

June 28, 1989

## **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

falling utilization rates, and weak cash flow, business investment is forecast to decelerate.

Economic activity is projected to pick up a bit in late 1990. Most notably, the assumed decline in the dollar begins to induce some improvement in real net exports. Nonetheless, GNP growth remains below its long-run potential, and the unemployment rate edges above 6 percent.

The staff has lowered the inflation projection. The improved outlook for prices reflects, in part, the slower-than-anticipated pace of real activity in the near term and thus the emergence, earlier than previously projected, of slack in labor and product markets. In addition, increases in import prices are expected to be much smaller as a result of the recent strengthening of the dollar. However, the favorable effects of the dollar on domestic inflation are not likely to persist once the dollar begins to fall and, with a lag, boosts import prices.

PRICE AND COMPENSATION PROJECTION  
(Percent change, Q4 to Q4)

	1988	1989	1990
Consumer price index	4.3	4.9	4.6
Excluding food and energy	4.6	4.7	5.0
Nonpetroleum import prices	7.4	2.1	5.1
Compensation per hour (Employment cost index)	4.9	5.1	5.7

## ECONOMIC PROJECTIONS FOR 1989

	FOMC Central Tendency <u>February</u>	<u>Staff</u> <u>Feb.</u>	<u>June</u>
<b>Percent change, Q4 to Q4</b>			
Nominal GNP	6-1/2 to 7-1/2	7.1	6.4
Real GNP	2-1/2 to 3	3.0	2.2
CPI	4-1/2 to 5	4.9	4.9
<b>Average level, Q4, percent</b>			
Unemployment rate	5-1/4 to 5-1/2	5.5	5.6

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## STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
	5/10/89	6/28/89	5/10/89	6/28/89	5/10/89	6/28/89	5/10/89	6/28/89	5/10/89	6/28/89
<b>Annual changes:</b>										
1987 <1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2
1988 <1>	7.5	7.5	3.9	3.9	4.2	4.2	3.4	3.4	5.5	5.5
1989	7.8	7.2	3.1	2.6	4.8	4.7	4.6	4.5	5.3	5.4
1990	5.9	5.7	1.3	1.4	4.6	4.4	4.5	4.2	5.8	5.9
<b>Quarterly changes:</b>										
1988 Q1 <1>	5.4	5.4	3.4	3.4	3.5	3.5	1.7	1.7	5.7	5.7
Q2 <1>	8.7	8.7	3.0	3.0	5.0	5.0	5.5	5.5	5.5	5.5
Q3 <1>	7.3	7.3	2.5	2.5	5.3	5.3	4.7	4.7	5.5	5.5
Q4 <1>	7.6	7.6	2.4	2.4	4.2	4.2	5.3	5.3	5.3	5.3
1989 Q1 <1>	9.7	8.2	5.5	4.4	-5.0	4.6	3.9	3.6	5.2	5.2
Q2	7.3	7.4	2.3	1.7	5.2	5.6	4.8	5.4	5.3	5.3
Q3	6.2	5.1	2.0	1.5	4.3	3.8	4.1	3.5	5.3	5.4
Q4	5.6	5.1	1.6	1.3	4.1	3.9	3.9	3.8	5.4	5.6
Q1	6.4	5.8	1.2	1.2	5.1	4.8	5.1	4.6	5.5	5.8
Q2	5.2	5.7	.6	1.4	4.6	4.4	4.5	4.3	5.7	5.9
Q3	5.5	6.0	1.0	1.7	4.6	4.3	4.5	4.2	5.9	6.0
Q4	5.9	6.3	1.6	2.0	4.4	4.1	4.3	4.2	6.1	6.1
<b>Two-quarter changes: &lt;2&gt;</b>										
1988 Q2 <1>	7.0	7.0	3.2	3.2	4.2	4.2	3.6	3.6	-.4	-.4
Q4 <1>	7.4	7.4	2.4	2.4	4.8	4.8	5.0	5.0	-.2	-.2
1989 Q2	8.5	7.8	3.9	3.1	5.2	5.1	4.4	4.5	.0	.0
Q4	5.9	5.1	1.8	1.4	4.2	3.9	4.0	3.6	.1	.3
1990 Q2	5.8	5.8	.9	1.3	4.9	4.6	4.8	4.4	.3	.3
Q4	5.7	6.1	1.3	1.9	4.5	4.2	4.4	4.2	.4	.2
<b>Four-quarter changes: &lt;3&gt;</b>										
1987 Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988 Q4 <1>	7.2	7.2	2.8	2.8	4.5	4.5	4.3	4.3	-.6	-.6
1989 Q4	7.2	6.4	2.8	2.2	4.7	4.5	4.2	4.1	.1	.3
1990 Q4	5.8	6.0	1.1	1.6	4.7	4.4	4.6	4.3	.7	.5

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

	Units	1982	1983	1984	1985	1986	1987	1988	1989	1990	Projection
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4864.3	5216.3	5514.5	
Real GNP	Billions of 82\$	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3996.1	4101.5	4160.1	
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	2.0	5.0	2.8	2.2	1.6	
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.1	2.9	2.3	1.5	
Gross domestic purchases		-.8	8.4	6.4	4.3	2.4	4.4	2.2	1.8	1.4	
Final sales		.3	3.7	4.7	4.6	2.5	3.0	3.9	2.2	1.6	
Private dom. final purchases		.8	7.7	5.6	4.6	2.8	2.4	3.9	1.9	1.6	
Personal consumption expend.		2.9	5.4	4.1	4.6	4.2	1.8	3.7	1.6	1.4	
Durables		9.0	14.7	10.8	7.0	11.5	-2.4	7.5	1.0	.5	
Nondurables		1.8	4.4	2.3	3.3	3.1	.6	1.9	-.4	.9	
Services		2.3	3.9	3.5	5.0	2.7	4.2	3.9	3.1	2.1	
Business fixed investment		-11.3	10.8	13.8	3.7	-7.3	8.8	5.7	5.7	2.0	
Producers' durable equipment		-12.5	20.9	14.9	4.6	-2.4	9.6	10.0	7.8	3.1	
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.4	6.7	-5.0	-.6	-1.7	
Residential structures		4.9	38.1	6.1	5.8	11.3	-3.5	2.0	-3.3	2.4	
Exports		-13.8	5.8	5.9	-2.4	5.6	18.4	13.7	8.3	6.4	
Imports		-5.9	23.8	17.4	4.5	7.6	10.4	7.2	4.7	4.5	
Government purchases		3.8	-2.7	7.9	8.6	2.9	2.3	.4	1.2	.8	
Federal		8.2	-8.1	13.0	13.3	.0	2.1	-3.5	.0	-.9	
Defense		8.8	5.1	6.5	7.1	4.8	6.0	-2.1	-4.9	-2.8	
State and local		.6	1.5	4.4	4.9	5.3	2.5	3.4	2.1	2.0	
Change in business inventories	Billions of 82\$	-24.5	-6.4	62.3	9.1	15.4	34.4	42.5	36.9	29.5	
Nonfarm	Billions of 82\$	-23.1	-.1	57.8	13.4	17.9	36.9	40.0	25.7	21.0	
Net exports	Billions of 82\$	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-100.2	-89.6	-88.9	
Nominal GNP	Percent change*	3.1	10.4	8.6	6.6	4.8	8.3	7.2	6.4	6.0	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.2	105.6	108.3	109.3	
Unemployment rate	Percent	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.4	5.9	
Industrial production index	Percent change*	-7.7	14.3	6.6	1.7	1.0	5.8	5.0	1.7	1.8	
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.1	83.6	83.8	82.3	
Housing Starts	Millions	1.06	1.71	1.77	1.74	1.81	1.63	1.50	1.42	1.44	
Auto sales	Millions	8.01	9.23	10.38	11.06	11.47	10.26	10.69	10.05	9.58	
Domestic	Millions	5.78	6.82	7.92	8.22	8.22	7.06	7.55	7.14	6.86	
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.91	2.73	
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.9	8.5	7.0	7.8	6.3	
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.4	3.0	3.6	2.2	1.3	
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.0	3.2	4.2	5.0	5.0	
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	.9	-7.6	7.8	-8.8	-6.1	
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	7.0	6.9	6.8	6.1	5.3	
Federal govt. surplus/deficit	Billions of \$	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-142.3	-130.9	-110.5	
State and local govt. surplus		35.1	47.5	64.6	65.1	61.2	52.9	55.2	58.1	61.6	
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.0	-9.2	-13.3	-15.7	-15.5	
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.8	3.1	4.3	4.1	4.3	
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.5	4.4	
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.7	4.5	
CPI		4.4	3.2	4.2	3.5	1.3	4.4	4.3	4.9	4.6	
Exc. food and energy		5.2	4.2	5.0	4.3	3.9	4.2	4.6	4.7	5.0	
Nonfarm business sector		1.0	3.6	1.5	1.5	1.2	1.9	1.0	-.1	.9	
Output per hour		7.3	3.3	4.2	4.5	4.2	4.1	4.7	5.2	5.6	
Compensation per hour		6.2	-.3	2.6	2.9	3.0	2.1	3.6	5.3	4.7	
Unit labor costs											

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

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

	Units	Projection									
		1988		1989		1990					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	4909.0	4999.7	5099.0	5190.3	5255.2	5320.5	5396.3	5472.3	5552.1	5637.5
Real GNP	Billions of 82\$	4009.4	4033.4	4077.5	4094.9	4110.3	4123.2	4135.1	4149.8	4167.1	4188.1
Nominal GNP	Percent change	7.3	7.6	8.2	7.4	5.1	5.1	5.8	5.7	6.0	6.3
Real GNP		2.5	2.4	4.4	1.7	1.5	1.3	1.2	1.4	1.7	2.0
Gross domestic product		2.0	2.3	4.5	1.6	1.8	1.4	1.1	1.4	1.7	2.0
Gross domestic purchases		2.5	3.5	2.4	2.0	1.7	1.2	1.1	1.4	1.5	1.6
Final sales		2.0	3.5	3.8	1.0	2.1	1.8	1.6	1.3	1.6	1.9
Private dom. final purchases		3.9	2.9	1.9	1.5	2.4	1.9	1.7	1.4	1.6	1.7
Personal consumption expend.		3.9	3.5	1.3	1.4	2.2	1.3	1.6	1.3	1.3	1.5
Durables		-.2	6.1	-4.0	8.4	2.1	-2.1	1.3	-.8	.1	1.5
Nondurables		5.0	1.3	1.8	-5.9	1.0	1.7	1.1	.9	.9	.9
Services		4.5	4.2	2.8	4.5	3.1	2.2	2.2	2.2	2.0	2.0
Business fixed investment		4.0	-2.9	7.6	8.9	3.8	2.6	2.2	1.8	1.9	1.9
Producers' durable equipment		4.6	-3.5	9.9	13.2	4.6	4.0	3.5	3.0	3.0	3.0
Nonresidential structures		2.6	-1.0	1.3	-3.0	1.2	-1.7	-1.8	-2.0	-1.6	-1.5
Residential structures		4.3	10.9	-4.6	-15.2	.8	7.4	.5	1.5	4.7	2.7
Exports		14.5	6.5	15.0	9.7	4.4	4.4	5.2	5.8	6.2	8.5
Imports		13.1	13.5	-.5	10.7	5.2	3.8	4.2	4.8	4.2	4.8
Government purchases		-5.2	11.9	1.4	.9	1.6	1.1	1.1	.8	.5	.8
Federal		-13.2	20.7	.4	-1.0	.7	.0	-.1	-1.0	-1.6	-1.0
Defense		-10.5	9.9	-8.7	-3.4	-2.2	-5.3	-2.9	-2.7	-3.1	-2.6
State and local		1.1	6.0	2.1	2.3	2.2	2.0	2.0	2.0	2.0	2.0
Change in business inventories	Billions of 82\$	39.5	29.1	35.5	42.5	37.2	32.3	27.6	29.0	30.0	31.4
onfarm	Billions of 82\$	40.4	37.6	26.2	29.9	24.8	21.7	18.7	20.6	21.7	22.9
exports	Billions of 82\$	-93.9	-105.4	-85.9	-89.4	-91.6	-91.1	-90.8	-89.0	-84.9	-84.9
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	106.0	106.8	107.7	108.2	108.6	108.7	108.9	109.2	109.5	109.7
Unemployment rate	Percent*	5.5	5.3	5.2	5.3	5.4	5.6	5.8	5.9	6.0	6.1
Industrial production index	Percent change	7.1	4.6	2.0	2.4	1.2	1.2	.8	1.4	2.4	2.7
Capacity utilization rate-mfg.	Percent*	84.0	84.4	84.3	84.0	83.6	83.2	82.7	82.3	82.1	82.0
Housing Starts	Millions	1.47	1.56	1.52	1.34	1.40	1.42	1.42	1.44	1.45	1.45
Auto sales	Millions	10.32	11.00	9.72	10.32	10.40	9.76	9.82	9.60	9.45	9.45
Domestic	Millions	7.20	7.89	6.89	7.32	7.48	6.87	6.95	6.87	6.80	6.80
Foreign	Millions	3.12	3.11	2.82	3.00	2.92	2.89	2.87	2.73	2.65	2.65
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change	7.3	8.7	13.6	6.7	5.8	5.5	6.8	6.0	5.8	6.6
Real disposable income	Percent change	5.6	4.1	6.1	-1.4	3.0	1.1	2.7	.7	.6	1.4
Personal saving rate	Percent*	4.2	4.3	5.4	4.8	5.0	4.9	5.1	5.0	4.9	4.9
Corp. profits with IVA & CCAdj	Percent change	4.4	13.9	-22.9	8.4	-8.6	-9.4	-18.5	-4.6	-.2	.4
Profit share of GNP	Percent*	6.7	6.8	6.3	6.3	6.1	5.8	5.5	5.3	5.3	5.2
Federal govt. surplus/deficit	Billions of \$	-123.5	-157.5	-139.5	-121.8	-133.1	-129.1	-125.0	-117.1	-103.4	-96.3
State and local govt. surplus		56.0	52.6	55.2	59.2	58.8	59.0	58.4	60.0	62.3	65.7
Exc. social insurance funds		-13.3	-18.2	-17.2	-14.2	-15.5	-16.1	-17.5	-16.7	-15.2	-12.6
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change	4.7	5.3	3.6	5.4	3.5	3.8	4.6	4.3	4.2	4.2
GNP fixed-weight price index		5.3	4.2	4.6	5.6	3.8	3.9	4.8	4.4	4.3	4.1
Cons. & fixed invest. prices		4.5	4.4	5.0	6.1	3.9	3.8	4.3	4.6	4.5	4.4
Excl. food and energy		4.5	4.4	5.4	6.6	4.0	3.8	4.5	4.8	4.7	4.6
Infarm business sector		2.0	1.0	-1.1	-.6	.8	.7	.6	.6	.9	1.4
Output per hour		5.7	5.2	5.4	4.8	5.3	5.4	6.9	5.3	5.2	5.1
Compensation per hour		3.7	4.1	6.6	5.4	4.5	4.7	6.3	4.7	4.3	3.6
Unit labor costs											

\* Not at an annual rate.

CONFIDENTIAL - FR  
CLASS II FOMC

June 28, 1989

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

	Projection										Projection			
	1988		1989				1990				1987	1988	1989	1990
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	24.2	24.0	44.1	17.4	15.4	12.9	11.9	14.7	17.3	21.0	188.3	110.4	89.8	65.0
Gross domestic product	20.0	22.6	44.3	16.2	18.3	13.7	11.1	14.3	17.3	20.5	188.3	113.3	92.6	63.3
Gross domestic purchases	25.5	35.5	24.6	20.9	17.6	12.9	11.5	14.4	15.5	16.9	171.9	89.8	76.0	58.2
Final sales	20.0	34.5	37.6	10.4	20.7	17.8	16.6	13.3	16.3	19.6	110.7	148.5	86.5	65.9
Private dom. final purchases	31.6	24.0	15.4	12.1	19.8	15.5	14.0	11.4	13.4	14.0	76.2	125.0	62.8	52.8
Personal consumption expend.	24.8	22.4	8.7	9.2	14.7	8.8	10.9	8.4	8.7	10.2	45.5	94.5	41.3	38.1
Durables	-.2	6.1	-4.2	8.4	2.2	-2.2	1.3	-.8	.1	1.6	-9.7	28.9	4.1	2.3
Nondurables	10.9	2.9	4.1	-13.7	2.2	3.9	2.4	1.9	1.9	2.0	5.2	16.9	-3.5	8.2
Services	14.1	13.3	8.9	14.5	10.2	7.2	7.2	7.2	6.6	6.6	50.0	48.6	40.8	27.7
Business fixed investment	4.8	-3.6	9.1	10.8	4.8	3.3	2.8	2.3	2.5	2.5	37.5	26.6	28.0	10.1
Producers' durable equipment	4.1	-3.3	8.7	11.8	4.4	3.8	3.4	2.9	3.0	3.0	29.2	33.2	28.7	12.3
Nonresidential structures	.8	-.3	.4	-.9	.4	-.5	-.6	-.6	-.5	-.5	8.3	-6.6	-.7	-2.2
Residential structures	2.0	5.0	-2.3	-7.9	.4	3.4	.2	.7	2.2	1.3	-7.0	3.9	-6.4	4.5
Change in business inventories	4.2	-10.4	6.4	7.0	-5.3	-4.9	-4.7	1.4	1.0	1.4	77.6	-38.0	3.2	-.9
Nonfarm	10.3	-2.8	-11.4	3.7	-5.1	-3.1	-3.0	1.9	1.1	1.2	67.0	-30.6	-15.9	1.2
Farm	-6.1	-7.7	17.7	3.4	-.2	-1.8	-1.7	-.5	-.1	.2	10.6	-7.4	19.1	-2.1
Net exports	-1.3	-11.5	19.5	-3.5	-2.2	-.1	.5	.3	1.8	4.1	16.4	20.6	13.8	6.7
Exports	17.1	8.1	18.6	12.7	6.0	6.0	7.2	8.1	8.8	12.1	71.4	62.9	43.3	36.2
Imports	18.4	19.5	-.8	16.1	8.2	6.0	6.7	7.8	7.0	8.0	55.0	42.2	29.6	29.5
Government purchases	-10.3	22.0	2.7	1.8	3.1	2.3	2.2	1.5	1.1	1.5	18.1	2.9	9.9	6.3
Federal	-11.5	15.4	.3	-.8	.6	.0	-.1	-.9	-1.3	-.9	7.2	-12.2	.1	-3.2
Defense	-7.2	6.1	-5.9	-2.2	-1.4	-3.4	-1.8	-1.7	-1.9	-1.6	15.1	-5.7	-12.9	-7.0
Nondefense	-4.2	9.2	6.2	1.5	2.0	3.4	1.7	.8	.6	.7	-7.9	-6.6	13.1	3.8
State and local	1.2	6.6	2.4	2.6	2.5	2.3	2.3	2.4	2.4	2.4	10.9	15.1	9.8	9.5

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FEDERAL ACCOUNTS  
(Billions - dollars)

	Fiscal Year 1988a	FY1989p						FY1990p						1988 IVa	Ia	FRB Staff Projection											
		Admin <sup>1</sup>			CBO <sup>2</sup>		FRB Staff	Admin <sup>1</sup>			CBO <sup>2</sup>		FRB Staff			1989		1990		I		II		III		IV	
		BUDGET														Not seasonally adjusted											
Budget receipts <sup>3</sup>	909	979	983	992	1066	1069	1072	222	220	307	244	229	251	327	265	251											
Budget outlays <sup>3</sup>	1064	1143	1142	1140	1157	1215	1181	289	280	286	284	298	297	298	289	303											
Surplus/deficit (-) to be financed <sup>3</sup> (On-budget) (Off-budget)	-155	-164	-159	-148	-91	-146	-109	-68	-61	21	-40	-68	-45	29	-24	-52											
	-194	-220	-215	-200	-162	-214	-177	-73	-77	2	-52	-78	-65	6	-40	-65											
	39	56	56	52	69	68	68	6	16	18	12	9	20	23	15	13											
Means of financing:																											
Borrowing	162	n.a.	n.a.	119	n.a.	n.a.	102	54	38	8	19	56	31	1	14	42											
Cash decrease	-8	n.a.	n.a.	10	n.a.	n.a.	0	11	19	-30	10	17	3	-25	5	17											
Other <sup>4</sup>	1	n.a.	n.a.	19	n.a.	n.a.	7	3	4	1	11	-4	11	-5	5	-7											
Cash operating balance, end of period	44	n.a.	n.a.	35	n.a.	n.a.	35	34	15	44	35	18	15	40	35	18											
NIPA FEDERAL SECTOR																	Seasonally adjusted annual rates										
Receipts	964	n.a.	1037	1043	n.a.	1133	1123	992	1041	1070	1071	1084	1116	1135	1156	1177											
Expenditures	1107	n.a.	1177	1181	n.a.	1255	1241	1149	1181	1192	1204	1213	1241	1252	1259	1274											
Purchases	380	n.a.	395	400	n.a.	416	413	396	398	402	405	406	-414	416	417	418	I-13										
Defense	298	n.a.	302	301	n.a.	311	301	302	300	301	301	298	302	302	301	301											
Nondefense	82	n.a.	93	100	n.a.	105	112	94	98	102	104	108	112	114	115	117											
Other expend.	727	n.a.	782	781	n.a.	839	828	753	783	789	799	808	827	836	843	856											
Surplus/deficit	-143	n.a.	-140	-138	n.a.	-122	-119	-158	-140	-122	-133	-129	-125	-117	-103	-96											
FISCAL INDICATORS <sup>5</sup>																											
High-employment (HEB) surplus/deficit (-)	-151	n.a.	n.a.	-154	n.a.	n.a.	-117	-170	-160	-140	-147	-137	-126	-113	-95	-84											
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.1	n.a.	n.a.	-.7	.7	-.2	-.4	.1	-.2	-.2	-.2	-.3	-.2											
Fiscal impetus measure (FI), percent	.3 *	n.a.	n.a.	-4 *	n.a.	n.a.	-7 *	1.7	-2.1	-.9	-.5	-3	-3.8	-.5	-.5	-.4											

a--actual

p--projection

\*--calendar year

n.a.--not available

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

1. The Administration figures are from President Bush's proposals in Building a Better America (February 9, 1989), with a minor revision from the Budget Director's testimony. The Congressional Budget Resolution for FY1990 projects receipts of \$1066 billion, outlays of \$1165 billion, and a deficit of \$99 billion for that year.
2. The CBO figures are baseline budget estimates from An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990 (February 1989).
3. 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.
4. Other means of financing are checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate. 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.

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

	ANNUAL			1988		1989				1990			
	1988-	1989-P	1990-P	Q3-	Q4-	Q1	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
<b>1. GNP Exports and Imports 1/</b>													
Current \$, Net	-94.6	-87.4	-91.3	-80.0	-96.1	-79.3	-87.1	-91.5	-91.9	-90.6	-91.4	-92.4	-90.7
Exports of G+S	519.8	592.5	633.6	536.1	548.0	573.8	593.0	598.6	604.6	614.6	626.1	638.7	655.3
Imports of G+S	614.3	680.0	725.0	616.0	644.0	653.2	680.2	690.1	696.6	705.3	717.6	731.1	746.1
Constant 82 \$, Net	-100.2	-89.6	-88.9	-93.9	-105.4	-85.9	-89.4	-91.6	-91.6	-91.1	-90.8	-89.0	-84.9
Exports of G+S	504.8	554.7	586.1	514.0	522.1	540.7	553.4	559.4	565.4	572.6	580.7	589.5	601.6
Imports of G+S	605.0	644.3	675.0	607.9	627.4	626.6	642.7	650.9	657.0	663.7	671.4	678.4	686.5
<b>2. Merchandise Trade Balance 2/</b>	-127.2	-119.1	-126.7	-121.4	-128.1	-110.5	-121.0	-122.5	-122.4	-123.5	-126.4	-128.3	-128.4
Exports	319.3	361.4	382.3	322.4	334.9	354.0	361.4	363.6	366.4	371.3	377.3	384.9	395.6
Agricultural	38.1	41.6	42.0	39.7	39.2	43.5	42.7	40.6	39.7	40.5	41.5	42.3	43.7
Non-Agricultural	281.1	319.7	340.3	282.7	295.8	310.5	318.8	323.0	326.7	330.9	335.8	342.6	351.9
Imports	446.5	480.5	508.9	443.8	463.0	464.5	482.4	486.1	488.8	494.8	503.7	513.3	524.0
Petroleum and Products	39.3	50.6	51.9	39.1	36.9	43.3	55.3	53.4	50.2	50.2	51.5	52.2	53.6
Non-Petroleum	407.2	429.9	457.1	404.7	426.1	421.2	427.1	432.8	438.6	444.6	452.2	461.0	470.4
<b>3. Other Current Account Transactions</b>													
Capital Gains and Losses 3/	-1.0	-5.8	1.5	-11.4	15.8	-14.6	-8.1	-2.7	2.1	1.5	1.5	1.5	1.5
Other D.I. Income, Net	32.5	32.7	35.1	33.6	34.3	34.1	33.4	31.4	31.8	33.8	34.9	35.3	36.3
Portfolio Income, Net	-29.3	-35.7	-45.8	-32.6	-32.2	-33.5	-32.9	-36.5	-39.9	-42.5	-44.8	-46.9	-49.0
Other Current Account, Net	-1.6	1.9	5.1	2.4	-4.6	1.8	2.3	3.0	0.5	4.4	5.7	6.4	4.2
<b>4. U.S. Current Account Balance</b>													
Including Capital G/L	-126.5	-126.1	-130.7	-129.4	-114.7	-122.7	-126.3	-127.3	-128.0	-126.3	-129.1	-132.1	-135.4
Excluding Capital G/L	-125.5	-120.2	-132.3	-118.0	-130.5	-108.1	-118.2	-124.6	-130.1	-127.9	-130.6	-133.6	-137.0
<b>5. Foreign Outlook 4/</b>													
Real GNP--Ten Industrial 5/	3.9	2.9	2.6	4.5	2.4	5.2	0.9	2.2	2.8	2.7	2.7	2.7	2.7
Real GNP--NonOPEC LDC 6/	3.8	3.5	3.7	3.7	3.6	3.5	3.4	3.3	3.3	3.3	3.8	4.4	5.0
Consumer Prices--Ten Ind. 5/	2.6	4.0	3.5	2.6	3.8	4.2	5.8	3.0	3.2	3.1	4.6	2.5	3.0

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 NonOPEC LDC GNP.

P/ Projected

**June 28, 1989**

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## **RECENT DEVELOPMENTS**

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**Prepared for the Federal Open Market Committee  
By the staff of the Board of Governors of the Federal Reserve System**

VALUE OF THE OUTPUT OF SELECTED FARM CROPS  
(Billions of 1982 dollars)

	1986	1987	1988	1989 <sup>1</sup>
Wheat	7.4	7.4	6.4	7.1
Soybeans	11.2	11.1	8.9	11.3
Corn	19.6	16.8	11.7	18.6
Other feed grains <sup>2</sup>	<u>4.3</u>	<u>3.6</u>	<u>2.4</u>	<u>3.4</u>
Total for these crops	42.5	38.9	29.4	40.4

1. Derived from the USDA's June 12 projection of crop production.  
 2. Barley, oats, and sorghum.

INDEXES OF CROP CONDITIONS<sup>1</sup>  
(Range: 100=excellent; 0=very poor)

	Week ended				
	May 28	June 4	June 11	June 18	June 25
Corn (Previous year)	n.a. (n.a.)	65.5 (63.3)	66.5 (60.0)	66.3 (55.5)	66.8 (47.3)
Spring wheat (Previous year)	72.3 (53.0)	73.3 (45.8)	70.8 (33.5)	72.8 (29.3)	71.3 (24.5)
Soybeans (Previous year)	n.a. (n.a.)	n.a. (n.a.)	62.8 (53.8)	62.5 (49.0)	64.0 (44.8)

1. Indexes are constructed by the staff of the Federal Reserve, using data from the Weekly Weather and Crop Bulletin. The data in that report show the proportion of respondents who characterize crop conditions as excellent, good, fair, poor, or very poor. In constructing the indexes these proportions have been weighted as follows: excellent=1.0; good=.75; fair=.5; poor=.25; very poor=.0. A crop that is viewed as excellent by all respondents in all locations would thus have an index value of 100.0.

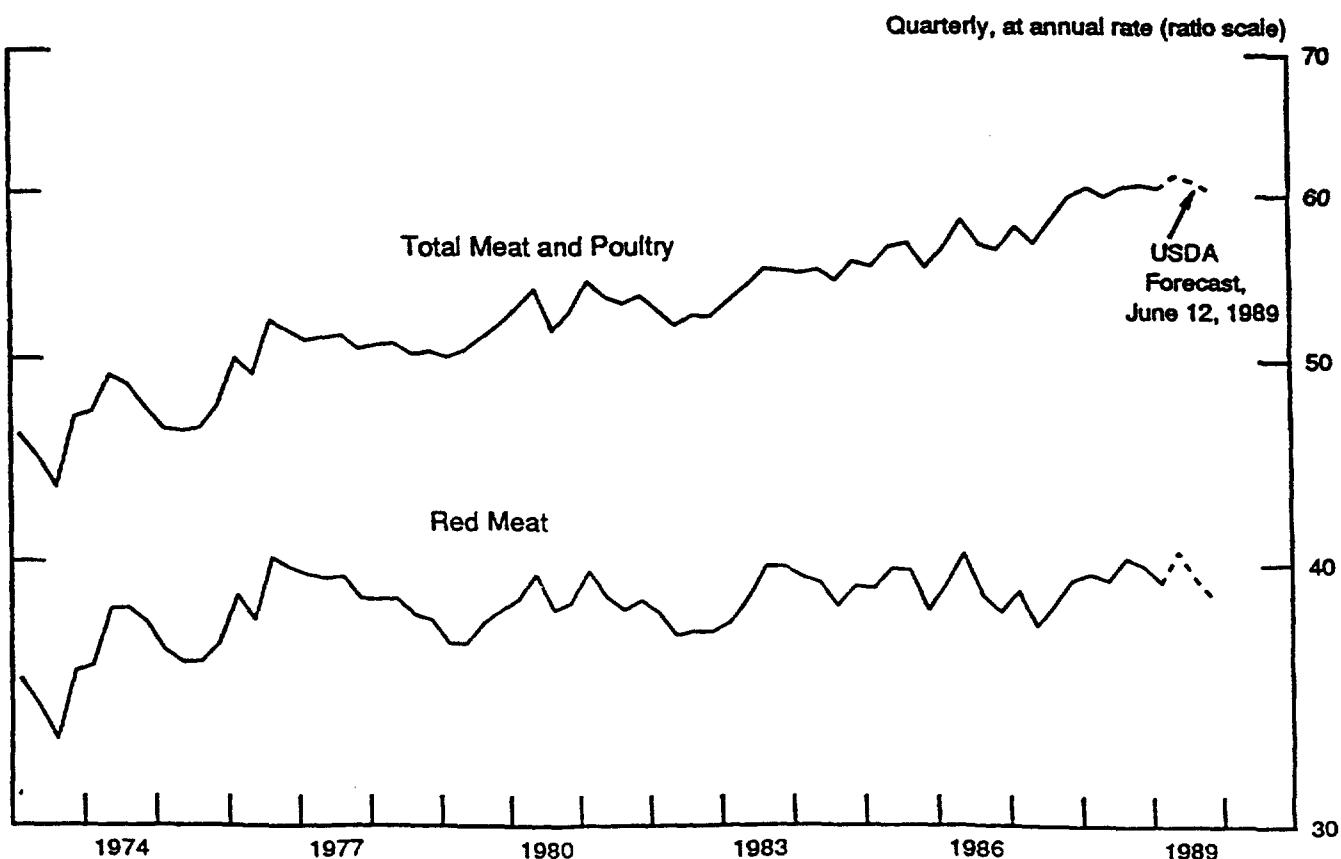
n.a.--not available

**MEAT AND POULTRY PRODUCTION**  
 (Millions of pounds)

	1988	<u>USDA Projection for 1989</u>	
		as of May 11	as of June 12
1. Total red meat and poultry	60350	60813	60943
2. Red meat <sup>1</sup>	39763	39402	39398
3. Beef	23424	23104	23004
4. Pork	15623	15587	15687
5. Poultry	20587	21411	21545

1. Includes veal and lamb, in addition to beef and pork.

**Meat and Poultry Production**  
 (Billions of pounds, seasonally adjusted)\*



\* USDA data, seasonally adjusted by the staff of the Federal Reserve Board.

GROSS OFFERINGS OF MUNICIPAL SECURITIES  
(Monthly rates, not seasonally adjusted, billions of dollars)

	<u>1988</u> Year	<u>1988</u> Q2	<u>1988</u> Q3	<u>1989</u> Q4	<u>1989</u> Q1	<u>1989</u> Apr.	<sup>P</sup> May	<sup>f</sup> June
Total offerings <sup>1</sup>	10.88	11.73	11.50	11.58	9.20	12.68	7.48	--
Total tax-exempt	10.60	11.41	11.30	11.21	8.92	12.40	7.35	14.00
Long-term	9.01	9.20	8.00	10.09	7.77	7.46	6.58	10.00
Refundings <sup>2</sup>	2.75	3.18	1.87	2.91	2.49	1.40	1.12	3.00
New capital	6.26	6.02	6.93	7.18	5.28	6.06	5.46	7.00
Short-term <sup>3</sup>	1.59	2.21	2.52	1.12	1.15	4.94	.77	4.00
Total taxable	.28	.32	.23	.37	.28	.28	.13	--
Memo item:								
Bank-qualified <sup>4</sup>	.58	.80	.63	.40	.42	.54	.40	--

p--preliminary. f--forecast.

1. Includes issues for public and private purposes; also includes taxable issues.

2. Includes all refunding bonds, not just advance refundings.

3. Does not include tax-exempt commercial paper.

4. Bank-qualified bonds are the only tax-exempt bonds that banks can purchase and still deduct 80 percent of the carrying costs. Bonds are bank-qualified if issued by local governments that do not expect to issue more than \$10 million of municipal bonds during the year.

#### Treasury and Sponsored-Agency Financing

The staff estimate of the second-quarter federal budget surplus has been revised upward, to \$20.5 billion, and its distribution among months shifted as the dimensions of the surge in tax receipts in April have become clearer. Treasury borrowing dropped sharply in the second quarter but still remained positive on a net basis, as the Treasury used its surplus to build up its cash balances.

In keeping with its usual practice of adjusting bill issuance to variations in cash needs, the Treasury aggressively cut the gross sizes of its weekly bill auctions when the large size of the tax inflows became

TREASURY AND AGENCY FINANCING<sup>1</sup>  
(Total for period; billions of dollars)

	1989				
	Q1	Q2 <sup>e</sup>	Apr.	May	June <sup>e</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-60.8	20.5	40.6	-25.5	5.4
Means of financing deficit:					
Net cash borrowing from the public	37.9	8.5	-1.3	10.2	-.5
Marketable borrowings/ repayments (-)	32.0	5.2	-2.1	8.7	-1.5
Bills	3.0	-20.2	-6.5	-4.0	-9.6
Coupons	29.0	25.3	4.4	12.7	8.1
Nonmarketable, <sup>2</sup>	6.0	3.4	.8	1.5	1.0
Other borrowing	-.2	-.1	.0	.0	.0
Decrease in the cash balance	19.0	-29.7	-38.8	21.4	-12.3
Memo: Cash balance at end of period	14.7	44.3	53.5	32.1	44.3
Other <sup>3</sup>	4.0	0.7	-.5	-6.1	7.3
<u>Federally sponsored credit agencies, net cash borrowing<sup>4</sup></u>					
	15.1	-	-	-	-
FHLBs	14.1	-	4.2	2.2	-
FNMA	-.8	-	.0	.7	-
Farm Credit Banks	-1.1	-	-.4	-	-
FAC	.0	-	.2	.0	.0
FHLMC	.6	-	-.7	-	-
FICO	.6	-	.5	.0	.5
SLMA	1.7	-	-	-	-

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

2. Securities issued by federal agencies under special financing authorities (primarily FSLIC).

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

4. Excludes mortgage pass-through securities issued by FNMA and FHLMC.  
e--staff estimate.

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