

December 10, 1986

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

December 10, 1986

CONFIDENTIAL - FR
CLASS II FOMC

STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
		10/29/86	12/10/86	10/29/86	12/10/86	10/29/86	12/10/86	10/29/86	12/10/86	10/29/86	12/10/86
Annual changes:											
1984	<1>	10.5	10.5	6.4	6.4	4.0	4.0	3.8	3.8	7.5	7.5
1985	<1>	6.2	6.2	2.7	2.7	3.7	3.7	3.3	3.3	7.2	7.2
1986		5.3	5.4	2.6	2.6	2.6	2.6	2.6	2.6	7.0	7.0
1987		5.2	5.1	2.6	2.6	2.8	2.7	2.5	2.4	6.8	6.8
Quarterly changes:											
1985	Q1 <1>	6.8	6.8	3.1	3.1	4.2	4.2	3.7	3.7	7.3	7.3
	Q2 <1>	5.8	5.8	2.3	2.3	3.6	3.6	3.3	3.3	7.3	7.3
	Q3 <1>	6.8	6.8	4.1	4.1	2.8	2.8	2.5	2.5	7.2	7.2
	Q4 <1>	5.8	5.8	2.1	2.1	4.0	4.0	3.6	3.6	7.0	7.0
1986	Q1 <1>	6.2	6.2	3.8	3.8	2.5	2.5	2.5	2.5	7.1	7.1
	Q2 <1>	2.6	2.6	.6	.6	1.7	1.7	1.8	1.8	7.2	7.2
	Q3 <1>	5.7	6.4	2.4	2.9	2.5	2.4	3.6	3.6	6.9	6.9
	Q4	3.9	3.9	3.0	3.1	2.0	2.1	.7	.8	7.0	7.0
1987	Q1	5.6	5.2	2.7	2.4	3.3	3.0	2.9	2.8	6.9	6.9
	Q2	5.8	5.5	2.7	2.7	3.3	3.0	3.0	2.7	6.9	6.9
	Q3	5.6	5.6	3.0	2.9	2.9	2.8	2.6	2.6	6.8	6.8
	Q4	5.9	5.7	3.0	3.0	3.0	2.8	2.8	2.6	6.7	6.7
Two-quarter changes: <2>											
1985	Q2 <1>	6.3	6.3	2.7	2.7	3.9	3.9	3.5	3.5	.1	.1
	Q4 <1>	6.3	6.3	3.1	3.1	3.2	3.2	3.1	3.1	-.3	-.3
1986	Q2 <1>	4.3	4.3	2.2	2.2	2.1	2.1	2.1	2.1	.2	.2
	Q4	4.8	5.2	2.7	3.0	2.2	2.3	2.1	2.2	-.2	-.2
1987	Q2	5.7	5.4	2.7	2.5	3.3	3.0	2.9	2.8	-.1	-.1
	Q4	5.8	5.7	3.0	3.0	2.9	2.8	2.7	2.6	-.2	-.2
Four-quarter changes: <3>											
1984	Q4 <1>	8.5	8.5	4.6	4.6	3.9	3.9	3.6	3.6	-1.3	-1.3
1985	Q4 <1>	6.3	6.3	2.9	2.9	3.6	3.6	3.3	3.3	-.2	-.2
1986	Q4	4.6	4.8	2.4	2.6	2.2	2.2	2.1	2.2	.0	.0
1987	Q4	5.7	5.5	2.9	2.8	3.1	2.9	2.8	2.7	-.3	-.3

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

December 10, 1986

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
EXPENDITURES											
Nominal GNP	Billions of \$	4030.5	4087.7	4149.2	4175.6	4241.1	4282.3	4337.3	4395.6	4456.1	4518.1
Real GNP	Billions of 82\$	3603.8	3622.3	3655.9	3661.4	3687.3	3715.9	3737.7	3762.7	3790.0	3818.2
Real GNP	Percent change	4.1	2.1	3.8	.6	2.9	3.1	2.4	2.7	2.9	3.0
Gross domestic product		4.4	1.9	3.7	1.4	2.9	3.4	2.5	2.7	2.9	3.0
Gross domestic purchases		4.6	4.0	3.0	3.6	3.8	.1	1.6	2.0	2.0	2.1
Final sales		6.1	2.7	-1.3	3.4	5.2	.4	2.1	2.7	3.1	3.0
Private dom. final purchases		4.8	3.4	.9	5.6	5.7	-3.5	1.6	2.4	2.4	2.4
Personal consumption expend.		5.3	1.7	3.6	6.2	6.5	-4.0	3.0	2.6	2.2	2.1
Durables		23.8	-11.1	-1.8	14.3	39.7	-26.5	2.2	2.4	2.9	2.0
Nondurables		1.2	1.6	6.5	8.0	-1.1	.1	3.1	2.6	1.9	2.2
Services		3.2	6.0	3.2	2.6	3.4	1.3	3.1	2.6	2.3	2.0
Business fixed investment		.1	12.5	-15.1	-.9	-.1	-2.0	-4.0	4.2	2.7	2.7
Producers' durable equipment		2.6	18.7	-17.0	19.6	3.4	-5.8	-3.6	7.0	4.7	4.7
Nonresidential structures		-4.6	.3	-10.8	-35.2	-8.2	8.1	-5.0	-2.4	-2.3	-2.2
Residential structures		11.7	3.4	11.0	14.5	9.7	-1.3	-2.8	-4.1	3.8	6.0
Exports		-5.8	8.2	7.1	-9.8	9.3	13.4	8.8	7.7	12.3	12.8
Imports		.3	23.3	.2	15.8	14.7	-11.1	1.3	1.3	2.6	3.4
Government purchases		13.9	10.0	-12.3	9.7	7.6	2.0	.6	.5	.9	.7
Federal		26.0	22.7	-27.5	11.0	8.1	1.9	-1.3	-1.7	-.9	-1.8
Defense		15.8	-4.7	-1.0	19.0	16.1	-1.2	.2	-.6	-.8	-1.4
State and local		5.1	.3	2.6	8.7	7.3	2.0	2.1	2.3	2.4	2.6
Change in business inventories	Billions of 82\$.7	-5.2	39.9	15.1	-5.7	19.5	21.8	22.3	21.0	21.4
Nonfarm	Billions of 82\$	1.4	16.1	37.0	11.0	-9.0	21.2	22.0	23.3	21.4	21.5
Net exports	Billions of 82\$	-113.8	-132.0	-125.9	-153.9	-163.6	-136.4	-130.0	-124.5	-116.2	-108.2
Nominal GNP	Percent change	6.8	5.8	6.2	2.6	6.4	3.9	5.2	5.5	5.6	5.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	97.9	98.7	99.4	99.8	100.3	101.1	101.5	102.0	102.5	103.0
Unemployment rate	Percent*	7.2	7.0	7.1	7.2	6.9	7.0	6.9	6.9	6.8	6.7
Industrial production index	Percent change	1.8	2.0	1.2	-2.1	2.3	2.1	2.0	2.8	3.3	3.3
Capacity utilization rate-mfg.	Percent*	80.1	79.9	80.0	79.5	79.7	79.7	79.6	79.7	79.9	80.1
Housing Starts	Millions	1.69	1.77	2.00	1.91	1.74	1.64	1.65	1.66	1.70	1.72
Auto sales	Millions	12.31	10.24	10.65	11.22	12.91	10.71	10.46	10.70	10.95	10.95
Domestic	Millions	9.40	6.84	7.84	8.18	9.43	7.26	7.37	7.50	7.70	7.70
Foreign	Millions	2.90	3.40	2.81	3.05	3.47	3.44	3.08	3.20	3.25	3.25
INCOME AND SAVING											
Nominal personal income	Percent change	3.0	7.4	6.0	6.0	2.1	7.0	4.8	5.2	5.3	5.7
Real disposable income	Percent change	-4.0	2.6	6.5	7.1	-2.3	2.9	3.6	1.1	1.3	1.5
Personal saving rate	Percent*	4.2	4.4	5.0	5.1	3.0	4.6	4.8	4.4	4.2	4.0
Corp. profits with IVA & CCAdj	Percent change	36.2	-13.7	16.0	-4.4	9.2	-8.8	-2.1	5.5	8.1	9.5
Profit share of GNP	Percent*	7.4	7.0	7.1	7.0	7.1	6.8	6.7	6.7	6.8	6.8
Federal govt. surplus/deficit	Billions of \$	-197.5	-217.6	-201.6	-238.1	-205.8	-195.3	-196.3	-184.5	-176.5	-169.2
State and local govt. surplus		59.5	62.5	70.0	59.0	64.3	52.0	55.2	55.7	57.9	60.8
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.5	3.6	2.5	1.8	3.6	.8	2.8	2.7	2.6	2.6
GNP fixed-weight price index		2.8	4.0	2.5	1.7	2.4	2.1	3.0	3.0	2.8	2.8
Cons. & fixed invest. prices		2.7	4.3	1.6	.2	3.0	3.1	3.5	3.6	3.3	3.2
CPI		2.6	4.3	1.5	-1.7	2.6	3.2	3.9	3.8	3.6	3.5
Exc. food and energy		3.5	4.9	4.3	3.4	3.6	4.1	3.7	3.7	3.9	4.0
Nonfarm business sector											
Output per hour		2.2	-3.5	4.3	.5	.2	.6	1.0	1.0	1.2	1.2
Compensation per hour		3.2	3.7	3.1	2.3	2.3	2.8	3.0	3.2	3.3	3.4
Unit labor costs		1.0	7.4	-1.2	1.8	2.2	2.0	2.0	2.2	2.1	2.2

* Not at an annual rate.

December 10, 1986

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
EXPENDITURES										
Nominal GNP	Billions of \$	2508.2	2732.0	3052.6	3166.0	3405.7	3765.0	3998.1	4212.0	4426.8
Real GNP	Billions of 82\$	3192.4	3187.1	3248.8	3166.0	3279.1	3489.9	3585.2	3680.1	3777.2
Real GNP	Percent change*	.6	-.1	.6	-1.9	6.5	4.6	2.9	2.6	2.8
Gross domestic product		.2	.3	.3	-1.6	6.6	4.9	3.1	2.9	2.8
Gross domestic purchases		-.4	-1.1	.8	-.8	8.4	5.9	3.9	2.6	1.9
Final sales		2.2	-.2	.1	.3	3.7	4.4	4.0	1.9	2.7
Private dom. final purchases		1.3	-1.7	-.3	.8	7.7	5.3	4.2	2.1	2.2
Personal consumption expend.		1.4	-.1	.2	2.9	5.4	3.6	3.5	3.0	2.5
Durables		-3.8	-5.6	-3.3	9.0	14.7	8.8	6.2	3.6	2.4
Nondurables		.8	-1.4	.5	1.8	4.4	2.2	2.0	3.3	2.4
Services		3.5	2.4	.9	2.3	3.9	3.3	3.9	2.6	2.5
Business fixed investment		5.0	-4.8	5.6	-11.3	10.8	14.7	6.5	-4.7	1.3
Producers' durable equipment		1.6	-6.5	2.2	-12.5	20.9	16.0	8.1	-.8	3.1
Nonresidential structures		12.0	-1.8	11.7	-9.1	-4.8	12.1	3.3	-13.0	-3.0
Residential structures		-7.2	-14.2	-22.4	4.9	38.1	5.3	7.8	8.3	.6
Exports		13.7	.5	2.4	-13.8	5.8	5.5	-3.2	4.6	10.4
Imports		3.4	-8.8	4.9	-5.9	23.8	16.5	5.8	4.3	2.1
Government purchases		.1	1.0	2.9	3.8	-2.7	7.7	8.4	1.4	.7
Federal		-.3	3.1	9.5	8.2	-8.1	14.2	14.3	-2.9	-1.4
Defense		3.3	3.1	7.6	8.8	5.1	6.8	5.9	7.8	-.7
State and local		.4	-.3	-1.3	.6	1.5	3.1	3.7	5.1	2.3
Change in business inventories	Billions of 82\$	15.0	-6.9	23.9	-24.5	-6.4	59.2	9.0	17.2	21.6
Nonfarm	Billions of 82\$	10.4	-2.3	19.0	-23.1	-.1	54.3	10.9	15.1	22.1
Net exports	Billions of 82\$	3.6	57.0	49.4	26.3	-19.9	-83.6	-108.2	-144.9	-119.7
Nominal GNP	Percent change*	9.5	9.9	9.3	3.1	10.4	8.5	6.3	4.8	5.5
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	89.8	90.4	91.2	89.6	90.2	94.5	97.6	100.2	102.2
Unemployment rate	Percent	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.0	6.8
Industrial production index	Percent change*	.9	-.8	-1.0	-7.7	14.3	6.6	1.7	.9	2.9
Capacity utilization rate-mfg.	Percent	84.6	79.3	78.3	70.3	74.0	80.5	80.1	79.7	79.8
Housing Starts	Millions	1.72	1.30	1.10	1.06	1.71	1.76	1.74	1.82	1.68
Auto sales	Millions	10.68	9.04	8.56	8.00	9.18	10.43	11.09	11.37	10.76
Domestic	Millions	8.36	6.62	6.24	5.77	6.77	7.97	8.24	8.18	7.57
Foreign	Millions	2.32	2.42	2.32	2.23	2.41	2.46	2.84	3.19	3.20
INCOME AND SAVING										
Nominal personal income	Percent change*	11.4	12.0	9.2	5.3	7.8	8.4	6.1	5.3	5.3
Real disposable income	Percent change*	.5	1.1	.7	1.0	5.1	4.2	1.9	3.5	1.9
Personal saving rate	Percent	6.8	7.1	7.5	6.8	5.4	6.3	5.1	4.4	4.3
Corp. profits with IVA & CCAdj	Percent change*	-10.7	-6.8	2.3	-19.1	70.1	6.6	7.8	2.5	5.1
Profit share of GNP	Percent	8.0	6.5	6.2	4.7	6.3	7.0	7.0	7.0	6.7
Federal govt. surplus/deficit	Billions of \$	-16.1	-61.3	-63.8	-145.9	-176.0	-170.0	-198.0	-210.2	-181.6
State and local govt. surplus		27.6	26.8	34.1	35.1	47.5	68.5	61.7	61.3	57.4
PRICES AND COSTS										
GNP implicit deflator	Percent change*	8.9	9.9	8.7	5.2	3.6	3.6	3.3	2.2	2.7
GNP fixed-weight price index		8.8	9.8	8.5	5.0	3.9	3.9	3.6	2.2	2.9
Cons. & fixed invest. prices		9.5	10.1	8.2	4.4	3.3	3.6	3.4	1.9	3.4
CPI		12.7	12.5	9.6	4.5	3.3	4.1	3.5	1.4	3.7
Exc. food and energy		10.7	12.2	10.2	5.2	4.3	4.8	4.3	3.9	3.8
Nonfarm business sector										
Output per hour		-2.7	1.0	-.6	1.0	3.6	1.0	.2	1.4	1.1
Compensation per hour		9.7	10.9	8.3	7.3	3.3	4.3	3.9	2.6	3.2
Unit labor costs		12.7	9.8	9.0	6.2	-.3	3.2	3.7	1.2	2.1

* Percent changes are from fourth quarter to fourth quarter.

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FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1985*	Fiscal Year 1986*	FY1987e Admin ¹	FRB Staff	CY 1985*	CY1986e FRB Staff	FRB Staff Estimates							
							1985 IV*	I*	1986		IV	I	1987	
									II*	III*			II	III
							Not seasonally adjusted							
Budget receipts ²	734	769	831	824	745	779	177	180	215	198	187	196	237	204
Budget outlays ²	946	990	975	1004	961	991	252	241	245	251	253	250	248	252
Surplus/deficit(-) to be financed ²	-212	-221	-144	-180	-216	-212	-75	-61	-30	-54	-66	-54	-11	-48
Means of financing deficit:														
Borrowing from public	197	236	144	170	224	213	91	37	51	58	67	42	11	50
Cash balance decrease	13	-14	0	6	-13	1	-14	19	-12	-7	2	6	3	-5
Other ³	1	-1	0	3	5	-2	-2	5	-8	3	-2	6	-3	3
Cash operating balance, end of period	17	31	20	25	31	30	31	12	25	31	30	23	20	25
Memo: Sponsored agency borrowing ⁴	20	13	n. a.	15	20	9	5	-2	5	5	0	5	5	5
NIPA Federal Sector							Seasonally adjusted annual rates							
Receipts	771	810	890	860	787	822	806	800	808	826	852	849	863	877
Expenditures	963	1026	1033	1049	985	1032	1023	1002	1046	1032	1048	1045	1048	1054
Purchases	341	369	375	380	354	368	381	356	368	373	376	380	381	383
Defense	254	275	290	292	259	280	268	266	278	287	288	292	294	295
Nondefense	88	94	84	88	95	88	113	89	89	86	88	88	88	88
All other expend.	621	656	658	668	631	664	643	646	678	659	671	665	667	671
Surplus/deficit(-)	-191	-216	-143	-188	-198	-210	-218	-202	-238	-206	-195	-196	-185	-177
High-employment surplus/ deficit(-) evaluated at 6 percent unemp.	-151	-179	n. a.	-152	-159	-173	-181	-168	-199	-169	-158	-159	-148	-142
	*--actual			e--estimated			n. a. --not available							

Note: Details may not add to totals due to rounding

1. Mid-Session Review of the 1987 Budget (August 1987). The Congressional Budget Office baseline estimates published in August indicated receipts of \$828 billion and outlays of \$1012 billion in FY1987.
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.
4. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (excluding participation certificates), Federal National Mortgage Association (excluding mortgage-backed securities), Farm Credit Banks, and Student Loan Marketing Association marketable debt. The Administration's definition of borrowing by these agencies is somewhat broader.

December 10, 1986

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

	ANNUAL			1985		1986				1987			
	1985-	1986-P	1987-P	Q3-	Q4-	Q1-	Q2-	Q3-	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. <u>GNP Exports and Imports 1/</u>													
Current \$, Net	-78.9	-102.6	-104.8	-83.7	-105.3	-93.7	-104.5	-108.2	-104.0	-106.2	-107.2	-104.3	-101.4
Exports of G+S	369.7	371.2	411.3	362.3	368.2	374.8	363.0	368.0	379.0	390.5	402.1	417.8	434.9
Imports of G+S	448.6	473.7	516.0	446.0	473.6	468.5	467.5	476.1	482.9	496.6	509.3	522.1	536.2
Constant 82 \$, Net	-108.2	-145.0	-119.9	-113.8	-132.0	-125.9	-153.9	-163.6	-136.6	-130.2	-124.7	-116.4	-108.4
Exports of G+S	362.3	369.1	402.0	355.8	362.9	369.2	359.8	367.9	379.6	387.6	394.8	406.4	418.9
Imports of G+S	470.5	514.1	521.9	469.6	494.8	495.1	513.6	531.5	516.2	517.9	519.6	522.9	527.3
2. <u>U.S. Merchandise Trade Balance 2/</u>	-124.4	-146.8	-148.6	-126.7	-149.4	-145.8	-144.1	-150.0 ^P	-147.2	-150.1	-150.7	-148.2	-145.6
Exports	214.4	219.4	247.7	210.0	210.9	214.6	219.2	220.0 ^P	223.8	232.6	241.8	252.5	264.0
Agricultural	29.6	26.6	27.7	26.7	28.5	28.4	24.6	26.0 ^P	27.5	28.0	27.3	27.6	28.0
Non-Agricultural	184.8	192.8	220.0	183.3	182.4	186.2	194.5	194.0 ^P	196.3	204.6	214.5	224.9	236.0
Imports	338.9	366.2	396.3	336.7	360.3	360.5	363.3	370.0 ^P	371.0	382.7	392.5	400.7	409.6
Petroleum and Products	50.5	33.6	38.6	49.5	56.5	40.1	31.3	32.0 ^P	31.1	35.7	38.7	39.4	40.4
Non-Petroleum	288.3	332.6	357.8	287.2	303.8	320.4	331.9	338.0 ^P	339.9	347.0	353.8	361.3	369.1
3. <u>U.S. Current Account Balance</u>	-117.7	-144.2	-151.0	-113.8	-134.8	-136.2	-138.9	-149.7 ^P	-151.9	-151.5	-153.5	-150.8	-148.3
Of Which: Net Investment Income	25.2	18.0	9.1	33.0	37.0	26.1	21.2	14.3 ^P	10.6	9.1	8.7	9.2	9.2
4. <u>Foreign Outlook 3/</u>													
Real GNP--Ten Industrial 4/	2.8	2.5	2.4	2.9	2.5	-0.2	5.4	2.1	2.4	1.9	2.5	2.1	2.3
Real GNP--NonOPEC LDC 5/	3.6	3.7	3.8	3.4	3.7	3.9	3.9	3.8	3.8	3.8	3.8	3.9	4.0
Consumer Prices--Ten Ind. 4/	4.3	2.1	2.5	1.5	2.7	1.9	1.8	0.1	3.2	2.7	3.1	2.7	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

December 10, 1986

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

U.S. CAPACITY TO PRODUCE AUTOMOBILES¹
(Millions of units per year)

	1979	1982	1986	1988 ²
<u>TOTAL</u>	11.095	10.241	10.844	10.986
<u>Domestic</u> ³	10.881	9.903	10.255	9.557
General Motors	6.267	6.044	6.398	5.700
Ford	2.815	2.195	1.837	1.837
Chrysler	1.345	1.160	1.516	1.516
AMC/Renault	.454	.504	.504 ⁴	.504
<u>Foreign-owned</u> ³	.214	.337	.589	1.429
Volkswagen	.214	.239	.239	.239
Honda	—	.098	.230	.360
Nissan	—	—	.120	.150
Toyota	—	—	—	.200
Mitsubishi	—	—	—	.240
Mazda	—	—	—	.240
Fuji-Isuzu ⁵	—	—	—	—

1. The capacity estimates represent capability to assemble automobiles; they do not take account of shortages of key components, but do assume reasonable work patterns. The annual rate of assembly capacity is based on the historic maximum hourly rate of output for each assembly plant as reported in Ward's Automotive Yearbooks. The hourly rate for each plant is multiplied by a fixed number of 3,910 hours worked per year to obtain the annual capacity rate of output. Although this method is plausible, it leads to estimates that may never be reached in the aggregate because of shortages of parts or labor or because demand for some model cars remains low even in periods of booming automobile sales.

2. Planned.

3. Some of the capacity in both the domestic and foreign-owned categories represents joint ventures. The classification of capacity to domestic or foreign-owned depends upon the trademark displayed on the finished car.

4. AMC also is producing cars for Chrysler.

5. A plant is planned to be built in Lafayette, Indiana. It will probably open in 1989. The plant will initially produce about 120,000 vehicles—autos and light trucks.

ADMINISTRATION'S FY1988 BUDGET ECONOMIC ASSUMPTIONS
(Calendar years)

	1986	1987	1988	1989	1990	1991	1992
	- - - - - Percent change, Q4 to Q4 - - - - -						
Nominal GNP	5.4	6.9	7.3	7.2	6.8	6.3	5.3
Real GNP	2.7	3.2	3.7	3.6	3.6	3.5	3.3
GNP deflator	2.6	3.6	3.5	3.5	3.0	2.7	2.0
	- - - - - Percent, annual average - - - - -						
Unemployment rate	7.0	6.8	6.4	6.1	5.9	5.7	5.6
Treasury bill rate	5.9	5.4	5.6	5.3	4.7	4.2	3.6

Source: 1988 Budget forecast, December 6, 1986.

TREASURY AND AGENCY FINANCING¹
(Total for period: billions of dollars)

	1986				
	Q3	Q4 ^e	Oct.	Nov. ^p	Dec. ^e
<u>Treasury financing</u>					
Combined surplus/deficit(-)	-53.8	-66.5	-25.3	-32.2	-9.1
Means of financing deficit:					
Net cash borrowing from the public	57.6	67.2	6.0	40.5	20.7
Marketable borrowings/ repayments(-)	51.2	53.8	2.9	34.5	16.4
Bills	14.1	15.9	1.4	11.6	2.9
Coupons	37.1	37.9	1.5	22.9	13.5
Nonmarketable	6.4	13.4	3.1	6.0	4.3
Decrease in the cash balance	-6.8	1.6	17.8	-3.4	-12.7
Memo: Cash balance at end of period	31.4	29.7	13.6	17.0	29.7
Other ²	3.0	-2.3	1.5	-4.9	1.1
<u>Federally sponsored credit agencies, net cash borrowing³</u>					
	5.4	.2	1.5	-1.6	.3
FHLBs	5.6	.1	*	-.4	.5
FNMA	-.9	.1	1.6	-1.5	*
Farm Credit Banks	-.1	-1.1	-.4	-.2	-.5
FHLMC	.6	.4	.1	.2	.1
SLMA	.2	.7	.2	.3	.2

p--preliminary. e--staff estimate. *--less than \$50 million.

1. Data reported on a not seasonally adjusted, payment basis.

2. Includes checks issued less checks paid, accrued items and other transactions.

3. Excludes mortgage pass-through securities issued by FNMA and FHLMC.