.1	4.9	3.9	4.2
Domestic final purchases	3.9	11.0	6.5	4.4	4.0	3.8	3.3	3.1
Personal consumption expenditures	2.9	10.0	5.7	4.4	3.3	2.5	2.0	2.2
Goods	4.4	13.0	5.5	4.8	4.3	2.4	2.1	1.5
Services	1.4	6.8	5.8	4.0	2.2	2.6	1.9	2.9
Gross private domestic investment	28.7	45.0	50.4	29.3	-7.6	2.9	8.3	6.7
Residential structures	57.3	61.1	21.7	-6.8	6.0	17.8	13.2	3.6
Business fixed investment	-1.5	4.6	6.9	8.0	7.4	7.7	7.8	8.6
Gov't. purchases of goods and services	-8.8	-.9	2.7	-5.1	17.1	5.8	3.9	2.9
Federal	-18.0	-.6	1.4	-17.3	41.9	11.0	6.9	3.5
National defense	6.5	14.1	15.5	7.2	6.5	5.8	4.7	5.0
State and local	-1.8	-1.0	3.6	3.8	3.1	2.4	1.9	2.4
Disposable personal income	2.9	3.0	10.1	6.0	.1	1.9	2.8	2.1
<u>Current Dollars</u>								
Gross national product	8.2	13.5	12.4	8.6	8.7	8.6	8.5	8.6
Final sales	5.8	9.5	7.3	5.1	10.9	9.7	8.5	8.6
Private	7.8	11.1	7.1	6.4	7.9	9.4	8.4	8.8
Domestic final purchases	5.9	16.3	10.6	8.6	8.7	9.1	8.6	8.7
Personal consumption expenditures	5.2	16.0	10.1	9.0	8.2	7.9	7.4	8.0
Goods	4.2	17.4	8.8	8.9	8.6	7.2	7.0	6.8
Services	6.3	14.6	11.4	9.2	7.8	8.7	7.9	9.2
Gross private domestic investment	31.4	55.8	55.5	31.4	-2.2	7.1	13.0	11.4
Residential structures	75.3	68.2	26.5	-2.9	10.9	23.8	19.2	9.6
Business fixed investment	-5.7	3.9	8.0	10.6	10.8	11.6	11.9	13.1
Gov't. purchases of goods and services	-1.3	3.5	8.4	.6	22.9	10.6	9.0	8.0
Federal	-8.0	1.9	7.5	-11.2	46.9	13.6	10.5	7.3
National defense	7.8	16.5	21.0	10.9	16.3	9.7	9.3	9.3
State and local	3.5	4.6	9.0	9.2	9.3	8.5	8.0	8.5
Disposable personal income	5.1	8.6	14.7	10.6	4.9	7.3	8.3	7.9
Personal income	4.0	8.9	11.5	11.0	4.4	7.3	8.6	8.1
Wage and salary disbursements	6.4	10.0	11.1	8.4	8.0	7.8	7.9	7.7
Corporate profits with I.V.A. and C.C. Adj.	59.0	85.1	52.2	10.4	6.8	21.9	11.7	21.4
Corporate profits before tax	5.4	84.3	40.4	2.6	1.9	18.5	9.4	20.5
Nonfarm payroll employment	.1	2.9	5.4	3.6	2.6	2.6	2.9	2.7
Manufacturing	-.1	5.2	8.7	7.4	6.4	5.9	5.8	5.7
Nonfarm business sector								
Output per hour	3.7	4.3	4.3	2.0	1.1	.9	1.2	1.0
Compensation per hour	6.8	4.6	4.5	4.5	6.6	4.7	4.8	4.8
Unit labor costs	3.0	.2	.2	2.5	5.4	3.8	3.6	3.8
GNP implicit deflator	5.5	4.5	3.8	3.6	4.5	4.3	4.5	4.5
Gross domestic business product								
fixed-weighted price index <2>	3.6	5.3	4.3	4.5	4.2	4.5	4.7	4.9
Excluding food and energy	6.7	4.7	4.4	4.3	4.0	4.3	4.5	4.8
Consumer price index (all urban)	-.4	4.3	4.2	4.7	4.8	5.0	5.2	5.3
Industrial production	10.1	18.0	17.1	7.1	6.2	5.5	5.5	5.6

<1> Excluding Federal Commodity Credit Corporation net purchases, growth rates for final sales are: 1983-Q1, 2.7 percent; 1983-Q2, 6.3 percent; 1983-Q3, 4.4 percent; 1983-Q4, 3.2 percent; 1984-Q1, 3.9 percent.

<2> Uses expenditures in 1972 as weights.

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

	1977	1978	1979	1980	1981	1982	---Projected---	
							1983	1984
Gross national product	1918.3	2163.9	2417.8	2631.7	2954.1	3073.0	3314.2	3624.2
Final sales	1895.3	2137.4	2403.5	2641.5	2935.6	3097.5	3305.8	3590.2
Private	1501.5	1705.5	1929.1	2103.7	2339.9	2448.3	2616.7	2828.7
Domestic final purchases	1505.5	1706.6	1915.9	2079.7	2313.6	2430.9	2636.4	2884.7
Personal consumption expenditures	1204.4	1346.5	1507.2	1668.1	1857.2	1991.9	2170.0	2362.6
Goods	657.0	728.5	813.5	883.5	970.0	1005.5	1084.7	1178.0
Services	547.4	618.0	693.7	784.5	887.1	986.4	1085.2	1184.6
Gross private domestic investment	324.1	386.6	423.0	401.9	474.9	414.5	474.9	556.1
Residential construction	95.8	111.2	118.6	102.9	104.3	90.8	126.5	146.7
Business fixed investment	205.2	248.9	290.2	308.8	352.2	348.3	339.9	375.3
Change in business inventories	23.0	26.5	14.3	-9.8	18.5	-24.5	8.4	34.0
Nonfarm	21.9	25.4	8.6	-4.5	10.9	-23.1	.5	42.3
Net exports of goods and services <1>	-4.0	-1.1	13.2	23.9	26.3	17.4	-19.8	-56.0
Exports	182.7	218.7	281.4	338.8	368.8	347.6	327.6	361.9
Imports	186.7	219.8	268.1	314.8	342.5	330.2	347.4	417.9
Gov't. purchases of goods and services	393.8	431.9	474.4	537.8	595.7	649.2	689.1	761.4
Federal <2>	143.4	153.6	168.3	197.0	229.2	258.7	274.9	311.6
State and local	250.4	278.3	306.0	340.8	366.5	390.5	414.2	449.8
Gross national product in constant (1972) dollars	1369.7	1438.6	1479.4	1475.0	1513.8	1485.4	1533.4	1609.4
Personal income	1540.4	1732.7	1951.2	2165.3	2435.0	2578.6	2756.4	2978.7
Wage and salary disbursements	983.2	1106.3	1237.6	1356.7	1493.2	1568.1	1670.5	1812.6
Disposable personal income	1314.0	1474.0	1650.2	1828.9	2047.6	2176.5	2346.4	2544.0
Saving rate (percent)	5.9	6.1	5.9	6.0	6.6	5.8	4.8	4.4
Corporate profits with I.V.A. and C.C.Adj.	167.3	192.4	194.8	175.4	192.3	164.8	217.7	261.7
Corporate profits before tax	194.7	229.1	252.7	234.6	227.0	174.2	199.7	229.9
Federal government surplus or deficit(-) (N.I.A. basis)	-45.9	-29.5	-16.1	-61.2	-62.2	-147.1	-182.6	-184.5
High employment surplus or deficit(-)	-20.4	-16.0	-2.0	-17.2	-3.2	-32.6	-56.5	-76.2
State and local government surplus or deficit (-) (N.I.A. basis)	28.0	30.3	30.4	30.6	35.3	31.3	52.6	52.6
Excluding social insurance funds	10.1	10.0	6.6	3.5	4.4	-1.9	16.7	13.9
Civilian labor force (millions)	99.0	102.3	105.0	106.9	108.7	110.2	111.5	113.6
Unemployment rate (percent)	7.1	6.1	5.8	7.1	7.6	9.7	9.7	8.6
Nonfarm payroll employment (millions)	82.5	86.7	89.8	90.4	91.2	89.6	90.1	92.9
Manufacturing	19.7	20.5	21.0	20.3	20.2	18.9	18.7	19.9
Industrial production (1967=100)	138.1	146.1	152.5	147.0	150.9	138.6	146.4	158.2
Capacity utilization: all manufacturing (percent)	82.2	84.7	86.0	79.6	79.4	71.1	74.6	79.3
Materials (percent)	82.6	85.6	87.6	80.4	80.7	70.1	74.5	81.0
Housing starts, private (million units, A.R.)	1.96	2.00	1.72	1.30	1.10	1.06	1.65	1.71
New auto sales (millions, A.R.)	11.13	11.29	10.68	9.04	8.56	8.00	9.26	9.88
Domestic models	9.07	9.29	8.36	6.62	6.24	5.77	6.92	7.55
Foreign models	2.06	2.00	2.32	2.42	2.32	2.23	2.34	2.33

<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

	1977	1978	1979	1980	1981	1982	--Projected--	
							1983	1984
<u>Constant (1972) Dollars</u>								
Gross national product	5.5	5.0	2.8	-.3	2.6	-1.9	3.2	5.0
Final sales	5.1	4.9	3.5	.5	1.8	-.7	2.3	4.3
Private	6.0	5.6	4.0	.1	2.0	-1.3	2.8	4.2
Domestic final purchases	6.5	5.5	2.9	-1.0	2.7	-.1	4.6	4.6
Personal consumption expenditures	5.0	4.5	2.7	.5	2.7	1.4	4.6	3.8
Goods	5.1	4.2	1.9	-1.4	2.1	.1	5.5	4.2
Services	4.9	4.8	3.7	2.7	3.3	2.9	3.5	3.3
Gross private domestic investment	16.1	10.5	-.2	-11.8	9.2	-14.5	12.5	12.4
Residential structures	18.6	2.8	-5.3	-20.3	-5.1	-15.4	34.5	10.8
Business fixed investment	11.7	12.8	7.3	-2.4	5.2	-4.8	-1.6	7.5
Gov't. purchases of goods and services	1.5	2.0	1.3	2.2	.8	1.8	.2	5.1
Federal	3.7	-.1	1.8	4.2	3.8	5.6	.4	8.7
National defense	.8	.4	2.6	3.9	5.2	7.1	10.1	7.7
State and local	.2	3.3	1.1	1.0	-1.0	-.5	.1	2.7
Disposable personal income	4.0	4.9	2.7	.6	3.2	.5	3.5	3.4
<u>Current Dollars</u>								
Gross national product	11.7	12.8	11.7	8.8	12.2	4.0	7.9	9.4
Final sales	11.1	12.8	12.4	9.9	11.1	5.5	6.7	8.6
Private	11.7	13.6	13.1	9.0	11.2	4.6	6.9	8.1
Domestic final purchases	13.2	13.4	12.3	8.5	11.2	5.1	8.5	9.4
Personal consumption expenditures	11.1	11.8	11.9	10.7	11.3	7.3	8.9	8.9
Goods	9.8	10.9	11.7	8.6	9.8	3.7	7.9	8.6
Services	12.7	12.9	12.2	13.1	13.1	11.2	10.0	9.2
Gross private domestic investment	25.7	19.3	9.4	-5.0	18.2	-12.7	14.6	17.1
Residential structures	33.1	16.1	6.6	-13.2	1.4	-13.0	39.4	16.0
Business fixed investment	17.9	21.3	16.6	6.4	14.1	-1.1	-2.4	10.4
Gov't. purchases of goods and services	8.8	9.7	9.8	13.4	10.8	9.0	6.1	10.5
Federal	11.0	7.1	9.6	17.1	16.3	12.9	6.3	13.3
National defense	8.0	8.0	11.5	17.3	17.4	16.5	15.0	13.2
State and local	7.5	11.2	9.9	11.4	7.5	6.6	6.1	8.6
Disposable personal income	10.0	12.2	12.0	10.8	12.0	6.3	7.8	8.4
Personal income	10.7	12.5	12.6	11.0	12.5	5.9	6.9	8.1
Wage and salary disbursements	10.5	12.5	11.9	9.6	10.1	5.0	6.5	8.5
Corporate profits with I.V.A. and C.C.Adj.	21.1	15.0	1.3	-9.9	9.6	-14.3	32.1	20.2
Corporate profits before tax	17.1	17.7	10.3	-7.1	-3.3	-23.2	14.6	15.1
Nonfarm payroll employment	3.9	5.1	3.6	.6	.8	-1.7	.5	3.2
Manufacturing	3.6	4.2	2.6	-3.6	-.6	-6.5	-.8	6.6
Nonfarm business sector								
Output per hour	2.2	.6	-1.5	-.7	1.9	-.1	3.0	1.8
Compensation per hour	7.5	8.6	9.0	10.4	9.8	7.8	5.8	5.1
Unit labor costs	5.2	8.0	10.7	11.1	7.7	7.9	2.8	3.2
GNP implicit deflator	5.8	7.4	8.6	9.2	9.4	6.0	4.5	4.2
Gross domestic business product								
fixed-weighted price index <1>	6.1	8.0	9.9	10.0	9.5	6.0	4.4	4.5
Excluding food and energy	6.3	7.8	8.6	8.5	9.3	6.9	5.2	4.3
Consumer price index (all urban)	6.5	7.6	11.3	13.5	10.3	6.2	3.1	4.8
Industrial production	5.9	5.8	4.4	-3.6	2.6	-8.1	5.6	8.0

<1> Uses expenditures in 1972 as weights.

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1982*	FY1983a		FY1984a 2/		CY 1982*	CY 1983a/ P.R. Board	FRB Staff Estimates								
		Admin. 1/	P.R. Board	Admin. 1/	P.R. Board			Calendar quarters; unadjusted data								
								1982 IV*	1983			1984				
Unified budget receipts	618	600	602	668	667	609	612	137	140	167	158	147	156	189	174	
Unified budget outlays	728	810	805	848	858	740	810	205	201	196	203	210	213	218	217	
Surplus/deficit(-), unified budget	-111	-210	-203	-180	-192	-131	-198	-68	-61	-29	-45	-63	-57	-29	-43	
Surplus/deficit(-), off-budget agencies ³	-17	-16	-14	-14	-15	-15	-15	-1	-2	-4	-7	-2	-3	-4	-5	
Combined deficit to be financed	-128	-226	-217	-194	-207	-146	-213	-69	-63	-34	-52	-65	-60	-33	-48	
Means of financing combined deficit:																
Net borrowing from public	135	216	213	194	202	161	208	62	56	47	48	57	54	47	44	
Decrease in cash operating balance	-11	9	4	0	6	-8	0	10	4	-13	3	6	10	-10	0	
Other ⁴	4	1	1	0	0	-8	6	-2	3	-1	1	3	-3	-4	4	
Cash operating balance, end of period	29	20	25	20	20	20	20	20	15	28	25	20	10	20	20	
Memo: Sponsored agency borrowing ⁵	20	n.a.	0	n.a.	25	17	6	0	-4	-1	5	6	5	7	7	
NIA Budget																
								Seasonally adjusted annual rates								
Receipts	628	632	634	701	700	617	647	613	623	650	650	665	695	711	729	
Expenditures	740	827	821	873	887	764	830	821	807	815	840	857	882	897	913	
Purchases	251	280	278	300	299	259	275	279	274	275	280	272	299	309	316	
Defense	173	199	200	227	227	179	206	191	194	202	212	217	226	231	236	
Nondefense	78	81	78	73	71	79	69	89	79	73	68	54	73	78	80	
All other expenditures	489	547	543	573	588	506	555	542	533	540	560	585	583	588	596	
Surplus/deficit(-)	-112	-198	-187	-172	-187	-147	-183	-208	-183	-165	-190	-192	-187	-186	-184	
High Employment (H.E.) surplus/deficit(-) evaluated at H.E. unemployment rate of:																
5.0 percent	-20	n.a.	-55	n.a.	-76	-33	-56	-72	-45	-34	-71	-76	-73	-76	-78	
6.0 percent	-44	n.a.	-81	n.a.	-103	-57	-82	-97	-69	-60	-96	-102	-100	-104	-106	
	^a -actual						^e -estimated								^{n.a.} -not available	

1. Mid-Session Review of the 1984 Budget, July 1983.

2. In the First Concurrent Resolution on the Budget -- Fiscal Year 1984, the Congress recommended revenues of \$679.6 billion and outlays of \$849.5 billion; outlays would be \$8.5 billion higher if the "Reserve fund" for recession relief is fully utilized.

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 and actuals 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.

NOTE: Details may not add to totals because of rounding.

DOMESTIC FINANCIAL DEVELOPMENTS

Recent developments. M1 growth moderated only slightly in July, but there was a marked slowing in the expansion of the broader aggregates. The weakening in M2 reflected in good part a sharp decline in overnight RPs, and M3 growth was damped by substantial runoffs in large time deposits and term RPs at commercial banks. The contraction in these managed liabilities accompanied a record increase in government deposits at banks that augmented funds available for lending by these institutions and likely reduced collateral available for RPs. With the slower growth in July, M2 was near the mid-point of its 7 to 10 percent 1983 range, while M3 moved back within its target zone of 6-1/2 to 9-1/2 percent. M1 in July was still above the upper end of the 5 to 9 percent monitoring range.

Market interest rates have moved higher since the July FOMC meeting, continuing the uptrend that began in early May. A slight further tightening in bank reserve positions over the intermeeting period contributed to a rise in the federal funds rate from around 9-1/4 percent at the last meeting to the current rate in the 9-1/2 to 9-3/4 percent area. Other market rates of interest have increased 1/8 to 3/8 of a percentage point. The cumulative advance in market rates since early May has been about 1-1/4 to almost 2 percentage points, with long rates rising as much as short rates.

Reacting to the increases in long-term rates, businesses greatly reduced their bond issuance in June and July, and the volume of public offerings has continued low in early August. The fall-off in bond issuance has been accompanied by some expansion in short-term business borrowing. Business loans at banks began to rise in May and accelerated to near an 11 percent annual rate in July. Commercial paper of nonfinancial corporations

continued to contract in July, but at a much slower pace than earlier in the year. With price-earnings ratios still relatively high despite a recent drop-off in share prices, firms have continued to raise a lot of funds through new stock sales.

Household borrowing has remained strong, according to the latest available data. Growth in consumer installment debt jumped to a 15 percent annual rate in June, and consumer loans at commercial banks surged in July. In the mortgage market, savings and loan associations extended a record volume of new loan commitments in June, boosting outstanding commitments to an unprecedented \$45 billion--almost twice the level of a year ago. This huge stock of commitments presumably will sustain a continued strong pace of mortgage lending in the near term, but there are indications that recent advances in interest rates have begun to erode demands for houses and mortgage credit. HUD surveys of large mortgage companies, in particular, indicate that applications for conventional and government underwritten home loans declined during July and early August.

Long-term borrowing by state and local governments in July and early August slowed considerably from the rapid pace earlier in the year. In addition to the effect of higher interest rates, some of the recent decline in volume likely is associated with the registration requirements for municipal issues that went into effect in July. Moreover, public utility issuance in the tax-exempt market has been unusually low in recent weeks, reportedly because investors are requiring substantial rate premiums where there are contractual arrangements paralleling the WPPSS situation.

The Treasury thus far in the third quarter has raised about \$27 billion of new money, slightly more than half the amount of borrowing expected

in connection with the hefty third-quarter deficit. The government will meet some of its needs this period by reducing its outsized cash balance an estimated \$4-1/2 billion, but is expected to end the quarter with a still sizable cash balance.

Outlook. With the economy expected to exhibit a more moderate pace of expansion toward the end of the year and with inflation remaining low, demands for money and credit are not expected to produce substantial movements in interest rates away from current levels in the next few months. Credit markets will continue to face large financing needs of the U.S. government, but the overall credit demands of other sectors should remain moderate. Financial markets are likely to remain sensitive to incoming information regarding the trajectory of the real economy and the monetary aggregates; marked weakness in either area could give strong impetus to a reversal of the recent rise in bond rates.

Business needs for funds may increase some by year-end, as inventory accumulation resumes and fixed investment spending strengthens. But in light of the projected strength in corporate profits, a major part of these increased needs is likely to be met out of internal cash flow, and corporate demands in financial markets are expected to remain limited. Absent an appreciable decline in bond yields, bond issuance probably will remain at the more subdued pace of recent months, perhaps resulting in some growth of short-term business debt. Household borrowing in coming months likely will be flat. Projected slower growth in consumer spending and lagged upward adjustments in consumer loan rates will tend to slow growth in consumer borrowing. Mortgage market activity also may level off in response to recent increases in interest rates.

Tax-exempt bond issuance may pick up somewhat from the most recent pace, but likely will remain well below the rapid rate of the past few quarters. State and local governments are expected to maintain an aggregate operating budget surplus despite an increase in spending. The staff now expects that the large federal government deficit will require the Treasury to raise more than \$55 billion in markets in the fourth quarter, following an estimated third quarter borrowing total near \$50 billion. On balance, growth in outstanding debt of domestic nonfinancial sectors over the second half is projected to be below the first-half pace and to leave the debt aggregate well within the FOMC's monitoring range for 1983.

INTERNATIONAL DEVELOPMENTS

Recent developments. The dollar's foreign exchange value rose sharply after the last FOMC meeting, appreciating by about 4-1/2 percent on a weighted average basis to August 11. Underlying the rise were evidence of rapid growth in the U.S. economy and actual and expected increases in U.S. interest rates relative to rates in other industrial countries. After August 11 the dollar eased 2-1/2 percent as money supply and other data suggested that there might be less pressure on U.S. interest rates. Currencies of the EMS countries were quite weak until August 11, especially the German mark, but have strengthened considerably in recent days.

. Sales by
U.S. authorities totalled \$250 million, \$180 million against DM and \$70 million against yen.

The upturn in economic activity abroad was extended further in recent months, but the pace remains slow and uneven. In all of the foreign industrial countries the level of production is still low and unemployment remains at historically high levels, although in some countries -- Japan, Germany, and the United Kingdom -- the unemployment rate has not increased further, and Canadian unemployment has recently dropped significantly. In France, the recently more austere stance

of macroeconomic policy is likely to restrain any upturn in activity. Consistent with sluggish economic activity, rates of inflation have generally declined further in recent months. The upturn in U.S. interest rates has not been matched by advances in interest rates in foreign countries, where recoveries from prolonged recessions are much more hesitant.

The U.S. merchandise trade deficit in June moderated somewhat from a peak in May, but for the second quarter as a whole the deficit was nearly \$60 billion (SAAR), considerably larger than in the first quarter. Imports turned up across a broad range of commodities as the U.S. economy expanded and the continuing effects of the dollar's strength were felt. Nonagricultural exports have been about unchanged in value and volume during the past three quarters.

Recorded private capital flows registered a moderate inflow in the second quarter, reversing the net outflows of recent quarters. Banks in the United States reported net inflows from both their own foreign offices and from unaffiliated foreigners. The former may reflect in part some further increase in placements of U.S. nonbanks with the foreign branches of U.S. banks, while the latter may reflect the slowdown in lending to developing countries. Foreign purchases of U.S. corporate stocks moderated somewhat in May and June, perhaps reflecting the high value of the dollar as well as some leveling off of the stock market indices. Foreign purchases of U.S. government obligations remained quite sizable. On the other hand, U.S. investors have been adding to their holdings of foreign corporate stocks at record rates; in

the first half of the year such net purchases amounted to \$2.8 billion, mainly involving German and Japanese issues.

With respect to the debt problems of developing countries, it appears that most major debtors are continuing to hold reasonably close to the programs established with the IMF, and are maintaining some access to bank financing. Mexico, in particular, registered a large trade surplus in the first half of the year (at the expense of severely depressed imports) and will be able to repay on schedule the emergency financing received from the BIS and U.S. authorities. Brazil's situation is probably the most difficult, requiring further large net financing for the balance of 1983 and in 1984 and the satisfactory outcome of a renegotiation of its current program with the IMF.

Outlook. The staff's forecast of a limited economic recovery abroad with declining inflation rates has not been modified significantly since the last FOMC meeting. However, the outlook for the U.S. economy over the forecast period includes higher levels of activity. The dollar has also been stronger recently, and the maintenance of relatively high interest rates in the United States in the period immediately ahead suggests that a major decline is unlikely before the end of the year. This combination of factors does not affect materially the staff's projection of the trade balance for the remainder of this year but results in a somewhat higher trade deficit in 1984 -- over \$110 billion for the year. The corresponding current account deficit in 1984 would be about \$85 billion. Once U.S. interest rates are clearly of declining, these unprecedented deficits are expected

to generate substantial downward pressure on the dollar over the projection period, though the level at the end of the period is now projected to be somewhat higher than in previous estimates.

AUGUST 16, 1983

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

	1982 ANN.	1983-P ANN.	1984-P ANN.	1982 Q3	1982 Q4	1983 Q1	1983 Q2	1983-P Q3	1983-P Q4	1984-P Q1	1984-P Q2	1984-P Q3	1984-P Q4
1. GNP NET EXPORTS													
CURRENT \$, NET	17.4	-19.8	-56.0	1.0	5.5	17.0	-12.6	-34.4	-49.2	-55.1	-54.4	-56.8	-57.5
EXPORTS OF G+S	347.6	327.6	362.0	346.0	321.6	326.9	321.7	328.0	333.9	343.7	357.0	366.6	380.5
IMPORTS OF G+S	330.2	347.4	417.9	345.0	316.1	309.9	334.3	362.4	383.1	398.8	411.4	423.4	438.1
CONSTANT 72 \$, NET	28.9	7.7	3.0	24.0	23.0	20.5	10.2	2.3	-2.0	-1.5	2.1	4.1	7.4
EXPORTS OF G+S	147.3	135.5	143.4	146.4	136.5	137.3	134.2	134.9	135.8	138.5	142.2	144.3	148.6
IMPORTS OF G+S	118.4	127.8	140.4	122.4	113.5	116.8	124.0	132.6	137.8	140.0	140.1	140.2	141.1
TERMS OF TRADE (1972=100) 1/	84.6	89.0	84.8	83.9	84.6	89.7	88.9	89.0	88.5	87.1	85.5	84.2	82.6
2. U.S. MERCHANDISE TRADE BALANCE 2/													
EXPORTS (EXCL. MILITARY)	211.2	198.2	208.6	209.0	193.4	198.3	196.1	199.4	199.2	200.2	205.2	211.1	217.9
AGRICULTURAL	37.2	37.1	39.2	33.8	33.1	36.0	35.4	37.9	39.1	39.6	40.4	39.7	37.2
NONAGRICULTURAL	174.0	161.1	169.4	175.2	160.3	162.2	160.7	161.5	160.1	160.7	164.8	171.5	180.7
IMPORTS	247.6	266.0	322.3	261.3	238.8	233.2	255.5	279.4	296.1	308.1	316.8	326.3	338.0
PETROLEUM AND PRODUCTS	61.2	56.3	70.0	68.9	60.5	42.0	52.1	63.0	68.0	68.3	68.9	69.8	73.1
NONPETROLEUM	186.4	209.8	252.3	192.3	178.3	191.2	203.4	216.4	228.1	239.8	248.0	256.5	264.8
3. U.S. CURRENT ACCOUNT BALANCE													
OF WHICH: NET INVESTMENT INCOME	-11.2	-45.2	-85.0	-26.4	-26.5	-12.2	-37.1 ^p	-57.3	-74.1	-81.8	-82.9	-86.7	-88.6
	27.3	24.6	30.2	27.3	24.0	20.9	24.8 ^p	25.8	27.0	29.1	30.7	29.4	31.5
4. FOREIGN OUTLOOK - TEN INDUSTRIAL COUNTRIES 3/													
REAL GNP, % CHANGE, ANNUAL RATES	0.0	1.1	2.4	-1.9	0.7	2.2	1.6	1.6	2.0	2.9	2.5	2.8	3.2
CONSUMER PRICES, % CHANGE, ANNUAL RATES	8.1	5.7	5.5	6.0	6.0	4.5	6.0	5.7	5.5	5.7	5.5	5.0	5.1

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 (11.8%) CANADA
 (9.1%), ITALY (9.0%), THE NETHERLANDS (8.3%), BELGIUM (6.4%)
 SWEDEN (4.2%), SWITZERLAND (3.6%)
 P/ PROJECTED