

February 5, 1986

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

February 5, 1986

CONFIDENTIAL - FR
CLASS II FOMC

I-7

STAFF GNP PROJECTIONS

Percent changes, annual rate											
		Nominal GNP		Real GNP		GNP fixed-weighted price index*		GNP deflator		Unemployment rate	
		12/11/85	2/5/86	12/11/85	2/5/86	12/11/85	2/5/86	12/11/85	2/5/86	12/11/85	2/5/86
Annual changes:											
1984	<1>	10.8	11.0	6.8	6.6	4.0	4.2	3.8	4.0	7.5	7.5
1985	<1>	6.2	5.8	2.5	2.3	3.6	3.6	3.6	3.3	7.2	7.2
1986		5.9	6.2	2.4	2.7	3.6	3.7	3.5	3.4	7.2	6.7
1987		—	6.5	—	2.9	—	3.8	—	3.5	—	6.5
Quarterly changes:											
1985	Q1 <1>	5.6	6.9	.3	3.7	3.6	3.5	5.4	3.0	7.3	7.3
	Q2 <1>	4.5	4.5	1.9	1.1	3.7	3.6	2.6	3.3	7.3	7.3
	Q3 <1>	6.7	5.8	4.3	3.0	2.8	2.7	2.3	2.9	7.2	7.2
	Q4 <1>	6.3	5.9	2.6	2.4	3.4	4.5	3.7	3.3	7.1	7.0
1986	Q1	6.0	7.2	2.0	3.3	4.0	4.0	4.0	4.0	7.1	6.8
	Q2	5.2	5.8	1.8	2.3	3.6	3.4	3.4	3.4	7.2	6.7
	Q3	5.7	6.2	2.1	3.1	3.7	3.4	3.5	3.0	7.2	6.7
	Q4	6.8	6.5	2.6	3.3	3.7	3.5	4.1	3.1	7.3	6.6
1987	Q1	—	6.4	—	2.6	—	3.8	—	3.7	—	6.6
	Q2	—	6.8	—	3.1	—	4.0	—	3.6	—	6.5
	Q3	—	7.0	—	3.0	—	4.2	—	3.9	—	6.5
	Q4	—	7.0	—	2.6	—	4.5	—	4.3	—	6.5
Two-quarter changes: <2>											
1985	Q2 <1>	5.1	5.7	1.1	2.4	3.7	3.5	4.0	3.1	.1	.1
	Q4 <1>	6.5	5.9	3.4	2.7	3.1	3.6	3.0	3.1	-.2	-.3
1986	Q2	5.6	6.5	1.9	2.8	3.8	3.7	3.6	3.7	.1	-.3
	Q4	6.2	6.3	2.3	3.2	3.7	3.5	3.8	3.0	.1	-.1
1987	Q2	—	6.6	—	2.9	—	3.9	—	3.6	—	-.1
	Q4	—	7.0	—	2.8	—	4.3	—	4.1	—	.0
Four-quarter changes: <3>											
1984	Q4 <1>	9.5	9.0	5.7	4.7	4.0	4.2	3.6	4.1	-1.3	-1.3
1985	Q4 <1>	5.8	5.8	2.2	2.5	3.4	3.5	3.5	3.1	-.1	-.2
1986	Q4	5.9	6.4	2.1	3.0	3.7	3.6	3.7	3.4	.2	-.4
1987	Q4	—	6.8	—	2.8	—	4.1	—	3.9	—	—

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

* Previous projection is for gross domestic business product fixed-weighted price index.

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

	Units	1979	1980	1981	1982	1983	1984	1985	Projection	
									1986	1987
<u>Expenditures</u>										
Nominal GNP	Billions of \$	2508.2	2732.0	3052.6	3166.0	3401.6	3774.7	3992.5	4239.2	4516.8
Real GNP	Billions of 82\$	3192.4	3187.1	3248.8	3166.0	3275.2	3492.0	3573.5	3671.1	3778.7
Real GNP	Percent change*	.6	-.1	.6	-1.9	6.3	4.7	2.5	3.0	2.8
Gross domestic purchases		-.4	-1.1	.8	-.8	8.2	6.2	3.2	2.4	1.9
Final sales		2.2	-.2	.1	.3	3.6	4.3	3.6	2.4	2.9
Private dom. final purchases		1.3	-1.7	-.3	.8	7.6	5.3	3.6	3.0	2.4
Personal consumption expend.		1.4	-.1	.2	2.9	5.3	3.4	2.9	2.8	2.0
Durables		-3.8	-5.6	-3.3	9.0	14.5	9.2	5.1	5.2	2.8
Nondurables		.8	-1.4	.5	1.8	4.3	2.0	2.9	1.8	1.4
Services		3.5	2.4	.9	2.3	3.7	2.8	2.3	2.8	2.1
Business fixed investment		5.0	-4.8	5.6	-11.3	11.5	16.5	6.0	.8	3.3
Producers' durable equipment		1.6	-6.5	2.2	-12.5	20.3	17.2	5.0	3.4	4.9
Nonresidential structures		12.0	-1.8	11.7	-9.1	-2.1	15.2	7.9	-4.0	-.2
Residential structures		-7.2	-14.2	-22.4	4.9	38.5	3.5	6.4	12.1	5.2
Exports		13.7	.5	2.4	-13.8	6.9	5.1	-4.5	6.9	10.9
Imports		3.4	-8.8	4.9	-5.9	25.8	17.0	2.2	1.4	2.2
Government purchases		.1	1.0	2.9	3.8	-2.7	8.1	6.9	-2.9	.6
Federal		-.3	3.1	9.5	8.2	-7.5	14.7	11.8	-7.5	.0
Defense		3.3	3.1	7.6	8.8	5.2	7.6	6.5	.0	.5
State and local		.4	-.3	-1.3	.6	1.0	3.3	2.9	1.0	1.0
Change in business inventories	Billions of 82\$	15.0	-6.9	23.9	-24.5	-5.5	62.7	7.3	19.6	19.0
Nonfarm	Billions of 82\$	10.4	-2.3	19.0	-23.1	.4	55.9	10.1	21.0	19.0
Net exports	Billions of 82\$	3.6	57.0	49.4	26.3	-21.9	-85.0	-105.1	-118.8	-89.0
Nominal GNP	Percent change*	9.5	9.9	9.3	3.1	10.0	9.0	5.8	6.4	6.8
<u>Employment and Production</u>										
Nonfarm payroll employment	Millions	89.8	90.4	91.2	89.6	90.2	94.5	97.7	100.4	102.5
Unemployment rate	Percent	5.8	7.1	7.6	9.7	9.6	7.5	7.2	6.7	6.5
Industrial production index	Percent change*	.9	-.8	-1.0	-7.7	14.3	7.2	1.6	3.4	3.2
Capacity utilization rate-mfg.	Percent	84.6	79.3	78.3	70.3	74.0	80.8	80.3	80.4	80.8
Housing Starts	Millions	1.72	1.30	1.10	1.06	1.70	1.77	1.74	1.82	1.96
Auto sales	Millions	10.68	9.04	8.56	8.00	9.18	10.43	11.09	10.73	10.70
Domestic	Millions	8.36	6.62	6.24	5.77	6.77	7.97	8.24	7.68	7.60
Foreign	Millions	2.32	2.42	2.32	2.23	2.41	2.46	2.84	3.05	3.10
<u>Income and saving</u>										
Nominal personal income	Percent change*	11.4	12.0	9.2	5.3	7.5	8.6	5.4	6.5	6.7
Real disposable income	Percent change*	.5	1.1	.7	1.0	5.1	3.9	1.3	3.0	1.9
Personal saving rate	Percent	6.8	7.1	7.5	6.8	5.5	6.5	4.6	4.2	4.3
Corp. profits with IVA & CCAdj	Percent change*	-10.7	-6.8	2.3	-19.1	69.5	11.6	14.8	2.8	2.3
Profit share of GNP	Percent	8.0	6.5	6.2	4.7	6.3	7.2	7.5	7.6	7.2
Federal govt. surplus/deficit	Billions of \$	-16.1	-61.4	-63.9	-145.9	-179.4	-172.9	-196.9	-183.7	-156.7
State and local govt. surplus		27.6	26.8	34.1	35.1	48.6	64.4	58.3	58.4	63.1
<u>Prices and costs</u>										
GNP implicit deflator	Percent change*	8.9	9.9	8.7	5.2	3.5	4.1	3.1	3.4	3.9
GNP fixed-weight price index		8.8	9.8	8.5	5.0	3.8	4.2	3.5	3.6	4.1
Cons. & fixed invest. prices		9.5	10.1	8.2	4.4	3.1	3.9	3.1	3.3	4.2
CPI		12.8	12.5	9.6	4.4	3.2	4.1	3.5	3.1	4.3
Exc. food and energy		10.7	12.2	10.2	5.2	4.2	4.8	4.3	4.7	5.1
Nonfarm business sector										
Output per hour		-2.7	1.0	-.6	1.0	3.4	.8	-.1	1.0	.9
Compensation per hour		9.7	10.9	8.3	7.2	3.6	3.8	3.7	4.3	4.9
Unit labor costs		12.7	9.7	8.9	6.2	.2	2.9	3.8	3.2	4.0

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

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

	Units	Projection									
		1985		1986				1987			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Expenditures											
Nominal GNP	Billions of \$	4016.9	4075.1	4146.5	4205.2	4268.7	4336.4	4404.4	4477.8	4553.9	4631.2
Real GNP	Billions of 82\$	3584.1	3605.0	3634.1	3654.6	3682.9	3712.7	3737.0	3765.9	3793.8	3817.8
Real GNP	Percent change	3.0	2.4	3.3	2.3	3.1	3.3	2.6	3.1	3.0	2.6
Gross domestic purchases		5.0	3.1	2.5	2.6	2.3	2.3	1.8	1.9	2.0	2.0
Final sales		5.0	2.1	1.8	1.3	3.3	3.4	2.8	3.3	3.0	2.7
Private dom. final purchases		4.5	1.9	3.0	3.6	3.0	2.6	2.3	2.3	2.3	2.5
Personal consumption expend.		4.6	-.2	3.7	3.2	2.3	2.0	1.8	1.9	1.9	2.3
Durables		24.3	-15.7	10.4	1.9	5.5	3.4	3.0	3.0	2.6	2.8
Nondurables		1.5	1.5	2.2	2.8	1.2	1.1	1.3	1.2	1.4	1.8
Services		1.4	3.9	3.0	4.0	2.2	2.2	1.7	2.1	2.1	2.4
Business fixed investment		2.4	10.3	-1.5	1.3	1.6	2.0	3.4	3.2	3.2	3.2
Producers' durable equipment		3.0	12.4	.6	4.0	4.5	4.5	4.9	4.9	4.9	4.9
Nonresidential structures		1.2	6.4	-5.6	-3.7	-3.8	-2.9	.4	-.4	-.3	-.3
Residential structures		8.5	8.6	5.6	14.3	15.6	13.3	6.7	6.0	4.8	3.5
Exports		-5.1	8.0	4.9	3.9	8.0	10.9	11.6	11.9	11.8	8.2
Imports		12.8	13.0	-1.1	5.9	.1	1.0	2.9	.4	2.3	3.2
Government purchases		18.2	7.0	-6.3	-6.2	.0	1.0	.2	.6	.7	.7
Federal		37.3	16.1	-14.5	-14.5	-1.2	1.1	-.7	.3	.3	.0
Defense		22.0	-1.1	2.2	-3.1	-1.6	2.7	.2	.8	1.0	.0
State and local		4.7	-.1	1.2	1.2	.9	.8	.9	.9	1.1	1.3
Change in business inventories	Billions of 82\$	-1.8	.1	13.5	22.5	21.5	21.0	20.0	19.0	19.0	18.0
Nonfarm	Billions of 82\$	1.6	16.5	18.0	23.0	22.0	21.0	20.0	19.0	19.0	18.0
Net exports	Billions of 82\$	-119.8	-127.6	-121.8	-125.3	-118.3	-109.8	-102.6	-91.8	-83.1	-78.7
Nominal GNP	Percent change	5.8	5.9	7.2	5.8	6.2	6.5	6.4	6.8	7.0	7.0
Employment and Production											
Nonfarm payroll employment	Millions	98.0	98.8	99.6	100.1	100.7	101.2	101.7	102.3	102.8	103.2
Unemployment rate	Percent*	7.2	7.0	6.8	6.7	6.7	6.6	6.6	6.5	6.5	6.5
Industrial production index	Percent change	2.0	1.3	4.7	2.2	3.1	3.5	3.2	3.6	3.4	2.7
Capacity utilization rate-mfg.	Percent*	80.3	79.9	80.3	80.3	80.4	80.6	80.7	80.8	80.9	80.8
Housing Starts	Millions	1.67	1.73	1.75	1.80	1.85	1.90	1.92	1.94	1.97	2.00
Auto sales	Millions	12.31	10.24	10.90	10.60	10.70	10.70	10.70	10.70	10.70	10.70
Domestic	Millions	9.40	6.84	7.90	7.60	7.60	7.60	7.60	7.60	7.60	7.60
Foreign	Millions	2.90	3.40	3.00	3.00	3.10	3.10	3.10	3.10	3.10	3.10
Income and saving											
Nominal personal income	Percent change	2.3	7.4	7.0	6.0	6.4	6.6	7.2	6.4	6.6	6.8
Real disposable income	Percent change	-4.5	2.4	4.5	2.8	2.7	2.0	3.5	1.2	1.3	1.5
Personal saving rate	Percent*	3.7	4.1	4.3	4.2	4.2	4.2	4.6	4.4	4.2	4.0
Corp. profits with IVA & CCAdj	Percent change	32.5	11.0	3.7	-.9	-2.2	10.9	-6.7	1.9	6.1	8.3
Profit share of GNP	Percent*	7.7	7.8	7.7	7.6	7.4	7.5	7.3	7.2	7.2	7.2
Federal govt. surplus/deficit	Billions of \$	-201.3	-214.4	-206.8	-185.2	-172.3	-170.6	-172.5	-160.6	-149.6	-144.3
State and local govt. surplus		56.9	55.8	59.7	60.1	56.7	57.1	58.6	61.8	64.5	67.6
Prices and costs											
GNP implicit deflator	Percent change	2.9	3.3	4.0	3.4	3.0	3.1	3.7	3.6	3.9	4.3
GNP fixed-weight price index		2.7	4.5	4.0	3.4	3.4	3.5	3.8	4.0	4.2	4.5
Cons. & fixed invest. prices		2.4	4.2	3.7	2.6	3.3	3.6	4.1	4.2	4.4	4.4
CPI		2.4	4.1	3.7	1.9	3.1	3.6	4.1	4.2	4.3	4.4
Exc. food and energy		3.6	4.8	4.9	4.7	4.6	4.7	5.0	5.0	5.2	5.3
Nonfarm business sector											
Output per hour		.3	-1.8	1.0	.4	1.3	1.3	.7	1.1	.9	.8
Compensation per hour		2.8	3.5	4.5	4.0	4.2	4.4	4.8	4.7	4.9	5.1
Unit labor costs		2.5	5.4	3.5	3.6	2.9	3.1	4.1	3.6	4.0	4.3

* Not at an annual rate.

February 5, 1986

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1985*	FY1986 ^e		FY1987 ^e		CY1986 ^e		FRB staff estimates Calendar quarters; not seasonally adjusted							
		Admin.	FRB	Admin.	FRB	CY	FRB	1985				1986			
		1/	Staff	1/	Staff	1985*	Staff	IV*				I			
Budget receipts ²	734	777	777	850	834	745	784	177	180	227	193	184	194	249	207
Budget outlays ²	946	980	978	994	1001	961	977	252	245	243	238	250	253	253	245
Surplus/deficit(-) to be financed ²	-212	-203	-201	-144	-167	-216	-193	-75	-65	-15	-46	-67	-59	-3	-38
Means of financing deficit:															
Net borrowing from public	197	204	200	142	162	224	173	91	37	30	43	63	55	12	32
Decrease in cash operating balance	13	-3	-3	0	0	-13	16	-14	22	-11	1	5	0	-5	0
Other ³	1	2	4	2	5	5	4	-2	6	-3	3	-1	4	-3	6
Cash operating balance, end of period	17	20	20	20	20	31	15	31	9	21	20	15	15	20	20
Memo: Sponsored agency borrowing ⁴	20	n.a.	18	n.a.	23	20	17	6	3	4	5	5	6	6	6
NIPA Federal Sector															
								Seasonally adjusted annual rates							
Receipts	769	823	824	905	881	786	838	809	816	829	843	862	871	887	905
Expenditures	961	1016	1019	1044	1045	983	1021	1023	1023	1014	1016	1032	1044	1048	1054
Purchases	343	359	369	373	375	354	366	379	371	362	364	369	374	377	380
Defense	256	270	276	289	290	262	279	273	277	277	278	285	288	291	294
Nondefense	87	89	93	83	85	92	87	106	94	85	85	85	85	86	86
All other expenditures	618	657	650	671	670	629	655	645	652	653	652	663	670	671	675
Surplus/deficit(-)	-192	-193	-195	-139	-164	-197	-184	-214	-207	-185	-172	-171	-173	-161	-150
High employment surplus/deficit(-) evaluated at 6 percent unemployment	-155	n.a.	-163	n.a.	-139	-161	-154	-180	-175	-153	-143	-144	-147	-138	-129
	*--actual				e--estimated				n.a.--not available						

1. Budget of the United States Government, Fiscal Year 1987 (February 1986).

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.

FEBRUARY 4, 1986

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

	1985	ANNUAL 1986-P	1987-P	1985		1986				1987			
				Q3	Q4	Q1-P	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. <u>GNP EXPORTS AND IMPORTS</u> 1/													
CURRENT \$, NET	-74.4	-89.5	-73.9	-87.8	-97.2	-92.3	-91.8	-88.0	-85.8	-82.9	-76.2	-69.8	-66.4
EXPORTS OF G+S	370.4	391.9	448.7	363.2	369.7	377.8	385.4	395.7	408.7	424.3	440.6	457.9	472.1
IMPORTS OF G+S	444.8	481.4	522.6	451.0	466.9	470.1	477.2	483.7	494.6	507.2	516.8	527.8	538.5
CONSTANT 82 \$, NET	-105.1	-118.9	-89.1	-119.8	-127.6	-121.9	-125.4	-118.4	-109.8	-102.6	-91.8	-83.1	-78.7
EXPORTS OF G+S	360.2	373.5	412.3	353.5	360.4	364.8	368.4	375.5	385.3	396.0	407.3	418.8	427.1
IMPORTS OF G+S	465.3	492.4	501.4	473.3	488.0	486.7	493.7	493.9	495.1	498.6	499.1	501.9	505.9
2. <u>U.S. MERCHANDISE TRADE BALANCE</u> 2/	-121.6 ^P	-139.5	-125.7	-132.6	-145.8 ^P	-142.4	-141.4	-137.6	-136.4	-133.0	-127.2	-122.6	-120.0
EXPORTS	214.8 ^P	228.5	272.6	209.2	214.2 ^P	217.2	223.3	231.6	241.7	254.3	267.2	279.2	289.9
AGRICULTURAL	29.1 ^P	27.5	28.5	26.1	29.1 ^P	28.3	27.4	27.2	27.0	27.7	28.2	28.8	29.4
NONAGRICULTURAL	185.7 ^P	201.0	244.1	183.2	185.1 ^P	189.0	195.8	204.5	214.7	226.6	238.9	250.4	260.5
IMPORTS	336.4 ^P	367.9	398.3	341.8	360.0 ^P	359.6	364.7	369.3	378.0	387.3	394.4	401.8	409.9
PETROLEUM AND PRODUCTS	49.6 ^P	41.5	40.3	50.2	54.1 ^P	45.8	42.1	38.9	39.0	39.8	39.7	40.1	41.7
NONPETROLEUM	286.8 ^P	326.4	358.0	291.6	305.9 ^P	313.8	322.5	330.4	339.0	347.5	354.7	361.7	368.2
3. <u>U.S. CURRENT ACCOUNT BALANCE</u>	-118.7 ^P	-137.9	-124.3	-121.8	-145.3 ^P	-140.1	-139.6	-135.8	-136.1	-133.2	-126.6	-120.3	-117.1
OF WHICH: NET INVESTMENT INCOME	20.4 ^P	16.3	14.1	30.2	19.7 ^P	18.4	17.3	15.0	14.3	13.3	13.5	14.7	14.9
4. <u>FOREIGN OUTLOOK</u> 3/													
REAL GNP--TEN INDUSTRIAL 4/	2.7 ^P	3.3	3.0	3.6	3.2 ^P	3.4	3.0	3.0	3.0	3.0	2.9	3.1	3.1
REAL GNP--NONOPEC LDC 5/	3.7 ^P	3.7	4.2	3.4	3.6 ^P	3.8	3.9	3.9	3.9	4.0	4.3	4.6	5.0
CONSUMER PRICES--TEN IND. 4/	4.3 ^P	3.1	3.1	1.4	3.2 ^P	3.1	3.7	2.9	3.0	3.0	3.5	3.0	3.1

1/ ECONOMIC ACTIVITY AND PRODUCT ACCOUNT DATA.

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ PERCENT CHANGE, ANNUAL RATES.

4/ WEIGHTED BY MULTILATERAL TRADE-WEIGHTS OF G-10 COUNTRIES PLUS SWITZERLAND; PRICES ARE NOT SEASONALLY ADJUSTED.

5/ WEIGHTED BY SHARE IN NONOPEC LDC GNP.

P/ PROJECTED

February 5, 1986

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

ADMINISTRATION CURRENT SERVICES BUDGET
(Fiscal years)

	1986	1987	1988	1989	1990	1991
	----- Billions of dollars -----					
Revenues	777	844	927	989	1,053	1,120
Outlays	982	1,026	1,077	1,128	1,179	1,224
Deficit	206	182	150	139	126	104
Memo:						
Deficit reduction proposals	3	38	56	71	91	105
Deficit with proposals	203	144	94	68	36	-1

Source: Budget of the United States Government, Fiscal Year 1987.