

March 26, 1986

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

March 26, 1986

I-7

STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate	
		2/5/86	3/26/86	2/5/86	3/26/86	2/5/86	3/26/86	2/5/86	3/26/86	2/5/86	3/26/86
Annual changes:											
1984	<1>	11.0	11.0	6.6	6.6	4.2	4.2	4.0	4.0	7.5	7.5
1985	<1>	5.8	5.7	2.3	2.2	3.6	3.6	3.3	3.3	7.2	7.2
1986		6.2	5.6	2.7	2.5	3.7	3.3	3.4	3.0	6.7	6.9
1987		6.5	7.0	2.9	3.6	3.8	3.7	3.5	3.4	6.5	6.4
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>	5.9	4.3	2.4	.7	4.5	3.9	3.3	3.3	7.0	7.0
	Q1	7.2	6.1	3.3	2.9	4.0	3.3	4.0	3.3	6.8	7.0
	Q2	5.8	5.2	2.3	2.3	3.4	2.9	3.4	2.9	6.7	7.0
	Q3	6.2	6.9	3.1	4.4	3.4	2.9	3.0	2.4	6.7	6.8
	Q4	6.5	7.3	3.3	4.2	3.5	3.4	3.1	2.9	6.6	6.7
1987	Q1	6.4	7.2	2.6	3.5	3.8	3.9	3.7	3.6	6.6	6.5
	Q2	6.8	7.1	3.1	3.4	4.0	3.8	3.6	3.6	6.5	6.4
	Q3	7.0	7.2	3.0	3.2	4.2	4.1	3.9	3.9	6.5	6.3
	Q4	7.0	7.3	2.6	2.9	4.5	4.4	4.3	4.3	6.5	6.3
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>	5.9	5.0	2.7	1.9	3.6	3.4	3.1	3.1	-.3	-.3
1986	Q2	6.5	5.7	2.8	2.6	3.7	3.1	3.7	3.1	-.3	.0
	Q4	6.3	7.1	3.2	4.3	3.5	3.2	3.0	2.7	-.1	-.3
1987	Q2	6.6	7.2	2.9	3.5	3.9	3.9	3.6	3.6	-.1	-.3
	Q4	7.0	7.2	2.8	3.0	4.3	4.3	4.1	4.1	.0	-.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>	5.8	5.4	2.5	2.1	3.5	3.5	3.1	3.1	-.2	-.2
1986	Q4	6.4	6.4	3.0	3.4	3.6	3.1	3.4	2.9	-.4	-.3
1987	Q4	6.8	7.2	2.8	3.2	4.1	4.1	3.9	3.8	-.1	-.4

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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	Units	Projection									
		1985		1986				1987			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Expenditures											
Nominal GNP	Billions of \$	4016.9	4059.3	4120.2	4173.0	4242.9	4317.9	4393.5	4469.8	4548.3	4629.0
Real GNP	Billions of 82\$	3584.1	3590.8	3616.5	3636.8	3675.9	3714.2	3746.3	3777.7	3807.3	3834.2
Real GNP	Percent change	3.0	.7	2.9	2.3	4.4	4.2	3.5	3.4	3.2	2.9
Gross domestic purchases		5.0	3.0	1.4	2.5	3.3	3.2	2.7	2.2	2.0	2.1
Final sales		5.0	1.3	.1	2.2	4.2	4.3	3.0	3.4	3.2	3.0
Private dom. final purchases		4.5	2.2	.8	4.4	4.2	3.8	2.7	2.4	2.2	2.3
Personal consumption expend.		4.6	.1	2.5	3.3	3.4	3.3	2.5	2.2	2.0	2.0
Durables		24.3	-13.3	4.1	4.2	5.2	5.3	2.7	3.6	2.9	2.7
Nondurables		1.5	.6	1.0	3.8	3.2	2.9	2.6	2.0	2.0	1.9
Services		1.4	4.4	3.2	2.6	3.1	2.9	2.3	1.9	1.8	1.8
Business fixed investment		2.4	11.3	-11.9	4.7	3.1	4.1	4.2	4.2	3.9	3.9
Producers' durable equipment		3.0	13.5	-13.0	13.5	6.0	6.0	6.0	6.0	5.5	5.5
Nonresidential structures		1.2	7.2	-9.7	-10.4	-2.3	.5	.6	.7	.5	.5
Residential structures		8.5	5.7	14.7	18.6	16.4	8.9	2.0	.4	1.0	2.6
Exports		-5.1	6.6	5.2	5.9	12.2	13.5	11.7	13.0	14.2	13.1
Imports		12.8	24.5	-6.2	6.6	1.9	3.3	3.7	1.4	2.9	5.0
Government purchases		18.2	9.2	-9.0	-5.2	-1.3	1.0	.3	.9	1.1	1.5
Federal		37.3	23.4	-19.2	-12.2	-3.8	1.2	-.6	.4	-.2	-.1
Defense		22.0	-3.2	4.4	-3.1	-1.6	2.7	.2	.8	1.0	.0
State and local		4.7	-1.6	.8	.9	.8	.9	1.1	1.3	2.1	2.8
Change in business inventories	Billions of 82\$	-1.8	-6.3	18.5	19.0	21.0	21.0	25.5	26.0	26.0	25.0
Nonfarm	Billions of 82\$	1.6	18.2	23.0	19.5	21.5	21.0	25.5	26.0	26.0	25.0
Net exports	Billions of 82\$	-119.8	-140.8	-128.3	-130.9	-122.6	-114.4	-108.1	-97.3	-86.9	-79.8
Real GNP	Percent change	5.8	4.3	6.1	5.2	6.9	7.3	7.2	7.1	7.2	7.3
Employment and Production											
Nonfarm payroll employment	Millions	98.0	98.8	99.7	100.2	100.7	101.3	102.0	102.6	103.1	103.6
Unemployment rate	Percent*	7.2	7.0	7.0	7.0	6.8	6.7	6.5	6.4	6.3	6.3
Industrial production index	Percent change	2.0	1.8	1.8	1.5	4.8	4.6	3.8	3.9	3.4	3.3
Capacity utilization rate-mfg.	Percent*	80.3	80.1	79.9	79.7	80.2	80.6	80.8	81.0	81.1	81.2
Housing Starts	Millions	1.69	1.77	1.95	1.95	1.90	1.95	1.95	1.95	1.95	1.90
Auto sales	Millions	12.31	10.24	10.80	10.66	10.70	10.80	10.80	10.85	10.85	10.85
Domestic	Millions	9.40	6.84	8.00	7.66	7.70	7.70	7.80	7.80	7.80	7.80
Foreign	Millions	2.90	3.40	2.80	3.00	3.00	3.10	3.00	3.05	3.05	3.05
Income and saving											
Nominal personal income	Percent change	2.3	6.9	6.6	5.5	6.1	6.6	6.2	6.5	6.9	7.1
Real disposable income	Percent change	-4.5	2.3	5.7	3.6	2.9	2.4	2.5	1.2	1.6	1.8
Personal saving rate	Percent*	3.7	4.0	4.7	4.8	4.6	4.4	4.4	4.2	4.0	4.0
Corp. profits with IVA & CCAdj	Percent change	32.5	.0	-10.3	14.2	9.4	16.3	3.4	2.8	4.1	9.6
Profit share of GNP	Percent*	7.7	7.6	7.3	7.5	7.5	7.7	7.6	7.5	7.4	7.5
Federal govt. surplus/deficit	Billions of \$	-201.3	-224.2	-215.4	-195.0	-176.0	-172.4	-162.5	-149.5	-138.0	-132.1
State and local govt. surplus		56.9	59.4	66.1	58.6	56.5	57.1	59.0	62.4	64.4	65.7
Prices and costs											
GNP implicit deflator	Percent change	2.9	3.3	3.3	2.9	2.4	2.9	3.6	3.6	3.9	4.3
GNP fixed-weight price index		2.7	3.9	3.3	2.9	2.9	3.4	3.9	3.8	4.1	4.4
Cons. & fixed invest. prices		2.4	4.4	2.4	1.6	3.0	3.7	4.1	4.1	4.4	4.4
CPI		2.6	4.3	1.8	-.2	2.6	3.7	4.1	4.1	4.4	4.4
Exc. food and energy		3.5	4.9	4.4	4.6	4.6	4.7	4.9	4.9	5.2	5.3
Nonfarm business sector											
Output per hour		.4	-3.1	-.1	1.1	2.0	1.8	1.1	1.0	.9	.9
Compensation per hour		2.8	3.3	4.1	3.8	3.8	3.9	4.3	4.3	4.5	4.7
Unit labor costs		2.4	6.6	4.2	2.7	1.8	2.1	3.2	3.3	3.6	3.8

Not at an annual rate.

	Units	1979	1980	1981	1982	1983	1984	1985	Projection	
									1986	1987
Expenditures										
Nominal GNP	Billions of \$	2508.2	2732.0	3052.6	3166.0	3401.6	3774.7	3988.5	4213.5	4510.2
Real GNP	Billions of 82\$	3192.4	3187.1	3248.8	3166.0	3275.2	3492.0	3570.0	3660.8	3791.4
Real GNP	Percent change*	.6	-.1	.6	-1.9	6.3	4.7	2.1	3.4	3.2
Gross domestic purchases		-.4	-1.1	.8	-.8	8.2	6.2	3.2	2.6	2.2
Final sales		2.2	-.2	.1	.3	3.6	4.3	3.4	2.7	3.1
Private dom. final purchases		1.3	-1.7	-.3	.8	7.6	5.3	3.7	3.2	2.4
Personal consumption expend.		1.4	-.1	.2	2.9	5.3	3.4	3.0	3.1	2.2
Durables		-3.8	-5.6	-3.3	9.0	14.5	9.2	5.8	4.7	3.0
Nondurables		.8	-1.4	.5	1.8	4.3	2.0	2.7	2.7	2.1
Services		3.5	2.4	.9	2.3	3.7	2.8	2.4	2.9	1.9
Business fixed investment		5.0	-4.8	5.6	-11.3	11.5	16.5	6.3	-.2	4.0
Producers' durable equipment		1.6	-6.5	2.2	-12.5	20.3	17.2	5.3	2.6	5.7
Nonresidential structures		12.0	-1.8	11.7	-9.1	-2.1	15.2	8.1	-5.6	.6
Residential structures		-7.2	-14.2	-22.4	4.9	38.5	3.5	5.7	14.6	1.5
Exports		13.7	.5	2.4	-13.8	6.9	5.1	-4.8	9.1	13.0
Imports		3.4	-8.8	4.9	-5.9	25.8	17.0	4.7	1.3	3.2
Government purchases		.1	1.0	2.9	3.8	-2.7	8.1	7.4	-3.7	1.0
Federal		-.3	3.1	9.5	8.2	-7.5	14.7	13.6	-8.8	-.1
Defense		3.3	3.1	7.6	8.8	5.2	7.6	5.9	.5	.5
State and local		.4	-.3	-1.3	.6	1.0	3.3	2.6	.9	1.8
Change in business inventories	Billions of 82\$	15.0	-6.9	23.9	-24.5	-5.5	62.7	5.7	19.9	25.6
Nonfarm	Billions of 82\$	10.4	-2.3	19.0	-23.1	.4	55.9	10.6	21.3	25.6
t exports	Billions of 82\$	3.6	57.0	49.4	26.3	-21.9	-85.0	-108.4	-124.1	-93.0
nal GNP	Percent change*	9.5	9.9	9.3	3.1	10.0	9.0	5.4	6.4	7.2
Employment and Production										
Nonfarm payroll employment	Millions	89.8	90.4	91.2	89.6	90.2	94.5	97.7	100.5	102.8
Unemployment rate	Percent	5.8	7.1	7.6	9.7	9.6	7.5	7.2	6.9	6.4
Industrial production index	Percent change*	.9	-.8	-1.0	-7.7	14.3	7.2	1.8	3.2	3.6
Capacity utilization rate-mfg.	Percent	84.6	79.2	78.3	70.3	74.0	80.8	80.3	80.1	81.0
Housing Starts	Millions	1.72	1.30	1.10	1.06	1.71	1.76	1.74	1.94	1.94
Auto sales	Millions	10.68	9.04	8.56	8.00	9.18	10.43	11.09	10.74	10.84
Domestic	Millions	8.36	6.62	6.24	5.77	6.77	7.97	8.24	7.77	7.80
Foreign	Millions	2.32	2.42	2.32	2.23	2.41	2.46	2.84	2.98	3.04
Income and saving										
Nominal personal income	Percent change*	11.4	12.0	9.2	5.3	7.5	8.6	5.3	6.2	6.7
Real disposable income	Percent change*	.5	1.1	.7	1.0	5.1	3.9	1.3	3.7	1.8
Personal saving rate	Percent	6.8	7.1	7.5	6.8	5.5	6.5	4.6	4.7	4.1
Corp. profits with IVA & CCAdj	Percent change*	-10.7	-6.8	2.3	-19.1	69.5	11.6	11.9	6.9	5.0
Profit share of GNP	Percent	8.0	6.5	6.2	4.7	6.3	7.2	7.4	7.5	7.5
Federal govt. surplus/deficit	Billions of \$	-16.1	-61.3	-63.8	-145.9	-179.4	-172.9	-199.3	-189.7	-145.5
State and local govt. surplus		27.6	26.8	34.1	35.1	48.6	64.4	59.2	59.6	62.9
Prices and costs										
GNP implicit deflator	Percent change*	8.9	9.9	8.7	5.2	3.5	4.1	3.1	2.9	3.8
GNP fixed-weight price index		8.8	9.8	8.5	5.0	3.8	4.2	3.5	3.1	4.1
Cons. & fixed invest. prices		9.5	10.1	8.2	4.4	3.1	3.9	3.2	2.7	4.3
CPI		12.8	12.5	9.4	4.5	3.3	3.9	3.6	2.0	4.3
Exc. food and energy		10.7	12.2	10.2	5.2	4.3	4.8	4.3	4.6	5.1
Nonfarm business sector										
Output per hour		-2.7	1.0	-.6	1.0	3.3	.8	-.4	1.2	1.0
Compensation per hour		9.7	10.9	8.3	7.2	3.6	3.8	3.7	3.9	4.4
Unit labor costs		12.7	9.7	9.0	6.2	.3	3.0	4.1	2.7	3.4

* Percent changes are from fourth quarter to fourth quarter.