

July 2, 1986

## **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee

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

July 2, 1986

## STAFF GNP PROJECTIONS

## Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
		5/14/86	7/2/86	5/14/86	7/2/86	5/14/86	7/2/86	5/14/86	7/2/86	5/14/86	7/2/86
Annual changes:											
1984	<1>	11.0	11.0	6.5	6.5	4.3	4.3	4.1	4.1	7.5	7.5
1985	<1>	5.7	5.7	2.2	2.2	3.6	3.6	3.3	3.3	7.2	7.2
1986		5.3	4.9	2.6	2.2	2.7	2.8	2.7	2.7	6.9	7.1
1987		6.8	5.9	3.6	3.1	3.3	3.0	3.1	2.7	6.3	6.7
Quarterly changes:											
1985	Q1 <1>	6.9	6.9	3.7	3.7	3.5	3.5	3.0	3.0	7.3	7.3
	Q2 <1>	4.5	4.5	1.1	1.1	3.6	3.6	3.3	3.3	7.3	7.3
	Q3 <1>	5.8	5.8	3.0	3.0	2.7	2.7	2.9	2.9	7.2	7.2
	Q4 <1>	4.3	4.3	.7	.7	3.9	3.9	3.3	3.3	7.0	7.0
1986	Q1 <1>	5.8	5.7	3.2	2.9	2.2	2.5	2.5	2.9	7.1	7.1
	Q2	4.1	4.0	2.1	1.5	2.2	2.0	2.1	2.4	7.1	7.2
	Q3	6.7	4.8	4.4	2.7	2.6	2.3	2.2	2.0	6.9	7.1
	Q4	7.4	6.0	4.4	3.7	3.2	2.7	2.8	2.2	6.7	6.9
1987	Q1	7.1	6.3	3.6	3.4	3.5	3.3	3.3	2.9	6.5	6.8
	Q2	6.7	6.3	3.3	3.2	3.7	3.3	3.3	3.0	6.4	6.7
	Q3	6.9	6.3	3.2	3.0	3.8	3.4	3.6	3.2	6.3	6.6
	Q4	7.2	6.6	3.1	3.0	4.1	3.7	3.9	3.5	6.2	6.6
Two-quarter changes: <2>											
1985	Q2 <1>	5.7	5.7	2.4	2.4	3.5	3.5	3.1	3.1	.1	.1
	Q4 <1>	5.0	5.0	1.9	1.9	3.4	3.4	3.1	3.1	-.3	-.3
1986	Q2	4.9	4.8	2.7	2.2	2.1	2.3	2.3	2.6	.1	.2
	Q4	7.0	5.4	4.4	3.2	2.9	2.5	2.5	2.1	-.4	-.3
1987	Q2	6.9	6.3	3.5	3.3	3.6	3.3	3.3	2.9	-.3	-.2
	Q4	7.0	6.4	3.2	3.0	3.9	3.5	3.8	3.3	-.2	-.1
Four-quarter changes: <3>											
1984	Q4 <1>	9.0	9.0	4.7	4.7	4.2	4.2	4.1	4.1	-1.3	-1.3
1985	Q4 <1>	5.4	5.4	2.1	2.1	3.5	3.5	3.1	3.1	-.2	-.2
1986	Q4	6.0	5.1	3.5	2.7	2.5	2.4	2.4	2.4	-.3	-.1
1987	Q4	7.0	6.4	3.3	3.2	3.8	3.4	3.5	3.1	-.5	-.2

&lt;1&gt; Actual.

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

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

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CONFIDENTIAL - FR  
CLASS II FOMCGROSS NATIONAL PRODUCT AND RELATED ITEMS  
(seasonally adjusted; annual rate)

	Units	Projection									
		1985		1986				1987			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Expenditures</b>											
Nominal GNP	Billions of \$	4016.9	4059.3	4115.7	4155.9	4204.6	4266.2	4332.0	4398.7	4466.4	4538.2
Real GNP	Billions of 82\$	3584.1	3590.8	3616.9	3630.1	3654.5	3687.7	3718.3	3748.1	3776.0	3804.1
Real GNP	Percent change	3.0	.7	2.9	1.5	2.7	3.7	3.4	3.2	3.0	3.0
Gross domestic purchases		5.0	3.0	2.5	3.1	1.3	2.1	2.0	2.0	1.9	2.0
Final sales		5.0	1.3	-1.7	2.0	3.5	3.9	3.3	3.0	2.9	2.9
Private dom. final purchases		4.5	2.2	1.2	4.2	2.4	2.7	2.3	2.0	1.8	2.0
Personal consumption expend.		4.6	.1	3.8	6.0	2.5	2.7	2.5	2.2	1.8	1.7
Durables		24.3	-13.3	-7	14.5	4.0	2.4	2.7	3.6	1.8	2.8
Nondurables		1.5	.6	6.6	6.2	1.6	2.2	2.1	1.9	1.9	1.4
Services		1.4	4.4	3.1	3.3	2.7	3.2	2.6	1.9	1.8	1.6
Business fixed investment		2.4	11.3	-13.3	-7.1	-1.9	1.1	2.5	2.5	2.3	2.5
Producers' durable equipment		3.0	13.5	-12.1	4.8	-1.0	2.0	4.0	4.0	4.0	4.0
Nonresidential structures		1.2	7.2	-15.4	-27.0	-3.7	-8	-5	-7	-1.2	-8
Residential structures		8.5	5.7	9.7	11.6	12.6	6.2	.3	-1.3	.7	3.7
Exports		-5.1	6.6	6.6	.2	10.1	12.7	11.7	12.0	13.3	12.5
Imports		12.8	24.5	2.4	13.2	-2.2	-1.6	-.8	.9	2.4	2.8
Government purchases		18.2	9.2	-13.8	1.6	.5	.8	.4	.8	1.3	1.4
Federal		37.3	23.4	-30.1	.8	.4	1.0	-.6	.1	-.1	-.4
Defense		22.0	-3.2	-5.4	4.6	4.2	2.2	.3	.7	.7	.2
State and local		4.7	-1.6	2.8	2.3	.7	.7	1.3	1.4	2.5	2.8
Change in business inventories	Billions of 82\$	-1.8	-6.3	35.3	30.5	24.0	22.0	22.3	24.8	26.3	27.8
Nonfarm	Billions of 82\$	1.6	18.2	36.2	31.5	25.5	23.5	23.0	25.5	27.0	28.5
Net exports	Billions of 82\$	-119.8	-140.8	-138.1	-153.7	-142.0	-128.5	-116.7	-106.5	-96.5	-87.6
Nominal GNP	Percent change	5.8	4.3	5.7	4.0	4.8	6.0	6.3	6.3	6.3	6.6
<b>Employment and Production</b>											
Nonfarm payroll employment	Millions	97.9	98.7	99.4	99.9	100.4	101.1	101.7	102.3	102.9	103.4
Unemployment rate	Percent*	7.2	7.0	7.1	7.2	7.1	6.9	6.8	6.7	6.6	6.6
Industrial production index	Percent change	2.0	1.9	.7	-4.1	.0	3.6	3.5	3.4	2.9	3.0
Capacity utilization rate-mfg.	Percent*	80.3	80.0	79.8	78.8	78.5	78.7	78.9	79.1	79.2	79.3
Housing Starts	Millions	1.69	1.77	2.00	1.93	1.80	1.75	1.70	1.70	1.72	1.75
Auto sales	Millions	12.31	10.24	10.65	11.15	11.19	10.60	10.80	10.90	10.90	10.90
Domestic	Millions	9.40	6.84	7.84	8.05	8.09	7.50	7.80	7.80	7.80	7.80
Foreign	Millions	2.90	3.40	2.81	3.10	3.10	3.10	3.00	3.10	3.10	3.10
Nominal personal income	Percent change	2.3	6.9	5.3	5.3	4.9	6.7	6.2	6.6	6.8	6.8
Real disposable income	Percent change	-4.5	2.3	5.5	5.7	1.6	2.8	2.8	2.0	2.1	2.0
Personal saving rate	Percent*	3.7	4.0	4.4	4.2	4.0	4.0	4.0	4.0	4.0	4.0
Corp. profits with IVA & CCAdj	Percent change	32.5	-7.5	14.7	18.3	-8.4	4.1	-2.4	-.7	1.1	3.9
Profit share of GNP	Percent*	7.7	7.5	7.6	7.9	7.6	7.6	7.4	7.3	7.2	7.2
Federal govt. surplus/deficit	Billions of \$	-201.3	-226.9	-208.8	-221.6	-186.7	-190.0	-174.7	-163.6	-155.9	-146.3
State and local govt. surplus		56.9	58.8	64.5	60.2	54.3	57.6	60.7	62.7	63.7	64.3
<b>Prices and costs</b>											
GNP implicit deflator	Percent change	2.9	3.3	2.9	2.4	2.0	2.2	2.9	3.0	3.2	3.5
GNP fixed-weight price index		2.7	3.9	2.5	2.0	2.3	2.7	3.3	3.3	3.4	3.7
Cons. & fixed invest. prices		2.4	4.4	1.2	.6	2.9	3.2	3.5	3.8	3.8	3.8
CPI		2.6	4.3	1.5	-2.0	2.7	3.5	3.7	3.8	4.0	4.1
Exc. food and energy		3.5	4.9	4.2	3.5	3.8	4.2	4.3	4.4	4.6	4.7
Nonfarm business sector											
Output per hour		.4	-4.1	3.6	1.2	.9	1.6	.9	.8	.6	.9
Compensation per hour		2.8	3.2	2.2	2.9	3.0	3.3	3.7	3.5	3.7	3.9
Unit labor costs		2.4	7.6	-1.4	1.7	2.1	1.7	2.8	2.7	3.1	3.0

\* Not at an annual rate.

	Units	1979	1980	1981	1982	1983	1984	1985	Projection	
									1986	1987
<b>Expenditures</b>										
Nominal GNP	Billions of \$	2508.2	2732.0	3052.6	3166.0	3401.6	3774.7	3988.5	4185.6	4433.8
Real GNP	Billions of 82\$	3192.4	3187.1	3248.8	3166.0	3277.7	3492.0	3570.0	3647.3	3761.6
Real GNP	Percent change*	.6	-.1	.6	-1.9	6.3	4.7	2.1	2.7	3.2
Gross domestic purchases		-4	-1.1	.8	-.8	8.2	6.2	3.2	2.3	2.0
Final sales		2.2	-.2	.1	.3	3.6	4.3	3.4	1.9	3.0
Private dom. final purchases		1.3	-1.7	-.3	.8	7.6	5.3	3.7	2.6	2.0
Personal consumption expend.		1.4	-.1	.2	2.9	5.3	3.4	3.0	3.7	2.0
Durables		-3.8	-5.6	-3.3	9.0	14.5	9.2	5.8	4.9	2.7
Nondurables		.8	-1.4	.5	1.8	4.3	2.0	2.7	4.1	1.8
Services		3.5	2.4	.9	2.3	3.7	2.8	2.4	3.1	2.0
Business fixed investment		5.0	-4.8	5.6	-11.3	11.5	16.5	6.3	-5.5	2.5
Producers' durable equipment		1.6	-6.5	2.2	-12.5	20.3	17.2	5.3	-1.8	4.0
Nonresidential structures		12.0	-1.8	11.7	-9.1	-2.1	15.2	8.1	-12.3	-.8
Residential structures		-7.2	-14.2	-22.4	4.9	38.5	3.5	5.7	10.0	.8
Exports		13.7	.5	2.4	-13.8	6.9	5.1	-4.8	7.3	12.4
Imports		3.4	-8.8	4.9	-5.9	25.8	17.0	4.7	2.8	1.3
Government purchases		.1	1.0	2.9	3.8	-2.7	8.1	7.4	-2.9	1.0
Federal		-.3	3.1	9.5	8.2	-7.5	14.7	13.6	-8.1	-.3
Defense		3.3	3.1	7.6	8.8	5.2	7.6	5.9	1.3	.4
State and local		.4	-.3	-1.3	.6	1.0	3.3	2.6	1.6	2.0
Change in business inventories	Billions of 82\$	15.0	-6.9	23.9	-24.5	-5.5	62.7	5.7	28.0	25.3
Nonfarm	Billions of 82\$	10.4	-2.3	19.0	-23.1	.4	55.9	10.6	29.2	26.0
Net exports	Billions of 82\$	3.6	57.0	49.4	26.3	-19.4	-85.0	-108.4	-140.6	-101.8
Nominal GNP	Percent change*	9.5	9.9	9.3	3.1	10.0	9.0	5.4	5.1	6.4
<b>Employment and Production</b>										
Nonfarm payroll employment	Millions	89.8	90.4	91.2	89.6	90.2	94.5	97.6	100.2	102.6
Unemployment rate	Percent	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.1	6.7
Industrial production index	Percent change*	.9	-.8	-1.0	-7.7	14.3	7.2	1.8	.0	3.2
Capacity utilization rate-mfg.	Percent	84.6	79.2	78.3	70.3	74.0	80.8	80.3	79.0	79.1
Housing Starts	Millions	1.72	1.30	1.10	1.06	1.71	1.76	1.74	1.87	1.72
Auto sales	Millions	10.68	9.04	8.56	8.00	9.18	10.43	11.09	10.90	10.88
Domestic	Millions	8.36	6.62	6.24	5.77	6.77	7.97	8.24	7.87	7.80
Foreign	Millions	2.32	2.42	2.32	2.23	2.41	2.46	2.84	3.03	3.08
<b>Income and saving</b>										
Nominal personal income	Percent change*	11.4	12.0	9.2	5.3	7.5	8.6	5.3	5.5	6.6
Real disposable income	Percent change*	.5	1.1	.7	1.0	5.1	3.9	1.3	3.9	2.2
Personal saving rate	Percent	6.8	7.1	7.5	6.8	5.5	6.5	4.6	4.2	4.0
Corp. profits with IVA & CCAdj	Percent change*	-10.7	-6.8	2.3	-19.1	69.5	11.6	9.7	6.7	.4
Profit share of GNP	Percent	8.0	6.5	6.2	4.7	6.3	7.2	7.4	7.7	7.3
Federal govt. surplus/deficit	Billions of \$	-16.1	-61.3	-63.8	-145.9	-179.4	-172.9	-200.0	-201.8	-160.1
State and local govt. surplus		27.6	26.8	34.1	35.1	48.6	64.4	59.0	59.1	62.8
<b>Prices and costs</b>										
GNP implicit deflator	Percent change*	8.9	9.9	8.7	5.2	3.5	4.1	3.1	2.4	3.1
GNP fixed-weight price index		8.8	9.8	8.5	5.0	3.8	4.2	3.5	2.4	3.4
Cons. & fixed invest. prices		9.5	10.1	8.2	4.4	3.1	3.9	3.2	2.0	3.7
CPI		12.7	12.5	9.6	4.5	3.3	4.1	3.5	1.4	3.9
Exc. food and energy		10.7	12.2	10.2	5.2	4.3	4.8	4.3	4.0	4.5
Nonfarm business sector										
Output per hour		-2.7	1.0	-.6	1.0	3.3	.8	-.6	1.8	.8
Compensation per hour		9.7	10.9	8.3	7.2	3.6	3.8	3.7	2.9	3.7
Unit labor costs		12.7	9.7	9.0	6.2	.3	3.0	4.3	1.0	2.9

\* Percent changes are from fourth quarter to fourth quarter.

July 2, 1986

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

	Fiscal Year 1985*	FY1986 <sup>e</sup>		FY1987 <sup>e</sup>		CY 1985*	FY1986 <sup>e</sup> FRB Staff	FRB staff estimates Calendar quarters; not seasonally adjusted								
		Admin. 1/	FRB Staff	Admin. 1/	FRB Staff			1985 IV*	1986				1987			
									I*	II	III	IV	I	II	III	
Budget receipts <sup>2</sup>	734	777	768	850	833	745	781	177	180	217	195	190	196	236	211	
Budget outlays <sup>2</sup>	946	980	984	994	1003	961	984	252	241	242	248	253	253	251	246	
Surplus/deficit(-) to be financed <sup>2</sup>	-212	-203	-215	-144	-170	-216	-203	-75	-61	-25	-54	-63	-58	-14	-35	
Means of financing deficit:																
Net borrowing from public	197	204	231	142	165	224	191	91	37	51	53	50	50	23	42	
Decrease in cash operating balance	12	-3	-13	0	0	-13	16	-14	19	-12	-5	15	0	-5	-10	
Other <sup>3</sup>	1	2	-3	2	5	5	-3	-2	5	-13	6	-2	8	-4	3	
Cash operating balance, end of period	17	20	30	20	30	31	15	31	12	25	30	15	15	20	30	
Memo: Sponsored agency borrowing <sup>4</sup>	20	n.a.	14	n.a.	21	20	13	5	-2	6	5	4	5	6	6	
NIPA Federal Sector																
								Seasonally adjusted annual rates								
Receipts	769	823	811	905	873	785	822	804	804	805	831	850	864	880	896	
Expenditures	961	1016	1022	1044	1044	985	1024	1030	1013	1026	1018	1040	1039	1043	1052	
Purchases	343	359	368	373	376	355	364	385	357	363	366	371	375	378	381	
Defense	256	270	274	289	290	262	277	272	268	275	280	286	289	292	294	
Nondefense	87	89	94	83	86	94	87	113	89	88	86	86	86	86	87	
All other expenditures	618	657	654	671	668	629	660	645	656	663	652	669	664	665	671	
Surplus/deficit(-)	-192	-193	-211	-139	-171	-199	-202	-227	-209	-222	-187	-190	-175	-164	-156	
High employment surplus/deficit(-) evaluated at 6 percent unemployment	-153	n.a.	-168	n.a.	-135	-161	-159	-185	-168	-177	-142	-150	-137	-129	-124	
	*--actual					e--estimated										
														n.a.--not available		

\*--actual

e--estimated

n.a.--not available

1. Budget of the United States Government, Fiscal Year 1987 (February 1986). The Congressional Budget Office baseline estimates published in February indicated receipts of \$778 billion and \$844 billion, outlays of \$986 billion and \$1025 billion, and deficits of \$208 and \$181 billion in FY1986 and FY1987 respectively.
2. Includes outlays formerly classified as off-budget (e.g. Federal Financing Bank and Strategic Petroleum Reserve) and social security receipts and outlays classified as off-budget under current law.
3. Checks issued less checks paid, accrued items and other transactions.

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

4. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, FHLMC (excluding participation certificates), FNMA (excluding mortgage-backed securities), Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, and Student Loan Marketing Association marketable debt on a payment basis. The Administration's definition of borrowing by these agencies is somewhat broader.