

October 26, 1988

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

advance at about the 2-3/4 percent annual rate recorded in the third quarter (abstracting from drought losses).¹ The recent decline in mortgage rates is expected to generate a slight uptick in homebuilding, and underlying trends in new orders appear consistent with further moderate expansion of business investment. In contrast, growth in consumer spending is expected to slow sharply from the rapid third-quarter gain.

Real GNP and the Drought
(Percent change, annual rate)

	1988			1989		
	Q2	Q3	Q4	Q1	Q2	H2
	--actual--			----projection----		
Real GNP	3.0	2.2	1.6	4.8	2.8	2.3
Real GNP excluding effects of the drought	3.9	2.8	2.8	2.4	2.0	1.9

Looking ahead to 1989, past and prospective monetary restraint is expected to continue slowing the pace of economic growth. As in the last Greenbook, the staff expects real GNP to advance at about a 2 percent rate next year (excluding drought effects), down from the 3-1/2 percent gain anticipated for 1988. Although the transition to this lower growth path is somewhat more gradual than in the September

1. Including the drought-induced loss of farm output, we expect fourth-quarter GNP to rise at about a 1-1/2 percent annual rate, versus 2.2 percent in the third quarter. The latest crop report, released by the USDA in early October, indicated that the harvest for the major crops would be only marginally larger than had been estimated in the September report. This change was too modest to affect the staff projection, which still shows the drought reducing real GNP growth 1-1/4 percentage points in the current quarter.

point as providing support for our previous judgment that the sizable shortfalls of pay increases from model predictions are likely to persist into 1989. And, we now view the risks of a substantial upside surprise as being appreciably diminished.

As a result of these adjustments, we expect the GNP fixed-weight price index to rise 4.2 percent in 1989, a downward revision of 0.3 percentage point from the latest Greenbook. The lower energy prices exercise more restraint on the CPI, which is projected to advance 4.3 percent next year, down 0.5 percent from the September Greenbook.

Staff Price Projection
(Percent change, annual rate)

	1988		1989			
	Q3	Q4	Q1	Q2	Q3	Q4
	-actual-		-----projection-----			
GNP fixed-weight price index	4.9	4.6	4.6	4.2	3.9	3.9
Consumer price index	4.8	4.5	4.3	4.3	4.2	4.4
Excl. food and energy	4.0	5.0	4.8	4.9	5.0	5.0

As in the previous forecast, two other factors temper the pace of projected inflation in 1989. Most important, the worst of the drought-related jump in food prices appears to be behind us, and the staff expects that consumer food prices will rise much less rapidly next year. Moreover, increases in non-oil import prices are expected to slow in 1989, reflecting the firmer performance of the dollar in recent quarters.

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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)	
		9/14/88	10/26/88	9/14/88	10/26/88	9/14/88	10/26/88	9/14/88	10/26/88	9/14/88	10/26/88
Annual changes:											
1986	<1>	5.6	5.6	2.8	2.8	2.8	2.8	2.7	2.7	7.0	7.0
1987	<1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2
1988		7.2	7.3	3.9	3.8	4.1	4.1	3.2	3.3	5.5	5.5
1989		7.0	7.2	2.9	2.9	4.6	4.5	4.0	4.2	5.6	5.5
Quarterly changes:											
1987	Q1 <1>	8.4	8.4	4.6	4.6	4.2	4.2	3.5	3.5	6.6	6.6
	Q2 <1>	8.7	8.7	5.0	5.0	4.2	4.2	3.5	3.5	6.3	6.3
	Q3 <1>	7.7	7.7	4.5	4.5	3.7	3.7	3.1	3.1	6.0	6.0
	Q4 <1>	8.6	8.6	6.1	6.1	3.8	3.8	2.4	2.4	5.9	5.9
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>	8.3	8.7	3.3	3.0	4.7	5.0	5.1	5.5	5.5	5.5
	Q3	6.5	6.6	2.5	2.2	5.2	5.0	3.8	4.4	5.5	5.5
	Q4	6.1	6.7	1.6	1.6	4.4	4.6	4.4	5.0	5.5	5.4
	Q1	8.5	8.9	4.4	4.8	5.0	4.6	3.9	3.9	5.5	5.4
	Q2	6.6	6.7	2.7	2.8	4.4	4.2	3.8	3.8	5.6	5.5
	Q3	6.2	6.0	2.4	2.4	4.3	3.9	3.6	3.6	5.7	5.5
	Q4	5.9	5.8	2.4	2.3	4.3	3.9	3.4	3.5	5.7	5.6
Two-quarter changes: <2>											
1987	Q2 <1>	8.5	8.5	4.8	4.8	4.2	4.2	3.5	3.5	- .5	- .5
	Q4 <1>	8.1	8.1	5.3	5.3	3.7	3.7	2.7	2.7	- .4	- .4
1988	Q2 <1>	6.8	7.0	3.3	3.2	4.0	4.2	3.4	3.6	- .4	- .4
	Q4	6.3	6.6	2.0	1.9	4.8	4.8	4.1	4.7	.0	- .1
1989	Q2	7.5	7.8	3.5	3.8	4.7	4.4	3.9	3.8	.1	.1
	Q4	6.0	5.9	2.4	2.3	4.3	3.9	3.5	3.5	.1	.1
Four-quarter changes: <3>											
1986	Q4 <1>	4.8	4.8	2.0	2.0	2.7	2.7	2.8	2.8	- .3	- .3
1987	Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	- .9	- .9
1988	Q4	6.6	6.8	2.7	2.5	4.4	4.5	3.8	4.1	- .4	- .5
1989	Q4	6.8	6.9	3.0	3.1	4.5	4.2	3.7	3.7	.2	.2

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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

October 26, 1988

	Units	Projection									
		1987		1988				1989			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	4568.0	4662.8	4724.5	4823.8	4901.0	4981.0	5088.2	5171.8	5248.2	5323.0
Real GNP	Billions of 82\$	3865.3	3923.0	3956.1	3985.2	4006.7	4022.9	4070.8	4098.9	4123.0	4146.4
Nominal GNP	Percent change	7.7	8.6	5.4	8.7	6.6	6.7	8.9	6.7	6.0	5.8
Real GNP		4.5	6.1	3.4	3.0	2.2	1.6	4.8	2.8	2.4	2.3
Gross domestic product		4.7	5.8	4.2	3.1	2.2	1.8	4.9	2.9	2.3	2.2
Gross domestic purchases		4.8	5.4	1.6	1.3	1.8	1.5	4.3	2.3	1.7	1.3
Final sales		6.1	.4	3.6	6.3	2.9	2.3	2.9	2.5	2.6	3.1
Private dom. final purchases		6.6	-1.3	4.3	4.5	3.2	2.3	2.4	2.0	1.8	1.8
Personal consumption expend.		4.6	-2.1	4.5	3.0	3.9	2.0	2.4	1.9	1.9	1.8
Durables		16.5	-17.3	14.7	9.8	3.2	.1	1.5	.7	.9	.7
Nondurables		.9	-.6	1.0	.4	3.4	2.4	2.3	1.3	1.2	1.0
Services		3.7	2.2	4.0	2.8	4.5	2.3	2.7	2.7	2.7	2.7
Business fixed investment		28.4	1.7	7.6	15.0	1.3	3.7	3.8	4.1	3.4	3.3
Producers' durable equipment		29.4	-2.4	21.6	19.2	4.5	6.0	6.0	6.0	5.0	5.0
Nonresidential structures		25.6	13.4	-22.4	3.3	-7.3	-3.1	-2.7	-1.8	-1.8	-1.9
Residential structures		-10.7	1.3	-6.5	.2	-1.8	3.7	.0	-2.2	-3.8	-1.6
Exports		25.7	17.7	25.7	9.1	13.0	11.1	12.6	11.4	12.5	13.3
Imports		23.4	9.9	6.9	-3.7	8.2	8.4	7.5	7.0	6.4	5.3
Government purchases		5.7	5.0	-7.9	3.9	-.6	1.3	1.9	2.1	2.4	3.0
Federal		12.6	6.7	-21.0	4.7	-3.6	.2	1.8	2.3	2.7	4.3
Defense		7.3	-1.9	-5.3	-1.5	-8.5	-5.6	-2.0	-.5	-.8	-.8
State and local		.6	3.8	3.5	3.2	1.7	2.0	2.0	2.0	2.1	2.2
Change in business inventories	Billions of 82\$	13.0	67.1	66.0	35.3	28.6	22.1	41.5	44.8	42.8	35.0
Farm	Billions of 82\$	18.3	68.2	51.9	30.1	32.0	39.6	40.8	41.8	38.1	31.3
Nonfarm	Billions of 82\$	-130.7	-126.0	-109.0	-92.6	-88.9	-87.5	-82.9	-78.6	-71.9	-62.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	102.7	103.7	104.7	105.6	106.5	107.0	107.5	107.9	108.3	108.6
Unemployment rate	Percent*	6.0	5.9	5.7	5.5	5.5	5.4	5.4	5.5	5.5	5.6
Industrial production index	Percent change	8.8	7.0	3.9	4.6	6.8	2.7	3.6	3.1	2.3	2.0
Capacity utilization rate-mfg.	Percent*	81.4	82.3	82.7	83.2	83.8	84.0	84.0	84.0	83.8	83.6
Housing Starts	Millions	1.62	1.53	1.48	1.48	1.45	1.46	1.45	1.43	1.40	1.39
Auto sales	Millions	11.42	10.02	10.79	10.76	10.65	10.44	10.55	10.40	10.37	10.30
Domestic	Millions	7.84	6.63	7.64	7.57	7.59	7.33	7.45	7.35	7.35	7.30
Foreign	Millions	3.58	3.38	3.15	3.19	3.06	3.10	3.10	3.05	3.02	3.00
INCOME AND SAVING											
Nominal personal income	Percent change	7.1	11.6	4.6	7.4	6.4	8.0	9.0	6.6	5.8	6.5
Real disposable income	Percent change	4.8	6.9	5.0	.0	3.7	2.7	4.6	1.4	1.3	1.7
Personal saving rate	Percent*	2.3	4.3	4.4	3.7	3.7	3.9	4.4	4.2	4.1	4.0
Corp. profits with IVA & CCAdj	Percent change	23.9	-7.1	.1	13.7	-4.2	4.8	14.9	6.6	-1.4	1.2
Profit share of GNP	Percent*	7.0	6.8	6.7	6.8	6.6	6.6	6.6	6.6	6.5	6.5
Federal govt. surplus/deficit	Billions of \$	-138.3	-160.4	-155.1	-133.3	-139.0	-147.1	-145.6	-138.5	-132.3	-136.3
State and local govt. surplus		52.9	49.7	55.8	56.2	60.9	64.4	69.6	72.5	73.4	75.2
Exc. social insurance funds		-10.1	-14.8	-10.3	-11.5	-8.0	-5.7	-1.7	.0	-.3	.3
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.1	2.4	1.7	5.5	4.4	5.0	3.9	3.8	3.6	3.5
GNP fixed-weight price index		3.7	3.8	3.5	5.0	5.0	4.6	4.6	4.2	3.9	3.9
Cons. & fixed invest. prices		3.9	4.3	2.5	5.0	4.5	4.5	4.1	4.4	4.2	4.2
CPI		3.6	3.9	3.2	4.9	4.8	4.5	4.3	4.3	4.2	4.4
Exc. food and energy		3.8	4.4	4.4	5.0	4.0	5.0	4.8	4.9	5.0	5.0
Nonfarm business sector											
per hour		3.7	.9	3.4	-1.4	.6	.6	.9	.8	.7	.9
sation per hour		4.5	6.4	3.5	4.2	4.5	4.5	4.9	4.7	4.8	4.8
labor costs		.7	5.4	.1	5.7	3.9	3.9	4.0	3.9	4.1	3.9

* Not at an annual rate.

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

	Units	1981	1982	1983	1984	1985	1986	1987	Projection	
									1988	1989
EXPENDITURES										
Nominal GNP	Billions of \$	3052.6	3166.0	3405.7	3722.2	4014.9	4240.3	4526.7	4857.6	5207.8
Real GNP	Billions of 82\$	3248.8	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3992.7	4109.8
Real GNP	Percent change*	.6	-1.9	6.5	5.1	3.6	2.0	5.0	2.5	3.1
Gross domestic product		.3	-1.6	6.6	5.3	3.8	2.3	5.1	2.8	3.1
Gross domestic purchases		.8	-.8	8.4	6.4	4.3	2.4	4.4	1.5	2.4
Final sales		.1	.3	3.7	4.7	4.6	2.5	3.0	3.8	2.8
Private dom. final purchases		-.3	.8	7.7	5.6	4.6	2.8	2.4	3.6	2.0
Personal consumption expend.		.2	2.9	5.4	4.1	4.6	4.2	1.8	3.4	2.0
Durables		-3.3	9.0	14.7	10.8	7.0	11.5	-2.4	6.8	1.0
Nondurables		.5	1.8	4.4	2.3	3.3	3.1	.6	1.8	1.4
Services		.9	2.3	3.9	3.5	5.0	2.7	4.2	3.4	2.7
Business fixed investment		5.6	-11.3	10.8	13.8	3.7	-7.3	8.8	6.8	3.7
Producers' durable equipment		2.2	-12.5	20.9	14.9	4.6	-2.4	9.6	12.6	5.5
Nonresidential structures		11.7	-9.1	-4.8	11.8	1.9	-17.4	6.7	-7.9	-2.0
Residential structures		-22.4	4.9	38.1	6.1	5.8	11.3	-3.5	-1.2	-1.9
Exports		2.4	-13.8	5.8	5.9	-2.4	5.6	18.4	14.5	12.4
Imports		4.9	-5.9	23.8	17.4	4.5	7.6	10.4	4.8	6.5
Government purchases		2.9	3.8	-2.7	7.9	8.6	2.9	2.3	-.9	2.4
Federal		9.5	8.2	-8.1	13.0	13.3	.0	2.1	-5.5	2.8
Defense		7.6	8.8	5.1	6.5	7.1	4.8	6.0	-5.3	-1.0
State and local		-1.3	.6	1.5	4.4	4.9	5.3	2.5	2.6	2.1
Change in business inventories	Billions of 82\$	23.9	-24.5	-6.4	62.3	9.1	15.4	34.4	38.0	41.0
Nonfarm	Billions of 82\$	19.0	-23.1	-.1	57.8	13.4	17.9	36.9	38.4	38.0
Net exports	Billions of 82\$	49.4	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-94.5	-73.9
Real GNP	Percent change*	9.3	3.1	10.4	8.6	6.6	4.8	8.3	6.8	6.9
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	91.2	89.6	90.2	94.5	97.5	99.5	102.3	105.9	108.1
Unemployment rate	Percent	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.5
Industrial production index	Percent change*	-1.0	-7.7	14.3	6.6	1.7	1.0	5.8	4.5	2.8
Capacity utilization rate-mfg.	Percent	78.2	70.3	73.9	80.5	80.1	79.7	81.0	83.4	83.8
Housing Starts	Millions	1.10	1.06	1.71	1.77	1.74	1.81	1.63	1.47	1.42
Auto sales	Millions	8.56	8.00	9.18	10.43	11.09	11.52	10.34	10.66	10.41
Domestic	Millions	6.24	5.77	6.77	7.97	8.24	8.28	7.14	7.53	7.36
Foreign	Millions	2.32	2.23	2.41	2.46	2.84	3.25	3.21	3.13	3.04
INCOME AND SAVING										
Nominal personal income	Percent change*	9.2	5.3	7.8	8.4	6.6	5.9	8.5	6.6	7.0
Real disposable income	Percent change*	.7	1.0	5.1	4.3	2.7	3.4	3.0	2.8	2.2
Personal saving rate	Percent	7.5	6.8	5.4	6.1	4.4	4.0	3.2	3.9	4.2
Corp. profits with IVA & CCAdj	Percent change*	2.3	-19.1	70.1	7.4	9.2	.9	7.6	3.4	5.1
Profit share of GNP	Percent	6.2	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.6
Federal govt. surplus/deficit	Billions of \$	-63.8	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-143.6	-138.2
State and local govt. surplus		34.1	35.1	47.5	64.6	65.1	61.2	52.9	59.3	72.7
Exc. social insurance funds		4.1	-1.7	4.4	19.8	13.8	5.0	-9.2	-8.9	-.4
PRICES AND COSTS										
GNP implicit deflator	Percent change*	8.7	5.2	3.6	3.4	2.9	2.8	3.1	4.1	3.7
GNP fixed-weight price index		8.5	5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.2
Cons. & fixed invest. prices		8.2	4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.2
CPI		9.6	4.4	3.2	4.1	3.5	1.3	4.4	4.4	4.3
Exc. food and energy		10.2	5.2	4.2	4.8	4.3	3.9	4.3	4.6	4.9
Nonfarm business sector										
Wage put per hour		-.6	1.0	3.6	1.5	1.5	1.2	1.9	.8	.8
Compensation per hour		8.3	7.3	3.3	4.2	4.5	4.2	4.1	4.2	4.8
Unit labor costs		9.0	6.2	-.3	2.6	2.9	3.0	2.1	3.4	3.9

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

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

October 26, 1988

	Projection										Projection			
	1987		1988				1989				1986	1987	1988	1989
											(fourth quarter to fourth quarter, net change)			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	42.3	57.7	33.1	29.1	21.5	16.3	47.8	28.2	24.1	23.4	72.3	188.3	99.9	123.4
Gross domestic product	43.6	54.3	40.3	30.4	22.1	17.8	48.1	29.1	23.6	22.6	83.3	188.3	110.7	123.4
Gross domestic purchases	47.0	53.0	16.1	12.7	17.8	14.8	43.2	23.9	17.5	13.5	89.4	171.9	61.5	98.1
Final sales	57.0	3.7	34.2	59.8	28.2	22.8	28.4	24.9	26.1	31.2	90.5	110.7	144.9	110.5
Private dom. final purchases	51.0	-10.7	33.4	36.0	25.7	18.9	20.0	16.4	14.8	15.3	85.8	76.2	114.0	66.6
Personal consumption expend.	28.6	-13.5	28.1	19.2	24.9	12.7	15.4	12.4	12.5	11.9	99.3	45.5	84.9	52.2
Durables	15.2	-18.9	13.5	9.5	3.3	.1	1.5	.8	1.0	.8	40.9	-9.7	26.3	4.0
Nondurables	2.1	-1.4	2.2	.9	7.6	5.4	5.2	2.9	2.7	2.3	27.0	5.2	16.1	13.1
Services	11.3	6.8	12.3	8.9	14.0	7.3	8.7	8.7	8.8	8.8	31.4	50.0	42.5	35.0
Business fixed investment	28.0	2.0	8.6	16.8	1.6	4.4	4.7	5.0	4.2	4.2	-33.6	37.5	31.4	18.1
Producers' durable equipment	20.9	-2.0	16.7	15.7	4.0	5.4	5.5	5.6	4.7	4.8	-7.6	29.2	41.8	20.6
Nonresidential structures	7.1	4.1	-8.1	1.0	-2.4	-1.0	-8	-6	-5	-6	-26.1	8.3	-10.4	-2.5
Residential structures	-5.5	.6	-3.2	.1	-.9	1.7	.0	-1.1	-1.8	-.8	20.3	-7.0	-2.3	-3.7
Change in business inventories	-14.8	54.1	-1.1	-30.7	-6.7	-6.5	19.4	3.3	-2.0	-7.8	-18.2	77.6	-45.0	12.9
Nonfarm	-6.7	49.9	-16.3	-21.8	1.9	7.6	1.2	1.0	-3.7	-6.8	-22.0	67.0	-28.6	-8.3
Farm	-8.0	4.2	15.2	-8.8	-8.7	-14.1	18.2	2.3	1.7	-1.0	3.8	10.6	-16.4	21.2
Net exports	-4.7	4.7	17.0	16.4	3.7	1.4	4.6	4.3	6.6	9.8	-17.1	16.4	38.5	25.4
Exports	24.5	18.3	27.0	10.7	15.4	13.6	15.8	14.9	16.6	18.1	20.4	71.4	66.7	65.4
Imports	29.3	13.6	9.9	-5.6	11.7	12.2	11.2	10.6	9.9	8.3	37.6	55.0	28.2	40.1
Government purchases	10.7	9.7	-16.2	7.4	-1.2	2.5	3.7	4.2	4.6	6.0	21.8	18.1	-7.5	18.6
Federal	10.0	5.6	-19.9	3.8	-3.1	.2	1.4	1.9	2.2	3.5	-.1	7.2	-19.0	9.1
Defense	4.7	-1.3	-3.6	-1.0	-5.8	-3.7	-1.3	-.3	-.5	-.5	11.7	15.1	-14.1	-2.6
Nondefense	5.3	6.9	-16.3	4.7	2.8	3.9	2.7	2.2	2.7	4.0	-11.8	-7.9	-4.9	11.7
State and local	.7	4.1	3.8	3.5	1.9	2.3	2.3	2.3	2.4	2.5	21.9	10.9	11.5	9.5

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

*October 26, 1988

	Fiscal Year 1987a	FY1988p			FY1989p			FRB Staff Projection								
		Admin ¹	CBO ²	FRB Staff	Admin ¹	CBO ²	FRB Staff	1987 IVa	Ia	1988 IIa	III	IV	1989			
													I	II	III	IV
BUDGET								Not seasonally adjusted								
Budget receipts ³	854	913	908	909	974	980	978	205	208	268	228	214	232	286	246	230
Budget outlays ³	1005	1066	1063	1064	1097	1127	1134	287	245	268	264	285	283	281	285	299
Surplus/deficit(-) to be financed ³	-150	-152	-155	-155	-123	-148	-156	-82	-37	0	-36	-70	-51	5	-39	-69
(On-budget)	-170	-192	-194	-194	-174	-199	-203	-68	-64	-18	-44	-77	-65	-13	-48	-77
(Off-budget)	20	40	39	39	51	52	47	-14	27	18	8	6	14	18	9	8
Means of financing:																
Borrowing	152	133	n.a.	165	118	n.a.	149	61	43	19	43	48	47	17	38	47
Cash decrease	-5	16	n.a.	-8	0	n.a.	8	14	0	-17	-5	27	-8	-15	-5	27
Other ⁴	4	3	n.a.	-2	5	n.a.	-1	7	-5	-3	-2	-5	13	-7	7	-5
Cash operating balance, end of period	36	20	n.a.	44	20	n.a.	45	23	23	40	44	17	25	40	45	18
NIPA FEDERAL SECTOR								Seasonally adjusted annual rates								
Receipts	895	973	966	965	1042	1037	1036	944	951	983	980	1000	1028	1050	1065	1084
Expenditures	1058	1102	1103	1112	1147	1171	1177	1105	1106	1116	1119	1148	1174	1189	1197	1220
Purchases	376	375	381	383	396	396	394	391	378	382	380	384	393	398	402	407
Defense	290	289	298	298	295	306	297	299	298	299	294	292	297	299	300	301
Nondefense	86	86	83	85	101	91	98	92	79	83	86	92	97	100	103	106
Other expend.	682	727	722	729	751	775	782	714	728	734	739	764	780	791	795	813
Surplus/deficit	-164	-129	-137	-147	-105	-134	-141	-160	-155	-133	-139	-147	-146	-138	-132	-136
FISCAL INDICATORS ⁵																
High-employment (HEB) surplus/deficit(-)	-141	n.a.	n.a.	-155	n.a.	n.a.	-156	-163	-162	-144	-149	-156	-162	-156	-149	-152
Change in HEB, percent of potential GNP	-1.1	n.a.	n.a.	.3	n.a.	n.a.	0	.8	0	-.4	.1	.1	.1	-.1	-.1	.1
Fiscal impetus measure (FI), percent	4.5 *	n.a.	n.a.	.2 *	n.a.	n.a.	-3.7 *	-.5	.6	-.1	-1.5	-1.6	-1.5	-.2	-.3	-.3
a--actual	p--projection			*--calendar year			n.a.--not available									

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

1. Mid-Session Review of the Fiscal 1989 Budget (July 28, 1988).
2. The Economic and Budget Outlook: An Update (August, 1988).
3. Includes 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. 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.

Strictly Confidential (FR)
Class II

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

	1987-	ANNUAL 1988-P	1989-P	1987 Q3-	Q4-	Q1-	1988 Q2-	Q3-P	Q4-P	Q1-P	1989 Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current \$, Net	-123.0	-90.6	-67.8	-125.2	-125.7	-112.1	-90.4	-81.3	-78.6	-74.7	-71.1	-66.6	-58.9
Exports of G+S	428.1	518.2	598.1	440.4	459.7	487.8	507.1	530.7	547.2	568.6	587.5	607.5	628.9
Imports of G+S	551.1	608.8	665.9	565.6	585.4	599.9	597.5	612.0	625.8	643.3	658.6	674.1	687.8
Constant 82 \$, Net	-128.9	-94.5	-73.9	-130.7	-126.0	-109.0	-92.6	-88.9	-87.5	-82.9	-78.6	-71.9	-62.1
Exports of G+S	427.9	505.3	565.7	440.9	459.2	486.2	496.9	512.3	525.9	541.7	556.6	573.2	591.3
Imports of G+S	556.7	599.8	639.6	571.6	585.2	595.1	589.5	601.2	613.4	624.6	635.2	645.2	653.5
2. U.S. Merchandise Trade Balance 2/	-160.3	-120.1	-98.3	-158.7	-164.8	-140.7	-120.6	-111.6	-107.6	-104.2	-100.1	-97.2	-91.4
Exports	249.6	322.5	372.0	259.6	272.1	301.2	318.4	330.0	340.3	354.3	366.2	377.1	390.5
Agricultural	29.5	38.9	46.2	33.1	30.5	36.1	38.6	40.4	40.6	44.5	45.7	46.0	48.5
Non-Agricultural	220.1	283.5	325.9	226.5	241.5	265.1	279.8	289.6	299.7	309.9	320.5	331.1	342.0
Imports	409.9	442.6	470.3	418.3	436.8	441.9	439.0	441.6	447.8	458.6	466.3	474.3	481.9
Petroleum and Products	42.9	38.4	36.9	51.0	45.2	39.8	41.0	38.6	34.1	36.2	36.6	37.1	37.7
Non-Petroleum	367.0	404.2	433.4	367.2	391.7	402.1	398.0	402.9	413.8	422.4	429.7	437.3	444.2
3. U.S. Current Account Balance	-154.0	-133.4	-112.6	-167.9	-134.1	-147.8	-135.4	-131.1	-119.4	-117.0	-114.6	-112.0	-106.7
Of Which: Net Investment Income	20.4	-4.5	-6.1	4.3	50.2	4.6	-8.2	-12.9	-1.6	-3.4	-5.8	-6.9	-8.2
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	2.9	3.4	2.3	5.2	3.6	5.2	0.6	2.7	2.6	2.4	2.3	2.3	2.3
Real GNP--NonOPEC LDC 5/	4.2	3.4	3.8	3.6	3.3	3.1	3.3	3.5	3.8	3.9	3.9	3.9	3.8
Consumer Prices--Ten Ind. 4/	2.1	2.6	3.0	1.7	2.4	1.5	4.1	2.7	3.3	2.4	3.5	2.5	3.4

1/ National Income 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

October 26, 1988

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS
(Monthly rates, not seasonally adjusted, billions of dollars)

	1987	1988					
	Year	Q1	Q2 ^p	Q3 ^p	Aug. ^p	Sept. ^p	Oct. ^e
Corporate securities - total ¹	24.08	23.56	25.09	19.85	18.87	22.51	20.60
Public offerings in U.S.	21.89	22.17	22.50	17.76	17.50	19.80	19.00
Stocks--total ²	4.45	3.89	3.68	3.91	3.50	3.10	3.00
Nonfinancial	2.32	.76	1.65	1.47	1.20	.80	1.00
Utility	.57	.32	.31	.13	.20	.15	.20
Industrial	1.75	.44	1.34	1.34	1.00	.65	.80
Financial	2.12	3.13	2.03	2.44	2.30	2.30	2.00
Bonds--total ¹	17.44	18.28	18.82	13.85	14.00	16.70	16.00
Nonfinancial	6.61	6.59	7.93	5.07	5.25	5.80	6.00
Utility	2.02	2.25	2.55	1.13	.35	1.80	1.50
Industrial	4.59	4.34	5.38	3.94	4.90	4.00	4.50
Financial	10.83	11.69	10.88	8.78	8.75	10.90	10.00
By quality ³							
Aaa and Aa	3.27	3.83	3.11	1.75	2.70	1.45	1.50
A and Baa	5.20	7.06	7.24	3.84	3.30	5.55	5.50
Less than Baa	2.77	1.33	2.85	2.70	2.70	2.30	3.50
No rating (or unknown)	.07	.16	.14	.07	.10	.10	.10
Memo items:							
Equity-based bonds ⁴	.87	.13	.37	.32	.09	.39	.25
Mortgage-backed bonds	5.19	5.47	4.16	3.82	4.58	3.80	4.80
Other asset-backed	.96	.53	1.32	1.67	.60	3.49	.60
Variable-rate notes	1.88	1.44	1.35	.80	1.09	.35	.20
Bonds sold abroad - total	2.03	1.34	2.40	2.01	1.34	2.70	1.50
Nonfinancial	.94	.39	.87	.81	.83	1.00	.65
Financial	1.09	.95	1.53	1.20	.51	1.90	.85
Stocks sold abroad - total	.16	.05	.19	.08	.03	.01	.10
Nonfinancial	.12	.04	.14	.07	.01	.00	.10
Financial	.04	.01	.05	.01	.02	.01	.00

1. Securities issued in the private placement market are not included. Total reflects gross proceeds rather than par value of original discount bonds.

2. Includes equity issues associated with debt/equity swaps.

3. Bonds categorized according to Moody's bond ratings or Standard and Poors if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.

4. Includes bonds convertible into equity and bonds with warrants that entitle the holder to purchase equity in the future.

p--preliminary. e--staff estimate.

III-10
TREASURY AND AGENCY FINANCING¹
(Total for period; billions of dollars)

	1988		1988		
	Q3 ^P	Q4 ^e	Sept. ^P	Oct. ^e	Nov. ^e
<u>Treasury financing</u>					
Total surplus/deficit (-)	-36.0	-70.4	10.1	-28.2	-30.9
Means of financing deficit:					
Net cash borrowing from the public	42.6	47.6	15.5	10.2	20.0
Marketable borrowings/ repayments (-)	32.8	41.0	12.2	7.4	18.5
Bills	16.2	18.7	5.1	5.1	6.6
Coupons	16.7	22.3	7.1	2.3	11.9
Nonmarketable ²	3.8	4.5	.4	2.2	.8
Other borrowing ²	5.9	2.1	3.0	.7	.7
Decrease in the cash balance	-4.9	27.3	-31.4	13.6	21.5
Memo: Cash balance at end of period	44.4	17.1	44.4	30.9	9.4
Other ³	-1.8	-4.5	5.8	4.4	-10.6
<u>Federally sponsored credit agencies, net cash borrowing⁴</u>					
	10.3 ^e	--	5.3 ^e	--	--
FHLBs	8.2	--	4.7	--	--
FNMA	1.0 ^e	--	.0 ^e	--	--
Farm Credit Banks ⁵	-1.7	--	.2	--	--
FAC	.5	--	.0	.0	--
FHLMC	.7 ^e	--	.2 ^e	--	--
FICO	.9	--	.0	.0	.7
SLMA	.7	--	.2	--	--

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.

5. Financial Assistance Corporation, an institution within Farm Credit System, was created in January 1988 by Congress to provide financial assistance to Farm Credit Banks. It first issued bonds in July 1988.

e--staff estimate.

p--preliminary.

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

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

	1986	1987	1988			1988		
	Year	Year	Q1	Q2	Q3 ^p	Aug.	Sept. ^p	Oct. ^f
Total offerings ¹	14.39	10.44	8.68	11.73	11.39	12.87	10.21	11.70
Total tax-exempt	14.04	10.05	8.46	11.41	11.16	12.65	9.86	11.50
Long-term	12.25	8.53	7.94	9.20	8.65	6.97	9.24	10.00
Refundings ²	5.29	3.80	3.05	3.18	1.76	1.65	2.27	--
New capital ³	6.96	4.73	4.89	6.02	6.89	5.32	6.97	--
Short-term	1.79	1.52	.52	2.21	2.51	5.68	.62	1.50
Total taxable	.35	.39	.22	.32	.23	.22	.35	.20

p--preliminary. f--staff 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.

In late September, the Securities and Exchange Commission, in connection with release of its report on the 1983 Washington Public Power Supply System default, tightened disclosure standards for municipal securities. Underwriters are now required to evaluate potential municipal issuers and to have a reasonable basis for believing in the accuracy of the key representations about the securities they seek to underwrite. The SEC's new ruling applies to both competitive and negotiated underwritings in excess of \$10 million, which currently represent about one-fourth of all municipal issues and about two-thirds of the dollar volume. Thus far, the SEC's action has not had a noticeable effect on the market for new municipal issues.

Mortgage Markets

Growth of mortgage debt appears to have picked up in the third quarter, reflecting better sales of new and existing homes this summer. Growth of real estate loans at commercial banks was strong throughout

CONFIDENTIAL (FR)
CLASS III - FOMC

October 28, 1988

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

REAL GROSS NATIONAL PRODUCT AND RELATED ITEMS

(Percent change from previous period at compound annual rates;
based on seasonally adjusted data)

	1986-Q4 to 1987-Q4	1988-Q2 Final	1988-Q3 Advance	Oct. GB
1. Gross national product	5.0	3.0	2.2	2.2
1a. Excluding drought effects	5.0	3.9	2.8	2.9
2. Final sales	3.0	6.3	2.4	2.9
2a. Excluding CCC purchases	3.4	6.0	2.1	2.6
3. Consumer spending	1.8	3.0	3.5	3.9
3a. Excluding motor vehicles	2.5	2.3	3.7	3.5
4. Business fixed investment	8.8	15.0	4.6	1.3
4a. Producers' durable equipment	9.6	19.2	5.8	4.5
4b. Structures	6.7	3.3	1.6	-7.3
5. Residential structures	-3.5	.2	1.3	-1.8
6. Federal purchases	2.1	4.7	-6.5	-3.6
6a. Defense	6.0	-1.5	-10.1	-8.5
7. State and local purchases	2.5	3.2	2.5	1.7
8. Exports of goods and services	18.4	9.1	8.4	13.0
9. Imports of goods and services	10.4	-3.7	8.7	8.2

ADDENDA:				
10. Inventory change *	34.4 **	35.3	33.8	28.6
10a. Nonfarm *	36.9 **	30.1	34.0	32.0
10b. Farm *	-2.5 **	5.3	-3	-3.4
11. Net exports*	-128.9 **	-92.6	-94.9	-88.9
12. Nominal GNP	8.3	8.7	6.4	6.6
13. GNP implicit price deflator	3.1	5.5	4.4	4.4
14. GNP fixed-weight price index	4.0	5.0	4.9	5.0
15. Real disposable personal income	3.0	.0	4.7	1.0
16. Saving rate (percent)	3.2 ⇌	3.7	4.0	3.7

*Level, billions of constant dollars.

**Annual average.