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January 31, 1990

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

Recent Developments

Real GNP is estimated to have increased 0.5 percent (annual rate) in the fourth quarter of 1989, and business activity apparently has remained sluggish into the new year. The current softness is concentrated in durable goods industries, reflecting importantly the effects of an inventory correction in the motor vehicles sector. Consumer prices have picked up again in recent months, and a further, transitory spurt appears in store for January as December's cold weather pushed food and energy prices sharply higher.

Industrial production was about unchanged in the fourth quarter, and indications are that output fell more than 1 percent in January. Much of the decline was in the motor vehicles sector as auto assemblies dropped in January to an annual rate of 4-1/4 million units from a 6-1/4 million rate in December; truck assemblies also fell sharply. Output of utilities surged in December, but the subsequent thaw evidently held down electricity generation in January. Automakers' assembly schedules point to a rebound in production during February, and broader support for a near-term advance in manufacturing activity is suggested by the December orders data: New bookings for durable goods, adjusted to exclude the aircraft group and those industries that lack true orders data, rose 2 percent in December and more than 2-3/4 percent for the fourth quarter as a whole.

Although the fourth quarter saw continued solid gains in service-related employment and a stable unemployment rate, labor demand appears to have weakened of late. Both initial claims for unemployment insurance and the number of workers receiving unemployment insurance benefits--although volatile from week to week--climbed higher on average through mid-January. Private surveys also suggest falling factory employment in January. The big three automakers put more than 100,000 U.S. workers on layoff in early January; most workers reportedly have been recalled, but some are scheduled to be off work through early February.

Real personal consumption expenditures were unchanged in the fourth quarter, reflecting reduced sales of cars and light trucks. Excluding motor vehicles, real consumer outlays rose at a 2.7 percent annual rate in the fourth quarter; much of the rise is attributable to higher spending on services.[1] Despite heavy discounting during the holiday season, purchases of consumer goods other than autos were flat in December. Inventory-sales ratios already were relatively high for many retailers, and additional price, production, or import adjustments still may be needed to reduce stocks to more comfortable levels. In an effort to clear out the overhang of stocks on dealer lots, automakers enhanced their incentive programs in late December, and sales have picked up considerably since then--averaging around 7-1/2 million units (annual rate) compared with a 6 million unit average pace during October and November.

Total housing starts fell 7-1/2 percent in December to 1.24 million units at an annual rate. Virtually all of the drop was in the single-family sector, and it seems to have been a result of a delay in starts caused by

1. Energy services--primarily electricity and natural gas--posted a very large increase in December as a result of the severe cold weather, providing a considerable boost to overall spending on services in the fourth quarter. In contrast, January was unusually warm, and outlays for energy services likely fell sharply.

the unusually cold weather. Issuance of building permits for single-family houses, which are less affected by weather, was down only slightly in December. Multifamily starts remained at a low level last month; vacancy rates for multifamily units rose in the fourth quarter, underscoring the weak incentives for new construction.

Real outlays for business equipment--excluding purchases of motor vehicles and aircraft--rose at an 8.3 percent annual rate in the fourth quarter. The strength reflected sizable increases in spending on computers and communications equipment and moderate gains for a wide variety of heavy machinery. Looking ahead, new orders for nondefense capital goods (excluding aircraft) continued to expand during the fourth quarter, pointing the way for some increase in equipment investment at least through the early months of 1990. Real outlays for nonresidential structures changed little in the fourth quarter, and indicators of future investment--for example, vacancy rates for office space as well as building permits and construction contracts for all types of buildings--remain negative.

The consumer price index increased 0.4 percent in December, the same as in November. Retail food prices were up 0.5 percent in December, but wholesale prices for fresh produce rose sharply in early January because of the cold weather, and the near term probably will see sizable increases at retail. The CPI excluding food and energy also was up 0.4 percent in December; discounting for apparel and household furnishings was more than offset by a sharp increase in the index for new cars and another month of sizable increases for nonenergy services. For 1989 as a whole, the CPI excluding food and energy rose 4.4 percent--a bit less than in 1988. The slowing was concentrated among consumer goods other than food and energy, and probably reflected the effect of declining prices of non-oil imports for most of the year.

The employment cost index for compensation of private industry workers, the most representative measure of economy-wide labor costs of production, rose 4.8 percent in 1989, virtually the same as in 1988. Reflecting trends in the composition of labor demand, increases for workers in service-producing industries continued to outpace the gains recorded in the goods-producing sector.

Outlook

The basic story in the staff forecast can be outlined briefly. Growth of the economy currently is being constrained by a variety of factors: an inventory correction in the motor vehicles industry and probably in some other areas; the still high level of real interest rates; financial disruptions that have led to more cautious lending; the lagged effects of the rise in the foreign exchange value of the dollar through mid-1989 on the competitive position of U.S. manufacturers; and the contraction in real defense spending. The staff anticipates that the production adjustments needed to eliminate the current stock overhangs will be largely completed by the spring, and an improvement in net exports is expected to emerge by late this year as a result of the dollar's recent decline and an assumed further moderate depreciation. Real GNP accelerates somewhat in 1991, but growth remains below potential.

The staff forecast continues to be conditioned on the FOMC's goal of reducing inflation over time. Achievement of that goal is likely to require some easing of pressures on resources, and to keep domestic demand sufficiently in check, the staff projects that real interest rates will have to be maintained at relatively high levels. No major changes in nominal interest rates are expected over the projection period; rates may average somewhat higher in 1991 than in 1990, however, as the pace of activity accelerates. For the monetary aggregates, M2 is anticipated to grow in the upper portion of its tentative range this year, boosted by the lagged response to interest rate declines in the second half of 1989; given the projected path of interest rates, M2 growth should slow in 1991. M3 is expected to expand in the lower portion of its tentative range in 1990 as the funding needs of thrifts decline further, reflecting continued runoffs of their assets; slow growth also is in prospect for 1991.

Fiscal policy is assumed to be moderately restrictive during the next two years. The staff's FY1991 budget assumption incorporates $30 billion in expenditure cuts and revenue increases, compared with $39 billion proposed by the President. Given the staff's economic projection, the actual deficit is projected to be $118 billion in fiscal year 1991, only a little larger than CBO's (after adjusting for policy differences), but well above the $63 billion figure shown in the President's budget and the $64 billion Gramm-Rudman target.[2] The difference between the deficit projections of the staff and the Administration reflects, in large measure, the more favorable economic assumptions underlying the Administration's budget estimates.[3]

2. The Gramm-Rudman law allows for the possibility of a temporary suspension of the provisions in the event that the Commerce Department reports real GNP growth of less than 1 percent (annual rate) for two consecutive quarters. A joint congressional resolution is required.

3. BEA's translation of the Administration budget shows an NIPA deficit of $118 billion in FY1990, compared with the staff's $147 billion estimate, and $48 billion in FY1991, compared with the staff's $116 billion estimate. The gap between the staff and Administration deficits is larger on an NIPA than on a unified basis, in part because of differences in accounting procedures. Notably, the Administration's forecast of corporate profits is much stronger (Footnote continued on next page.)

SUMMARY OF STAFF PROJECTION
(Percent change, Q4 to Q4)

	1989	1990	1991
Real GNP	2.4	1.6	2.3
Gross domestic purchases[1]	2.1	1.1	1.5
CPI	4.5	4.4	4.5
CPI excluding food and energy	4.3	4.6	4.7
Unemployment rate (fourth quarter)	5.3	5.9	6.1

1. Real GNP excluding net exports.

Real GNP is projected to increase at an annual rate of just 3/4 percent in the first quarter. Growth is expected to be restrained by a considerable slump in manufacturing activity. Most notably, for the first quarter as a whole, output of motor vehicles is expected to be off 13 percent (not at an annual rate) from the fourth-quarter pace, even though assemblies of autos and light trucks are likely to recover from the extraordinarily low rate in January. The decline in motor vehicle production, which will manifest itself on the expenditure side of the national income accounts as a drop in inventory investment, is projected to reduce directly the annualized growth rate of real GNP about 1-1/4 percentage points. In addition, production of other goods is likely to be damped as businesses attempt to reduce inventory-sales ratios.[4]

While inventory corrections should be largely completed by the spring, final sales are projected to grow at a relatively slow pace through the end

(Footnote is continued from previous page.)
than the staff's. These profits feed more rapidly into receipts when measured on an NIPA basis than on a unified basis, because the NIPA measures profits taxes on an accrual basis, while profits taxes are not recorded in the unified budget until received by the Treasury.

4. Some of the inventory correction also will affect foreign producers that export goods to the United States. This is reflected in the projection as a drop in real non-oil imports in the first quarter.

of 1990. Slow gains in employment should restrain real disposable personal income and thus damp the growth of consumer spending. Housing starts in the first quarter are likely to benefit from a make-up of starts that were delayed in December. However, developments in the housing finance market are likely to damp future activity: Mortgage rates moved up during the past month, and some thrifts reportedly have cut back acquisition, development, and construction lending as a result of FIRREA-mandated capital requirements and loan limits. In addition, business outlays for nonresidential structures are likely to decline, reflecting the persistent overhang of vacant office space on the market and tightened credit availability, while investment in new equipment is expected to be discouraged by a widening margin of unused capacity and weak cash flow.

As noted above, the external sector is projected to begin to provide a key source of impetus to domestic output toward the end of this year. Growth of real exports accelerates noticeably during 1991, making a direct contribution to GNP and providing an indirect boost through "multiplier" effects. Even with that boost, though, growth in domestic spending is projected to pick up only fractionally next year, rising 1-1/2 percent. Consumer spending remains sluggish, and, in light of the anticipated firmness of interest rates, housing activity is expected to remain flat. Spurred by the pickup in overall final sales, business purchases of equipment should strengthen moderately, but the overhang of properties is likely to keep construction of nonresidential structures on a downward course. In the state and local government sector, budgetary problems in a number of areas are expected to restrain the growth of real purchases; in addition, many units are projected to raise indirect business taxes in order to fill in revenue shortfalls.[5] On balance, real GNP is projected to increase 2-1/4 percent over the four quarters of 1991.

With real GNP growth expected to fall short of its potential rate, which the staff puts at between 2-1/2 and 2-3/4 percent per year, the civilian unemployment rate is projected to rise over the projection period to a little more than 6 percent. It is anticipated that greater slack in the labor market will tend to damp compensation increases. However, compensation will be boosted in the first and second quarters of 1990 and 1991 by higher social security taxes and hikes in the federal minimum wage. In the second half of 1991, the rise in ECI compensation slows to about 4-1/4 percent, roughly 1/2 percentage point below the pace of 1989. At the same time, productivity gains are projected to pick up in 1991, returning to the longer-run trend rate of increase, and growth of unit labor costs slows markedly.

EMPLOYMENT COST INDEX FOR COMPENSATION OF PRIVATE INDUSTRY WORKERS
(Percent change, seasonally adjusted)

			1990		1991	
	1988	1989	H1	H2	H1	H2
ECI	4.9	4.8	5.4	4.6	4.9	4.3
ECI - excluding social security and minimum wage effects	4.6	4.7	4.7	4.6	4.4	4.3

Despite some diminution in underlying labor cost pressures, the inflation rate shows little change over the next two years. In the first quarter, inflation is likely to be boosted appreciably by the steep runup in food and energy prices around the turn of the year. The bulk of these

5. Projected increases in indirect business taxes add about 0.1 percentage point to CPI inflation in both 1990 and 1991.

increases is expected to be reversed subsequently, though, and for the year as a whole inflation in these markets is projected to be at or below that for other consumer goods and services. As 1990 progresses, prices of non-oil imports are projected to rise relati e to those of domestically produced goods in response to the depreciation of the dollar, and over the projection period this pickup offsets the influence on overall inflation stemming from the slowing of unit labor costs. The GNP fixed-weight price index is projected to rise about 4-1/4 percent in 1990 and 1991, while the CPI, which is more heavily influenced by import prices, is expected to rise about 4-1/2 percent this year and in 1991.

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STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
	12/13/89	1/31/90	12/13/89	1/31/90	12/13/89	1/31/90	12/13/89	1/31/90	12/13/89	1/31/90
Annual changes:										
1987 <2>	6.9	6.9	3.7	3.7	3.6	3.6	3.7	3.7	6.2	6.2
1988 <2>	7.9	7.9	4.4	4.4	4.2	4.2	4.1	4.1	5.5	5.5
1989 <2>	7.2	7.2	2.9	2.9	4.5	4.5	4.8	4.8	5.3	5.3
1990	5.7	5.6	1.7	1.6	4.0	4.1	3.9	4.3	5.8	5.7
1991	6.1	6.3	1.9	2.1	4.3	4.3	4.4	4.4	6.2	6.1
Quarterly changes:										
1988 Q1 <2>	6.5	6.5	4.0	4.0	3.8	3.8	3.9	3.9	5.7	5.7
Q2 <2>	8.6	8.6	3.7	3.7	4.8	4.8	4.5	4.5	5.5	5.5
Q3 <2>	7.5	7.5	3.2	3.2	5.2	5.2	4.5	4.5	5.5	5.5
Q4 <2>	7.5	7.5	2.7	2.7	4.3	4.3	4.4	4.4	5.3	5.3
1989 Q1 <2>	7.9	7.9	3.7	3.7	4.8	4.8	5.4	5.4	5.2	5.2
Q2 <2>	7.1	7.1	2.5	2.5	5.0	5.0	6.4	6.4	5.3	5.3
Q3 <2>	6.1	6.2	2.7	3.0	2.9	2.9	2.6	2.6	5.2	5.3
Q4 <2>	4.5	4.3	.7	.5	3.8	3.8	3.6	3.9	5.4	5.3
1990 Q1	6.1	5.2	2.1	.7	4.2	5.0	3.6	5.6	5.6	5.5
Q2	5.5	6.3	1.2	2.6	4.2	3.7	4.2	3.7	5.8	5.6
Q3	5.7	5.8	1.6	1.6	4.1	4.1	4.3	4.2	5.9	5.8
Q4	5.6	5.6	1.6	1.7	4.1	4.1	4.3	4.3	6.0	5.9
1991 Q1	6.6	6.8	1.9	2.1	4.9	4.9	4.6	4.6	6.1	6.0
Q2	6.1	6.4	2.2	2.3	4.1	4.2	4.4	4.5	6.1	6.0
Q3	6.2	6.4	2.3	2.4	4.0	4.1	4.4	4.5	6.2	6.1
Q4	6.2	6.5	2.4	2.5	4.0	4.1	4.4	4.5	6.2	6.1
Two-quarter changes: <3>										
1988 Q2 <2>	7.5	7.5	3.9	3.9	4.2	4.2	4.1	4.1	-.4	-.3
Q4 <2>	7.5	7.5	2.9	2.9	4.8	4.8	4.6	4.6	-.2	-.2
1989 Q2 <2>	7.5	7.5	3.1	3.1	5.0	5.0	5.9	5.9	.0	.0
Q4 <2>	5.3	5.3	1.7	1.7	3.3	3.3	3.0	3.2	.1	.0
1990 Q2	5.8	5.7	1.7	1.6	4.2	4.3	3.9	4.6	.4	.3
Q4	5.7	5.7	1.6	1.6	4.1	4.1	4.3	4.2	.2	.3
1991 Q2	6.3	6.6	2.0	2.2	4.5	4.6	4.5	4.6	.1	.1
Q4	6.2	6.4	2.3	2.5	4.0	4.1	4.4	4.5	.1	.1
Four-quarter changes: <4>										
1987 Q4 <2>	8.6	8.6	5.4	5.4	4.0	4.0	4.4	4.4	-.9	-1.0
1988 Q4 <2>	7.5	7.5	3.4	3.4	4.5	4.5	4.3	4.3	-.6	-.5
1989 Q4 <2>	6.4	6.4	2.4	2.4	4.1	4.1	4.4	4.5	.1	.0
1990 Q4	5.7	5.7	1.6	1.6	4.2	4.2	4.1	4.4	.6	.6
1991 Q4	6.3	6.5	2.2	2.3	4.2	4.3	4.4	4.5	.2	.2

1> For all urban consumers.
2> Actual.
<3> Percent change from two quarters earlier.
<4> Percent change from four quarters earlier.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1983	1984	1985	1986	1987	1988	1989	Projection 1990	1991
EXPENDITURES										
Nominal GNP	Billions of $	3405.7	3772.2	4014.9	4231.6	4524.3	4880.6	5233.2	5525.5	5872.3
Real GNP	Billions of 82$	3279.1	3501.4	3618.7	3717.9	3853.7	4024.4	4142.6	4208.0	4295.5
Real GNP	Percent change*	6.5	5.1	3.6	1.9	5.4	3.4	2.4	1.6	2.3
Gross domestic purchases		8.4	6.4	4.3	2.1	4.6	2.4	2.1	1.1	1.5
Final sales		3.7	4.7	4.6	2.7	3.3	4.4	2.1	2.2	2.1
Private dom. final purchases		7.7	5.6	4.6	2.9	2.7	3.8	2.1	1.8	1.5
Personal consumption expend.		5.4	4.1	4.6	3.8	2.2	3.8	2.3	2.0	1.6
Durables		14.7	10.8	7.0	11.5	-2.0	8.0	.3	2.6	1.5
Nondurables		4.4	2.3	3.3	2.9	1.1	2.1	.6	1.1	.9
Services		3.9	3.5	5.0	2.1	4.4	3.6	4.3	2.3	2.2
Business fixed investment		10.8	13.8	3.7	-5.5	8.5	4.2	4.3	1.3	1.8
Producers' durable equipment		20.9	14.9	4.6	.4	11.1	7.0	5.9	3.1	3.9
Nonresidential structures		-4.8	11.8	1.9	-17.7	1.9	-3.4	-.5	-4.5	-5.3
Residential structures		38.1	6.1	5.8	11.6	-4.2	3.2	-6.1	1.2	-1.2
Exports		5.8	5.9	-2.4	10.6	19.1	13.9	8.9	7.4	9.3
Imports		23.8	17.4	4.5	10.0	9.6	5.3	5.9	3.4	4.1
Government purchases		-2.7	7.9	8.6	3.1	2.1	1.8	.2	.8	.5
Federal		-8.1	13.0	13.3	.5	.7	-.3	-3.0	-.6	-1.4
Defense		5.1	6.5	7.1	6.0	4.3	-1.9	-2.6	-4.2	-3.0
State and local		1.5	4.4	4.9	5.2	3.1	3.4	2.5	1.8	1.8
Change in business inventories	Billions of 82$	-6.4	62.3	9.1	5.6	23.7	27.9	24.5	2.7	17.7
Nonfarm	Billions of 82$	-.1	57.8	13.4	8.0	25.8	30.7	21.0	4.1	17.3
Net exports	Billions of 82$	-19.9	-84.0	-104.3	-129.7	-115.7	-74.9	-56.3	-42.3	-21.7
Nominal GNP	Percent change*	10.4	8.6	6.6	4.6	8.6	7.5	6.4	5.7	6.5
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	90.2	94.5	97.5	99.5	102.2	105.6	108.6	110.3	111.5
Unemployment rate	Percent	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.7	6.1
Industrial production index	Percent change*	14.3	6.6	1.7	1.0	5.8	5.0	1.7	1.4	3.0
Capacity utilization rate-mfg.	Percent	73.9	80.5	80.1	79.7	81.1	83.5	84.0	81.9	81.4
Housing starts	Millions	1.70	1.75	1.74	1.81	1.62	1.49	1.37	1.34	1.33
Auto sales	Millions	9.19	10.35	11.04	11.46	10.24	10.65	9.89	9.53	9.50
Domestic	Millions	6.82	7.92	8.22	8.22	7.06	7.55	7.06	6.90	6.95
Foreign	Millions	2.37	2.43	2.82	3.23	3.18	3.10	2.83	2.63	2.55
INCOME AND SAVING										
Nominal personal income	Percent change*	7.8	8.4	6.6	5.8	8.6	7.1	8.5	6.1	6.3
Real disposable income	Percent change*	5.1	4.3	2.7	3.3	3.0	4.0	3.6	1.2	1.4
Personal saving rate	Percent	5.4	6.1	4.4	4.1	3.2	4.2	5.5	5.3	5.1
Corp. profits with IVA & CCAdj	Percent change*	70.1	7.4	9.2	-5.6	12.0	10.4	-19.7	-.6	5.9
Profit share of GNP	Percent	6.3	7.1	7.0	6.7	6.6	6.7	5.7	4.9	4.8
Federal govt. surplus/deficit	Billions of $	-176.0	-169.6	-196.9	-206.9	-161.4	-145.8	-149.9	-136.7	-109.0
State and local govt. surplus		47.5	64.6	65.1	62.8	51.3	49.7	45.0	45.3	62.1
Exc. social insurance funds		4.4	19.8	13.8	5.6	-12.4	-21.4	-33.0	-38.9	-28.1
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.6	3.4	2.9	2.6	3.0	4.0	3.8	4.1	4.1
GNP fixed-weight price index		3.9	3.7	3.3	2.6	4.0	4.5	4.1	4.2	4.3
Cons. & fixed invest. prices		3.3	3.3	3.4	2.5	4.7	4.2	4.3	4.3	4.4
CPI		3.2	4.2	3.5	1.3	4.4	4.3	4.5	4.4	4.5
Exc. food and energy		4.2	5.0	4.3	3.9	4.2	4.6	4.3	4.6	4.7
ECI hourly compensation		5.7	4.9	3.9	3.2	3.3	4.9	4.8	5.0	4.5
Nonfarm business sector										
Output per hour		3.4	1.5	1.6	1.3	2.4	1.6	.6	.7	1.5
Compensation per hour		3.1	4.2	4.6	5.0	4.0	4.8	5.7	5.6	5.2
Unit labor costs		-.4	2.6	3.0	3.6	1.5	3.1	5.1	4.9	3.7

* Percent changes are from fourth quarter to fourth quarter.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1989		Projection 1990				1991			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	5281.0	5337.0	5404.8	5488.2	5566.3	5642.8	5736.3	5825.6	5917.0	6010.3
Real GNP	Billions of 82$	4162.9	4168.1	4175.2	4202.0	4218.4	4236.4	4258.2	4282.1	4307.4	4334.3
Real GNP		3.0	.5	.7	2.6	1.6	1.7	2.1	2.3	2.4	2.5
Gross domestic purchases		3.5	.9	-1.5	3.2	1.6	1.2	1.6	1.4	1.6	1.6
Final sales		2.7	-.5	4.8	1.5	.9	1.5	1.6	2.1	2.2	2.4
Private dom. final purchases		4.7	-.4	2.6	2.3	1.3	1.1	1.3	1.5	1.6	1.7
Personal consumption expend.		5.6	-.1	2.2	2.7	1.5	1.5	1.6	1.6	1.7	1.7
Durables		11.3	-12.9	7.0	3.2	-.4	.9	1.5	1.3	1.5	1.7
Nondurables		5.0	-1.4	.8	1.8	.9	.9	.8	.9	.9	1.0
Services		4.3	5.3	1.6	3.1	2.6	2.0	2.1	2.2	2.2	2.2
Business fixed investment		5.2	-3.0	4.1	1.3	.1	-.2	.9	1.9	2.2	2.4
Producers' durable equipment		4.6	-4.3	5.9	3.0	1.8	1.6	2.8	4.0	4.3	4.4
Nonresidential structures		8.0	1.3	-2.1	-4.2	-5.5	-6.1	-5.7	-5.3	-5.2	-5.0
Residential structures		-9.2	2.6	4.8	.3	.2	-.4	-2.1	-1.9	-.6	-.2
Exports		3.9	4.9	13.6	2.1	5.7	8.6	7.3	9.5	9.7	10.6
Imports		7.4	7.5	-2.0	5.8	5.5	4.4	3.9	3.8	4.3	4.2
Government purchases		-2.4	1.3	2.2	1.3	-.5	.4	.7	.4	.5	.3
Federal		-8.4	-2.9	2.7	.4	-3.5	-1.6	-.9	-1.7	-1.5	-1.6
Defense		6.9	-8.0	-4.9	-5.1	-3.8	-3.1	-3.2	-3.1	-3.0	-2.8
State and local		2.2	4.3	1.9	1.9	1.7	1.8	1.8	1.8	1.8	1.6
Change in business inventories	Billions of 82$	21.9	32.6	-9.4	1.3	8.3	10.4	15.0	16.9	18.9	20.0
Nonfarm	Billions of 82$	16.2	31.3	-6.2	3.7	8.3	10.6	14.8	16.8	18.3	19.3
Net exports	Billions of 82$	-57.1	-61.8	-38.9	-45.1	-45.4	-39.7	-34.8	-26.3	-17.9	-7.7
Nominal GNP	Percent change	6.2	4.3	5.2	6.3	5.8	5.6	6.8	6.4	6.4	6.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	109.4	109.8	110.4	110.4	110.6	111.0	111.3	111.6	112.0
Unemployment rate	Percent*	5.3	5.3	5.5	5.6	5.8	5.9	6.0	6.0	6.1	6.1
Industrial production index	Percent change	1.3	.2	-.9	2.8	1.8	2.0	2.5	3.0	3.2	3.4
Capacity utilization rate-mfg.	Percent*	84.0	83.1	82.2	82.1	81.8	81.5	81.4	81.4	81.4	81.5
Housing starts	Millions	1.34	1.33	1.37	1.33	1.33	1.33	1.33	1.33	1.33	1.33
Auto sales	Millions	10.24	9.14	9.57	9.65	9.45	9.45	9.50	9.50	9.50	9.50
Domestic	Millions	7.36	6.56	6.90	6.95	6.85	6.90	6.95	6.95	6.95	6.95
Foreign	Millions	2.88	2.59	2.67	2.70	2.60	2.55	2.55	2.55	2.55	2.55
INCOME AND SAVING											
Nominal personal income	Percent change	5.2	7.9	7.0	6.5	5.2	5.9	7.1	6.3	5.6	6.5
Real disposable income	Percent change	4.4	2.6	1.2	2.2	.4	1.0	2.3	1.2	.6	1.4
Personal saving rate	Percent*	5.1	5.8	5.6	5.5	5.2	5.1	5.3	5.2	5.0	5.0
Corp. profits with IVA & CCAdj	Percent change	-15.4	-26.5	-7.4	.0	8.6	-2.9	4.6	-2.9	14.5	8.0
Profit share of GNP	Percent*	5.6	5.1	5.0	4.9	4.9	4.8	4.8	4.7	4.8	4.8
Federal govt. surplus/deficit	Billions of $	-144.7	-162.4	-152.6	-143.8	-127.3	-123.2	-122.8	-114.4	-101.7	-97.1
State and local govt. surplus		44.9	39.1	41.9	44.4	45.9	49.1	53.2	60.5	64.7	70.1
Exc. social insurance funds		-34.3	-41.4	-40.1	-39.1	-39.1	-37.4	-34.8	-29.0	-26.3	-22.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.2	3.5	4.6	3.6	4.2	3.8	4.6	4.0	3.9	3.8
GNP fixed-weight price index		2.9	3.8	5.0	3.7	4.1	4.1	4.9	4.2	4.1	4.1
Cons. & fixed invest. prices		2.3	4.4	5.3	3.5	4.1	4.2	4.5	4.5	4.4	4.4
CPI		2.6	3.9	5.6	3.7	4.2	4.3	4.6	4.5	4.5	4.5
Exc. food and energy		3.5	4.7	4.3	4.7	4.7	4.6	4.8	4.7	4.6	4.6
ECI hourly compensation**		4.9	4.7	5.5	5.3	4.6	4.5	4.8	4.9	4.3	4.2
Nonfarm business sector											
Output per hour		2.5	.1	.0	.9	.9	1.0	1.3	1.6	1.6	1.6
Compensation per hour		5.3	6.8	6.1	5.9	5.3	5.2	5.5	5.6	5.0	4.9
Unit labor costs		2.8	6.7	6.1	5.0	4.4	4.2	4.1	3.9	3.3	3.2

* Not at an annual rate.
** Private industry workers; seasonally adjusted by Board staff.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

January 31, 1990

	Projection												Projection	
	1989		1990				1991				1988	1989	1990	1991
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	30.4	5.2	7.1	26.8	16.3	18.1	21.8	23.8	25.3	26.9	133.8	98.7	68.3	97.9
Gross domestic purchases	36.3	9.9	-15.8	33.0	16.7	12.4	16.9	15.3	17.0	16.7	97.8	86.7	46.3	65.8
Final sales	27.5	-5.5	49.1	16.1	9.3	16.0	17.2	21.9	23.3	25.8	172.0	84.5	90.5	88.3
Private dom. final purchases	38.4	-3.4	21.9	19.7	10.7	9.5	10.8	12.6	14.0	14.9	121.7	71.0	61.7	52.3
Personal consumption expend.	36.4	-.8	14.6	17.9	10.5	9.9	10.7	11.0	11.4	11.9	95.4	61.6	52.8	45.0
Durables	11.5	-14.8	7.2	3.4	-.4	1.0	1.7	1.4	1.7	1.9	31.1	1.1	11.1	6.6
Nondurables	11.1	-3.3	1.9	4.1	2.1	2.1	1.8	2.1	2.1	2.3	19.1	5.5	10.2	8.3
Services	13.9	17.4	5.4	10.4	8.8	6.8	7.2	7.6	7.6	7.7	45.2	55.1	31.4	30.1
Business fixed investment	6.5	-3.9	5.2	1.7	.1	-.2	1.1	2.5	2.9	3.1	20.0	21.3	6.8	9.6
Producers' durable equipment	4.4	-4.3	5.7	3.0	1.8	1.6	2.8	4.0	4.4	4.5	24.3	22.0	12.1	15.7
Nonresidential structures	2.3	.4	-.6	-1.3	-1.7	-1.8	-1.7	-1.5	-1.5	-1.4	-4.3	-.6	-5.4	-6.1
Residential structures	-4.5	1.2	2.2	.2	.1	-.2	-1.0	-.9	-.3	-.1	6.2	-12.1	2.2	-2.3
Change in business inventories	2.8	10.7	-42.0	10.7	7.0	2.1	4.6	1.9	2.0	1.1	-38.3	14.3	-22.2	9.6
Nonfarm	-3.3	15.1	-37.5	9.9	4.6	2.3	4.2	2.0	1.5	1.0	-23.7	-.6	-20.7	8.7
Farm	6.1	-4.3	-4.5	.8	2.4	-.2	.4	-.1	.5	.1	-14.6	14.9	-1.5	.9
Net exports	-5.9	-4.7	22.9	-6.2	-.3	5.7	4.9	8.6	8.4	10.2	36.0	12.0	22.1	32.1
Exports	5.6	7.1	19.5	3.2	8.7	13.1	11.5	15.1	15.8	17.5	67.3	48.8	44.4	59.9
Imports	11.5	11.8	-3.4	9.4	9.0	7.4	6.6	6.5	7.4	7.3	31.3	36.8	22.4	27.8
Government purchases	-5.0	2.6	4.3	2.6	-1.0	.8	1.5	.8	1.0	.7	14.3	1.5	6.7	3.9
Federal	-7.5	-2.5	2.2	.3	-3.0	-1.4	-.7	-1.4	-1.2	-1.3	-1.0	-10.3	-1.9	-4.7
Defense	4.3	-5.4	-3.2	-3.3	-2.4	-1.9	-2.0	-1.9	-1.8	-1.7	-5.1	-6.9	-10.8	-7.4
Nondefense	-11.8	3.0	5.3	3.6	-.6	.5	1.3	.5	.6	.4	4.1	-3.3	8.8	2.7
State and local	2.5	5.0	2.2	2.3	2.0	2.2	2.2	2.2	2.2	2.0	15.3	11.7	8.7	8.6

FEDERAL [illegible] ACCOUNTS[1]
(Billion [illegible]ollars)

	Fiscal years				1989				1990				1991			
	1988a	1989a	1990	1991	Ia	IIa	IIIa	IV	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts[2]	908	991	1055	1132	219	308	242	229	240	322	264	251	259	339	283	269
Budget outlays[2]	1063	1143	1192	1250	280	285	288	298	299	300	295	318	308	314	310	321
Surplus/deficit(-) to be financed[2]	-155	-152	-137	-118	-61	23	-46	-70	-59	23	-31	-67	-49	24	-27	-52
(On-budget)	-194	-204	-199	-188	-77	0	-54	-76	-77	0	-46	-77	-69	1	-42	-62
(Off-budget)	39	52	62	70	16	23	7	6	19	23	14	10	21	24	16	10
Means of financing:																
Borrowing	162	140	144	115	38	10	39	63	51	10	20	65	24	8	17	48
Cash decrease	-8	3	6	0	19	-29	3	14	11	-24	5	10	10	-25	5	10
Other[3]	1	8	-13	3	4	-4	5	-8	-4	-8	6	-8	14	-8	4	-6
Cash operating balance, end of period	44	41	35	35	15	44	41	27	16	40	35	25	15	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	958	1032	1099	1187	1036	1053	1043	1054	1093	1114	1134	1153	1180	1199	1219	1240
Expenditures	1103	1183	1246	1303	1184	1199	1188	1217	1246	1258	1262	1276	1303	1313	1321	1337
Purchases	377	404	414	424	399	406	403	409	413	417	415	416	426	427	428	428
Defense	297	302	304	305	299	301	308	303	306	304	303	302	306	306	306	305
Nondefense	80	101	110	119	100	105	95	105	108	113	113	114	120	121	122	123
Other expend.	726	780	832	879	785	793	785	808	832	841	846	860	877	886	893	909
Surplus/deficit	-145	-151	-147	-116	-148	-145	-145	-162	-153	-144	-127	-123	-123	-114	-102	-97
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit(-)	-150	-167	-147	-97	-165	-162	-162	-172	-153	-142	-120	-110	-106	-94	-78	-72
Change in HEB, percent of potential GNP	.3	.4	-.4	-.9	-.3	-.1	.0	.2	-.4	-.2	-.4	-.2	-.1	-.2	-.3	-.1
Fiscal impetus measure (FI), percent	.2 *	-3.5 *	-6.8 *	-3.4 *	-2.7	-.2	.5	-2.6	-4.0	-.2	-1.0	-1.9	-1.0	-.3	-.4	-.4

a--actual *--calendar year

Note: Details may not add to totals due to rounding.

1. Staff projections. The FY90 and FY91 deficits in *OMB's FY1991 Budget* (January 1990) are $124 billion and $63 billion, respectively. These estimates incorporate approximately $39 billion of cuts from the adjusted Gramm-Rudman-Hollings baseline in FY1991. The FY90 and FY91 baseline deficits in CBO's Economic and Budget Outlook (January 1990) are $138 billion and $138 billion, respectively.
2. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law.
3. Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities, including Post Office surplus/deficit in FY90 and FY91.
4. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.7% potential output growth. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Recent Developments

Short-term interest rates generally dropped slightly in late December following the 1/4 percentage point decline in the federal funds rate. But, despite the subsequent stability of the funds rate at 8-1/4 percent, other rates have risen across the maturity spectrum as the prospect of any near-term easing of monetary policy appeared to diminish. Contributing to this changed outlook have been the depreciation of the dollar and higher bond rates abroad, incoming price information and other domestic economic news, and a press report that some Board members would not support additional easing steps under current circumstances. For the intermeeting period as a whole, yields on Treasury securities beyond three months' maturity are up 1/4 to 3/4 of a percentage point, with the largest increases posted at the long end.

M2 growth slowed to about a 4 percent rate in January.[1] Virtually all of the deceleration can be attributed to a decline in M1 after robust growth a month earlier. An estimated 4 percent annual rate of contraction in M1 in January stemmed largely from a sharp drop in demand deposits, after a surge in December. The nontransactions component of M2 continued to grow moderately. Core deposits at thrift institutions expanded in January, reversing a fourth-quarter decline, as flows into adequately capitalized thrifts outstripped further runoffs at RTC-controlled institutions and other insolvent thrifts. With declines in managed liabilities at thrifts continuing heavy and bank credit and associated financing needs remaining weak, M3 growth slipped further in January, to a 2 percent annual rate.

1. Monetary statistics referred to in this section do not incorporate annual updates of benchmarks and seasonal adjustment factors.

Net borrowing by the domestic nonfinancial sectors appears to have slowed a little around year-end. Borrowing by businesses in particular has slackened. Bank lending to business, especially merger-related financings, fell off sharply in December and posted only sluggish growth in January. At a 14 percent annual rate of decline in December, C & I loans contributed to the first monthly drop in total bank credit in nearly a decade. Partly offsetting the contraction in bank business loans, commercial paper borrowing by nonfinancial firms has continued to grow rapidly.

Public offerings of corporate bonds, meanwhile, have fallen further in January from a moderate December pace. Investment-grade offerings have slowed with the general back-up in long-term rates, and issuance of low-rated debt is running at its slowest pace in two years. Prices of junk bonds have fallen in response to the Campeau bankruptcy, Moody's unexpected downgrading of RJR's debt, and weakness in stock prices. Major stock price indexes are down 5 to 6 percent from their levels of mid-December and 10 percent below recent highs in early January. Equity issuance by nonfinancial firms has nearly evaporated since a flurry of issues early in December.

In the household sector, information on borrowing in early 1990 is sparse. Consumer credit growth appears to have picked up a bit in December, boosting the fourth-quarter growth in installment credit to about an 8 percent annual rate. Credit card usage was largely responsible for December's rise. Consumer loans at banks in January expanded at a brisk 7 percent pace. Evidence on mortgage lending activity around year-end is sketchy, but indications are that the growth in home mortgage debt in the fourth quarter probably did not change much from the moderate pace of the third quarter. Thrift institutions continued their disinvestment in mortgages and mortgage securities at least through November, but increased acquisitions by banks and other lenders have kept rate spreads from widening. At current pricings, the vast majority of mortgage borrowers continue to prefer fixed-rate mortgages to adjustable-rate products; the latter accounted for only 21 percent of conventional mortgage loans originated in early December.

In the government sector, the federal deficit in the current quarter is expected to decline and, in anticipation of April tax inflows, the Treasury is expected to draw down its cash balance. As a result, net borrowing from the public is anticipated to slow to about $51 billion, with most of the cutback in the bill sector. Among the government sponsored enterprises, the Federal Home Loan Banks continued to pay down debt in the fourth quarter, reflecting reduced demand for advances by member thrifts. Fannie Mae, by contrast, tapped the debt markets for an additional $4.6 billion in the fourth quarter to finance additions to its portfolio. REFCORP's $5 billion auction of 40-year bonds fared poorly relative to market expectations, but spreads have subsequently narrowed.

Offerings of long-term tax-exempt securities picked up in December, but slowed appreciably in January as rates firmed. Issuance for 1989 as a whole was off slightly from the 1988 totals. Despite the revenue shortfalls continuing to plague a number of eastern states, the overall credit quality of general obligation debt improved in 1989. Among revenue bonds, the record was more mixed.

Outlook

The staff economic projection assumes that interest rates will remain near current levels through the remainder of this year, with some slight increases possibly occurring next year as a lower dollar boosts exports and overall production. Relative to conditions that have prevailed in recent years, credit use and aggregate spending are likely to remain somewhat constrained by investor concerns about highly leveraged borrowers and more cautious lending by institutions bruised by losses and faced with tighter regulation.

The accompanying outlook for total credit growth among the domestic nonfinancial sectors, which has changed only marginally since the December FOMC meeting, calls for continuation of the deceleration that began in the mid-1980s. Debt growth this year is expected to slow to about 7 percent and to ease further to 6-1/2 percent in 1991. Tightened standards for provision of merger-related financing will restrain overall business credit growth despite some offset from increased borrowing to finance capital expenditures in the face of deteriorating cash flow.

In the household sector, the expected flatness of housing construction and home sales probably implies some additional slowing in the rate of growth in mortgage credit over the projection period. Consumer credit growth in the near term may be jostled by choppy monthly patterns of auto sales and revolving charge bookings, but the longer-run outlook for consumer borrowing is for sluggish growth, consistent with the prospects for consumer income and spending.

The outlook for federal government debt growth is clouded by the RTC's financing of working capital needs. Borrowing through the Federal Financing Bank (FFB) could be the avenue selected, and this would boost the Treasury borrowing needs. Abstracting from this possibility, a lower deficit is expected to reduce slightly Treasury borrowing in 1990 and by a larger amount in 1991. If RTC is financed through the FFB, federal sector and total debt growth would be higher; for example, $40 billion of working capital financed through this means would boost annual growth in total domestic nonfinancial debt by slightly less than 1/2 percentage point in 1990.

Recent Developments

The weighted-average foreign exchange value of the dollar in terms of other G-10 currencies has declined 2-1/2 percent since the FOMC meeting on December 19. The dollar fell as monetary conditions abroad tightened somewhat on average while those in the United States eased. The mark appreciated 3-1/2 percent against the dollar, buoyed further by developments in Eastern Europe.

Short-term interest rate differentials moved against the dollar by 30 to 50 basis points over the intermeeting period, as rates in Japan and Germany edged up and U.S. private rates eased. Bond yields rose substantially worldwide, particularly after year-end; Japanese yields were up more than U.S. and German yields, on balance. Stock price indexes in most of the major markets have fallen 5 to 10 percent since the beginning of the year, after having risen by lesser amounts during the latter part of December. (The German market, however, fell somewhat less in January, and is up 10 percent since December 19.) Some rekindling of inflation expectations in the wake of higher oil prices, and perceptions of likely monetary policy responses may have contributed to the recent global decline in bond and stock markets. Signs of continued demand pressures abroad, particularly in the German economy, may have factored in as well.

. The Desk sold $600 million against yen. The lira's central parity rate within the EMS was devalued on January 5 by nearly 4 percent, and the margin for fluctuation from that rate was narrowed from 6 percent to the 2-1/4 percent margin that now applies to all EMS currencies except the peseta.

Indicators of economic activity in major foreign industrial countries during the fourth quarter of last year were mixed, as monetary restraint appears to have taken hold in some, but not all, of these countries. Industrial output has weakened noticeably in Canada and the United Kingdom. Japanese industrial production and retail sales also turned down, according to the latest monthly releases, but for the fourth quarter as a whole, growth appears to have continued to be strong in Japan. Recent data for Germany, France, and Italy point to continued strength of activity in those countries. Inflation in the foreign G-10 countries picked up somewhat in the fourth quarter, and it averaged 4-1/4 percent for the year, compared with 3 percent during 1988.

Japan's trade surplus declined further in December, and was down $13 billion for the year from its 1988 rate. Through November, Germany's trade surplus was running at about its 1988 pace, while Canada's surplus was roughly half its 1988 rate; the U.K., French, and Italian trade deficits all widened in 1989.

With respect to the major developing countries, Mexico's debt restructuring package is scheduled to be signed, beginning February 4. The Philippines completed the debt buyback part of its debt restructuring program, repurchasing $1.3 billion in commercial bank debt at a 50 percent discount on January 3. Argentina's rate of inflation has accelerated, and financial conditions have deteriorated since mid-December; the government has announced two new stabilization programs. Brazil's inflation rate rose to 56 percent in January, and government efforts to reduce it have been put off until the Collor administration takes office in mid-March.

The U.S. merchandise trade deficit widened slightly further, to $10.5 billion in November (on a seasonally adjusted customs basis) from a revised $10.2 billion in October. For October-November combined, the deficit was up substantially from its average in both the third quarter and the first nine months of the year. A strike-related disruption to aircraft exports accounted for about one-third of the worsening of the trade deficit. The growth of non-oil imports picked up significantly, stimulated in part by earlier declines in relative prices associated with the rise in the dollar through mid-1989.

Import prices, as reported by the BLS, rose almost 5 percent in the fourth quarter (at an annual rate), led by a 31 percent rate of increase in oil prices. The West Texas spot price of crude petroleum rose to more than $23 per barrel in the third week of December and again in mid-January, as unusually cold weather spurred demand and as oil supply problems in centrally planned economies came to light. Non-oil import prices increased at a 3 percent rate in the fourth quarter, after having declined over the first three quarters the year. Export prices fell slightly in the fourth quarter; a decline in agricultural prices more than offset a slight increase in the average price of nonagricultural exports.

Recorded net capital inflows during October-November were concentrated in private foreign net purchases of U.S. Treasury securities and corporate bonds. Foreign holdings of U.S. corporate stocks fell in November for the first time since February.

Outlook

The staff forecast continues to incorporate a moderate rate of decline in the foreign exchange value of the dollar in terms of other G-10 currencies over the next two years. The dollar declined more rapidly than expected over the past six weeks, and its projected path is now slightly below that in the December Greenbook, especially in the near term.

Economic growth in the major foreign industrial countries is expected to average a little less than 3 percent at an annual rate over the next two years, down somewhat from the average annual rate of about 3-1/2 percent recorded over the past two years. The monetary restraint that is expected to hold growth to this more subdued pace should also hold the average rate of consumer price inflation abroad below that in the United States.

Oil import prices are expected to average $19.70 per barrel in the current quarter, and then to fall to $18 by the second half of the year as the market recovers from the effects of cold weather and disruptions to supply. This price level is about $1 per barrel above the December Greenbook forecast. Moreover, oil prices are now assumed to rise slightly faster than U.S. consumer prices in 1991 as world output becomes increasingly concentrated among the Persian Gulf producers, enhancing prospects for OPEC coordination.

The U.S. merchandise trade deficit is expected to improve somewhat in the next few months as the effects of the recent Boeing strike and delayed aircraft exports unwind. The deficit is then projected to level off at an annual rate of about $115 billion through mid-1991. The projected slow U.S. growth and associated lower growth in demand for imports over the year ahead will about offset the negative effects on the trade balance of the rise in the dollar through mid-1989. The more recent and the projected further decline in the dollar is expected to show through in a lower deficit during 1991.

Net portfolio investment income payments will continue to rise as U.S. net indebtedness to the rest of the world mounts. However, these higher net payments are expected to be more than offset by increases in net direct investment income receipts and other net services. As a result, the current account deficit (excluding capital gains and losses) is projected to improve slightly more than the trade deficit, moving below $100 billion during 1991.

Strictly Confidential (FR)
Class II FOMC

January 30, 1990

Outlook for U.S. Net Exports and Related Items
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1989		1990				1991			
	1989-P	1990-P	1991-P	Q3	Q4-P	Q1	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-50.9	-39.1	-23.7	-45.1	-53.8	-36.0	-43.3	-40.7	-36.4	-33.9	-27.4	-21.2	-12.3
Exports of G+S	624.4	679.3	753.9	628.5	637.3	662.4	669.4	683.2	702.3	719.9	741.7	764.5	789.7
Imports of G+S	675.2	718.4	777.6	673.6	691.1	698.4	712.6	723.9	738.8	753.8	769.1	785.7	802.0
Constant 82 $, Net	-56.3	-42.3	-21.7	-57.1	-61.8	-38.9	-45.1	-45.4	-39.7	-34.8	-26.3	-17.9	-7.7
Exports of G+S	587.6	629.7	679.7	593.1	600.2	619.7	622.9	631.5	644.6	656.1	671.2	687.0	704.5
Imports of G+S	643.9	672.0	701.4	650.2	662.0	658.6	668.0	677.0	684.4	691.0	697.5	704.9	712.2
2. Merchandise Trade Balance 2/	-114.9	-111.5	-103.8	-111.0	-124.9	-106.6	-114.8	-113.3	-111.4	-110.2	-106.6	-102.3	-96.2
Exports	362.9	396.9	445.1	366.3	368.1	387.9	390.0	398.7	410.9	422.5	436.8	452.4	468.7
Agricultural	41.5	41.9	44.9	39.1	40.4	41.2	41.5	41.7	43.1	43.6	44.4	45.2	46.2
Non-Agricultural	321.4	355.0	400.3	327.2	327.6	346.7	348.5	357.1	367.7	378.9	392.4	407.2	422.5
Imports	477.8	508.4	548.9	477.3	493.0	494.5	504.8	512.0	522.2	532.7	543.5	554.7	564.9
Petroleum and Products	50.9	56.7	59.6	53.2	53.5	58.9	57.8	54.8	55.4	57.1	58.7	60.4	62.1
Non-Petroleum	426.9	451.7	489.4	424.1	439.5	435.7	447.0	457.2	466.8	475.7	484.7	494.2	502.8
3. Other Current Account Transactions													
Capital Gains and Losses 3/	-5.3	2.1	0.9	10.9	2.9	6.3	0.7	0.6	0.6	0.9	0.9	0.9	0.9
Other D.I. Income, Net	36.1	39.1	42.2	35.1	38.2	39.0	38.4	38.8	40.1	40.3	42.0	42.5	43.8
Portfolio Income, Net	-36.5	-44.6	-49.9	-35.5	-40.2	-42.3	-43.8	-45.3	-46.8	-48.0	-49.3	-50.6	-51.8
Other Current Account, Net	5.9	9.7	14.2	9.8	5.7	8.7	10.2	10.9	9.1	13.1	14.4	15.6	13.8
4. U.S. Current Account Balance													
Including Capital G/L	-114.7	-105.2	-96.4	-90.7	-118.3	-94.9	-109.3	-108.2	-108.3	-103.8	-98.7	-93.8	-89.4
Excluding Capital G/L	-109.4	-107.2	-97.3	-101.6	-121.2	-101.1	-110.0	-108.9	-108.9	-104.8	-99.6	-94.8	-90.3
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.7	3.0	2.8	3.7	3.9	2.9	2.8	2.8	2.9	2.8	2.8	2.9	2.9
Real GNP--LDC 6/	2.7	3.7	3.9	3.0	3.6	4.1	4.1	3.9	3.7	3.7	4.0	4.3	4.7
Consumer Prices--Ten Ind. 5/	4.0	3.9	3.8	2.3	4.4	3.3	4.9	3.3	3.4	3.8	4.3	3.5	3.6

1/ National Income and Product Account data.
2/ International accounts basis.
3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.
4/ Percent change, annual rates.
5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.
6/ Weighted by share in LDC GNP.
P/ Projected