

June 22, 1988

SUMMARY AND OUTLOOK

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

June 22, 1988

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)			
	5/11/88	6/22/88	5/11/88	6/22/88	5/11/88	6/22/88	5/11/88	6/22/88	5/11/88	6/22/88		
Annual changes:												
1986	<1>	5.6	5.6	2.9	2.9	2.7	2.7	2.6	2.6	7.0	7.0	
1987	<1>	6.0	6.0	2.9	2.9	3.4	3.4	3.0	3.0	6.2	6.2	
1988	6.5	6.8	3.2	3.6	3.9	4.0	3.1	3.1	5.6	5.6		
1989	6.2	6.3	2.2	2.2	4.3	4.4	3.9	4.1	5.8	5.8		
Quarterly changes:												
1987	Q1	<1>	8.6	8.6	4.4	4.4	4.5	4.5	4.2	4.2	6.6	6.6
	Q2	<1>	6.3	6.3	2.5	2.5	4.1	4.1	3.5	3.5	6.3	6.3
	Q3	<1>	7.3	7.3	4.3	4.3	3.4	3.4	2.8	2.8	6.0	6.0
	Q4	<1>	7.6	7.6	4.8	4.8	3.6	3.6	2.7	2.7	5.9	5.9
1988	Q1	<1>	4.7	5.4	2.3	3.9	3.7	3.6	2.4	1.7	5.7	5.7
	Q2		7.1	8.2	3.5	3.3	4.1	4.7	3.6	4.7	5.5	5.6
	Q3		6.7	6.3	2.4	2.1	4.5	4.4	4.1	4.2	5.6	5.7
	Q4		6.3	6.7	2.3	2.3	4.4	4.5	4.0	4.3	5.6	5.7
	Q1		6.2	6.5	1.9	2.0	4.6	4.9	4.2	4.4	5.7	5.7
	Q2		5.8	5.5	1.9	1.7	4.2	4.1	3.9	3.7	5.8	5.8
	Q3		5.8	6.1	2.0	2.4	4.0	4.0	3.7	3.5	5.8	5.8
	Q4		5.6	6.1	1.9	2.4	3.9	4.0	3.6	3.6	5.9	5.9
Two-quarter changes: <2>												
1987	Q2	<1>	7.5	7.5	3.4	3.4	4.4	4.4	3.9	3.9	-.5	-.5
	Q4	<1>	7.4	7.4	4.6	4.6	3.6	3.6	2.8	2.8	-.4	-.4
1988	Q2		5.9	6.8	2.9	3.6	3.9	4.2	3.0	3.2	-.4	-.3
	Q4		6.5	6.5	2.3	2.2	4.4	4.5	4.1	4.2	.1	.1
1989	Q2		6.0	6.0	1.9	1.9	4.4	4.5	4.0	4.0	.2	.1
	Q4		5.7	6.1	2.0	2.4	3.9	4.0	3.6	3.6	.1	.1
Four-quarter changes: <3>												
1986	Q4	<1>	4.5	4.5	2.2	2.2	2.3	2.3	2.2	2.2	-.3	-.3
1987	Q4	<1>	7.4	7.4	4.0	4.0	4.0	4.0	3.3	3.3	-.9	-.9
1988	Q4		6.2	6.7	2.6	2.9	4.1	4.3	3.5	3.7	-.3	-.2
1989	Q4		5.8	6.0	1.9	2.1	4.1	4.2	3.8	3.8	.3	.2

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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

	Units	Projection											
		1987				1988				1989			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
EXPENDITURES													
Nominal GNP	Billions of \$	4524.0	4607.4	4668.7	4762.0	4835.9	4914.4	4992.0	5059.5	5134.4	5210.7		
Real GNP	Billions of 82\$	3835.9	3880.8	3918.0	3949.8	3970.2	3992.8	4012.9	4030.3	4054.6	4078.6		
Nominal GNP	Percent change	7.3	7.6	5.4	8.2	6.3	6.7	6.5	5.5	6.1	6.1		
Real GNP		4.3	4.8	3.9	3.3	2.1	2.3	2.0	1.7	2.4	2.4		
Gross domestic product		4.8	4.4	4.3	3.2	2.0	2.2	1.9	1.7	2.4	2.3		
Gross domestic purchases		4.8	4.3	2.1	1.6	1.8	1.3	.4	.3	1.1	1.1		
Final sales		6.0	.9	4.5	3.5	2.7	3.2	3.2	2.1	2.5	2.4		
Private dom. final purchases		-7.3	-1.4	5.7	1.1	3.6	2.3	1.4	.5	1.1	1.0		
Personal consumption expend.		5.4	-2.5	4.3	1.5	3.0	2.2	1.6	.6	.9	1.0		
Durables		24.3	-20.3	13.3	4.2	.7	1.2	.8	-.1	-.1	.6		
Nondurables		-1.5	-.5	1.7	-3.2	2.9	1.7	1.0	-.1	-.2	-.2		
Services		5.0	2.4	3.3	4.0	3.7	2.9	2.3	1.2	1.7	1.7		
Business fixed investment		25.8	1.6	20.8	.0	9.8	4.7	3.1	1.6	2.8	1.7		
Producers' durable equipment		26.3	-.9	32.8	-1.5	13.0	6.0	4.4	2.4	4.0	2.4		
Nonresidential structures		24.6	8.4	-6.6	4.3	1.1	1.1	-.5	-.7	-.7	-.4		
Residential structures		-6.5	7.4	-9.4	-1.7	-2.5	-2.4	-5.4	-4.5	-.4	-.5		
Exports		23.7	15.9	20.7	10.6	9.9	15.2	17.9	17.8	15.5	14.2		
Imports		22.4	9.9	3.4	-2.6	6.7	5.8	4.1	5.2	4.9	4.2		
Government purchases		2.6	9.2	-9.0	4.7	-2.6	1.5	2.1	1.0	1.2	.9		
Federal		4.5	14.1	-21.2	8.2	-9.1	.0	1.5	-1.1	-.7	-1.3		
Defense		7.5	-.9	-4.3	-8.5	-11.1	-.3	1.8	-1.1	-1.1	-1.1		
State and local		1.2	5.5	1.5	2.1	2.5	2.5	2.5	2.5	2.6	2.5		
Change in business inventories	Billions of 82\$	24.6	60.5	55.4	53.7	48.2	39.8	28.7	25.6	25.2	25.6		
Nonfarm	Billions of 82\$	12.1	51.5	37.6	45.8	40.9	33.8	20.8	17.1	16.7	17.1		
N. exports	Billions of 82\$	-138.4	-135.8	-119.1	-102.9	-100.8	-91.3	-75.7	-60.9	-47.7	-34.5		
EMPLOYMENT AND PRODUCTION													
Nonfarm payroll employment	Millions	102.7	103.7	104.7	105.5	106.0	106.4	106.8	107.0	107.4	107.8		
Unemployment rate	Percent*	6.0	5.9	5.7	5.6	5.7	5.7	5.7	5.8	5.8	5.9		
Industrial production index	Percent change	8.8	7.0	3.9	4.6	3.7	2.6	2.0	2.7	3.0	3.0		
Capacity utilization rate-mfg.	Percent*	81.4	82.3	82.7	83.1	83.2	83.0	82.8	82.7	82.6	82.5		
Housing Starts	Millions	1.62	1.53	1.49	1.49	1.47	1.41	1.39	1.38	1.38	1.38		
Auto sales	Millions	11.42	10.02	10.79	10.40	10.10	10.12	10.05	10.02	9.95	9.93		
Domestic	Millions	7.84	6.63	7.64	7.27	7.07	7.10	7.05	7.05	7.00	7.00		
Foreign	Millions	3.58	3.38	3.15	3.12	3.03	3.02	3.00	2.97	2.95	2.93		
INCOME AND SAVING													
Nominal personal income	Percent change	5.8	10.3	5.1	7.0	5.8	8.4	7.8	5.4	5.4	6.5		
Real disposable income	Percent change	4.5	6.0	3.9	.9	2.3	2.9	2.8	.0	.7	1.5		
Personal saving rate	Percent*	2.8	4.8	4.7	4.5	4.4	4.5	4.8	4.6	4.5	4.6		
Corp. profits with IVA & CCAdj	Percent change	26.7	-2.4	-3.9	21.6	1.5	-3.1	3.4	1.0	8.5	12.1		
Profit share of GNP	Percent*	7.0	6.8	6.6	6.8	6.8	6.6	6.5	6.5	6.5	6.6		
Federal govt. surplus/deficit	Billions of \$	-135.8	-160.2	-151.8	-141.3	-136.9	-141.5	-150.9	-139.5	-128.9	-126.6		
State and local govt. surplus		46.5	37.9	45.8	49.2	53.6	56.3	60.1	60.4	60.8	61.5		
Exc. social insurance funds		-5.6	-15.5	-9.2	-6.5	-2.8	-.8	2.3	1.9	1.6	1.6		
PRICES AND COSTS													
GNP implicit deflator	Percent change	2.8	2.7	1.7	4.7	4.2	4.3	4.4	3.7	3.5	3.6		
GNP fixed-weight price index		3.4	3.6	3.6	4.7	4.4	4.5	4.9	4.1	4.0	4.0		
Cons. & fixed invest. prices		3.9	3.3	2.7	5.1	4.7	4.7	4.7	4.6	4.4	4.4		
CPI		3.6	3.9	3.2	4.8	4.8	5.0	4.6	4.8	4.6	4.7		
Exc. food and energy		3.6	4.2	4.4	4.7	4.5	5.2	5.1	5.1	5.0	5.0		
Nonfarm business sector		4.2	-1.0	3.6	-.1	.2	.8	.4	.7	.9	.9		
Output per hour		3.6	3.5	3.4	3.8	4.1	4.4	4.9	4.6	4.6	4.6		
Compensation per hour		-.6	4.5	-.2	3.9	3.9	3.6	4.5	3.9	3.7	3.7		
Labor costs													

* Not at an annual rate.

June 22, 1988

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	3772.2	4010.3	4235.0	4488.5	4795.2	5099.2
Real GNP	Billions of 82\$	3248.8	3166.0	3279.1	3501.4	3607.5	3713.3	3821.0	3957.7	4044.1
Real GNP	Percent change*	.6	-1.9	6.5	5.1	3.3	2.2	4.0	2.9	2.1
Gross domestic product		.3	-1.6	6.6	5.3	3.5	2.6	4.1	2.9	2.1
Gross domestic purchases		.8	-.8	8.4	6.4	4.1	2.7	3.4	1.7	.7
Final sales		.1	.3	3.7	4.7	4.6	2.6	2.0	3.5	2.5
Private dom. final purchases		-.3	.8	7.7	5.6	4.6	3.2	1.3	3.2	1.0
Personal consumption expend.		.2	2.9	5.4	4.1	4.5	4.1	1.0	2.7	1.0
Durables		-3.3	9.0	14.7	10.8	6.6	12.4	-3.6	4.7	.3
Nondurables		.5	1.8	4.4	2.3	2.9	2.9	-.6	.8	.3
Services		.9	2.3	3.9	3.5	5.0	2.4	3.7	3.5	1.7
Business fixed investment		5.6	-11.3	10.8	13.8	4.7	-4.7	5.1	8.5	2.3
Producers' durable equipment		2.2	-12.5	20.9	14.9	7.0	-.2	5.4	11.9	3.3
Nonresidential structures		11.7	-9.1	-4.8	11.8	.1	-15.4	4.2	-.1	-.6
Residential structures		-22.4	4.9	38.1	6.1	6.0	12.5	-2.6	-4.1	-2.7
Exports		2.4	-13.8	5.8	5.9	-2.7	5.9	16.8	14.0	16.4
Imports		4.9	-5.9	23.8	17.4	5.2	8.9	9.1	3.2	4.6
Government purchases		2.9	3.8	-2.7	7.9	8.7	2.4	2.2	-1.5	1.3
Federal		9.5	8.2	-8.1	13.0	14.9	-.2	.9	-6.2	-.4
Defense		7.6	8.8	5.1	6.5	7.0	4.8	5.9	-6.1	-.4
State and local		-1.3	.6	1.5	4.4	4.0	4.6	3.3	2.2	2.5
Change in business inventories	Billions of 82\$	23.9	-24.5	-6.4	62.3	7.4	13.8	42.9	49.3	26.3
Nonfarm	Billions of 82\$	19.0	-23.1	-.1	57.8	12.0	15.4	32.5	39.5	17.9
Net exports	Billions of 82\$	49.4	26.3	-19.9	-84.0	-108.2	-145.8	-135.5	-103.5	-54.7
Nominal GNP	Percent change*	9.3	3.1	10.4	8.6	6.6	4.5	7.4	6.7	6.0
ECONOMY AND PRODUCTION										
Nonfarm payroll employment	Millions	91.2	89.6	90.2	94.5	97.5	99.6	102.1	105.7	107.3
Unemployment rate	Percent	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.6	5.8
Industrial production index	Percent change*	-1.0	-7.7	14.3	6.6	1.7	1.0	5.8	3.7	2.7
Capacity utilization rate-mfg.	Percent	78.2	70.3	73.9	80.5	80.1	79.7	81.0	83.0	82.6
Housing Starts	Millions	1.10	1.06	1.71	1.77	1.74	1.81	1.63	1.46	1.38
Auto sales	Millions	8.56	8.00	9.18	10.43	11.09	11.52	10.34	10.35	9.99
Domestic	Millions	6.24	5.77	6.77	7.97	8.24	8.28	7.14	7.27	7.03
Foreign	Millions	2.32	2.23	2.41	2.46	2.84	3.25	3.21	3.08	2.96
INCOME AND SAVING										
Nominal personal income	Percent change*	9.2	5.3	7.8	8.4	6.8	5.5	7.3	6.6	6.3
Real disposable income	Percent change*	.7	1.0	5.1	4.3	2.8	3.6	2.1	2.5	1.2
Personal saving rate	Percent	7.5	6.8	5.4	6.1	4.5	4.3	3.7	4.5	4.6
Corp. profits with IVA & CCAdj	Percent change*	2.3	-19.1	70.1	7.4	4.1	1.2	11.3	3.5	6.2
Profit share of GNP	Percent	6.2	4.7	6.3	7.1	6.9	6.7	6.8	6.7	6.5
Federal govt. surplus/deficit	Billions of \$	-63.8	-145.9	-176.0	-169.6	-196.0	-204.7	-151.4	-142.9	-136.5
State and local govt. surplus		34.1	35.1	47.5	64.6	63.1	56.8	44.0	51.2	60.7
Exc. social insurance funds		4.1	-1.7	4.4	19.8	16.0	7.4	-7.7	-4.8	1.8
PRICES AND COSTS										
GNP implicit deflator	Percent change*	8.7	5.2	3.6	3.4	3.1	2.2	3.3	3.7	3.8
GNP fixed-weight price index		8.5	5.0	3.9	3.7	3.6	2.3	4.0	4.3	4.2
Cons. & fixed invest. prices		8.2	4.4	3.3	3.3	3.5	2.0	4.3	4.3	4.5
CPI		9.6	4.4	3.2	4.1	3.5	1.3	4.4	4.5	4.7
Exc. food and energy		10.2	5.2	4.2	4.8	4.3	3.9	4.3	4.8	5.0
Nonfarm business sector		-.6	1.0	3.6	1.5	1.0	1.5	1.3	1.1	.7
Output per hour		8.3	7.3	3.3	4.2	4.8	3.4	2.8	3.9	4.7
Compensation per hour		9.0	6.2	-.3	2.6	3.7	1.9	1.5	2.8	3.9
Unit labor costs										

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

June 22, 1988

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

	Projection										Projection			
	1987		1988				1989				1986	1987	1988	1989
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	40.6	44.9	37.2	31.8	20.4	22.7	20.1	17.4	24.3	24.0	80.6	149.3	112.0	85.8
Gross domestic product	44.5	41.6	40.5	31.1	19.3	22.0	19.0	16.8	23.6	22.6	92.7	150.2	112.9	82.0
Gross domestic purchases	46.3	42.3	20.5	15.6	18.3	13.1	4.5	2.7	11.1	10.7	103.1	133.3	67.5	29.0
Final sales	55.1	8.9	42.3	33.5	25.9	31.0	31.2	20.5	24.7	23.6	93.3	74.5	132.7	100.0
Private dom. final purchases	55.8	-10.9	44.0	8.4	28.9	18.7	11.6	3.8	9.1	8.5	97.7	41.4	100.0	33.0
Personal consumption expend.	33.2	-16.1	26.3	9.3	18.6	14.1	10.3	3.9	5.8	6.6	97.3	24.1	68.2	26.6
Durables	21.5	-22.4	12.2	4.1	.7	1.2	.8	-.1	-.1	.6	43.9	-14.5	18.2	1.3
Nondurables	-3.3	-1.1	3.8	-7.1	6.2	3.7	2.1	.2	.4	.4	24.6	-5.7	6.6	3.1
Services	13.0	7.5	10.1	12.4	11.7	9.2	7.3	3.9	5.5	5.5	28.6	44.5	43.3	22.2
Business fixed investment	25.9	1.8	22.5	.0	11.5	5.8	3.9	2.0	3.5	2.2	-22.0	22.4	39.8	11.6
Producers' durable equipment	19.1	-.8	24.7	-1.3	11.1	5.4	4.1	2.3	3.8	2.3	.6	17.2	39.9	12.4
Nonresidential structures	6.8	2.6	-2.2	1.3	.4	.3	-.2	-.2	-.2	-.1	-22.6	5.2	-.2	-.8
Residential structures	-3.3	3.5	-4.8	-.8	-1.2	-1.2	-2.6	-2.2	-.2	-.2	22.5	-5.2	-8.0	-5.2
Change in business inventories	-14.4	35.9	-5.1	-1.7	-5.6	-8.4	-11.1	-3.1	-.4	.4	-12.8	74.9	-20.7	-14.2
Nonfarm	-10.6	39.4	-13.9	8.2	-5.0	-7.1	-13.0	-3.7	-.4	.4	-14.4	49.2	-17.7	-16.7
Farm	-3.8	-3.5	8.8	-9.9	-.6	-1.3	1.9	.6	.0	.0	1.6	25.6	-3.0	2.5
Net exports	-5.7	2.6	16.7	16.2	2.1	9.5	15.6	14.7	13.2	13.2	-22.5	16.0	44.5	56.8
Exports	22.6	16.4	21.8	12.1	11.7	18.0	21.8	22.5	20.6	19.7	21.8	65.2	63.6	84.6
Imports	28.4	13.7	5.0	-4.0	9.6	8.5	6.2	7.8	7.4	6.4	44.3	49.2	19.1	27.8
Government purchases	5.0	17.2	-18.4	8.8	-5.0	2.8	4.0	1.9	2.4	1.8	18.1	17.1	-11.8	10.2
Federal	3.7	11.3	-20.1	6.5	-7.8	.0	1.2	-.9	-.5	-1.1	-.7	3.0	-21.4	-1.2
Defense	4.8	-.6	-2.9	-5.8	-7.5	-.2	1.1	-.7	-.7	-.7	11.6	15.0	-16.4	-1.0
Nondefense	-1.2	12.1	-17.3	12.3	-.3	.2	.1	-.2	.2	-.4	-12.3	-11.9	-5.1	-.2
State and local	1.3	5.9	1.7	2.3	2.8	2.8	2.8	2.8	2.9	2.9	18.7	14.2	9.6	11.4

June 22, 1988

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

Fiscal Year 1987*	FY1988e			FY1989e			CY 1988e FRB Staff	1987 IV*	I*	FRB Staff Estimates					
	Admin ¹	FRB Staff	Admin ¹	FRB Staff	II	1988 III	IV			I	1989 II	III			
Not seasonally adjusted															
Budget receipts ²	854	909	906	965	970	869	915	205	208	265	228	214	232	278	246
Budget outlays ²	1095	1056	1064	1094	1127	1037	1056	287	245	266	266	278	28	287	279
Surplus/deficit ² to be financed ²	-150	-147	-158	-130	-157	-168	-140	-82	-37	-1	-38	-64	-52	-8	-33
Means of financing:															
Borrowing from public	152	127	149	127	149	142	144	61	43	16	30	56	37	29	27
Cash balance decrease	-5	16	4	0	2	8	3	14	0	-12	2	13	5	-15	25
Other ³	4	3	5	3	10	16	-6	7	-5	-3	6	-5	10	-6	11
Cash operating balance, end of period	36	20	33	20	35	23	20	23	23	35	33	20	15	30	35
Memo: Sponsored agency borrowing ⁴	20	n.a.	51	n.a.	32	34	37	19	11	12	9	5	5	10	12
Seasonally adjusted annual rates															T-12
NIPA Federal Sector															
Receipts	894	974	963	1029	1029	916	978	938	952	980	981	998	1022	1040	1057
Expenditures	1053	1098	1110	1146	1169	1067	1121	1098	1103	1122	1118	1140	1173	1180	1186
Purchases	374	375	384	396	392	379	383	389	380	388	381	384	393	395	396
Defense	290	289	297	295	298	295	295	300	302	297	290	291	298	300	301
Nondefense	84	86	87	101	94	84	88	89	78	91	92	93	95	95	96
All other expend.	679	723	726	750	777	688	737	709	724	734	736	756	780	785	789
Surplus/deficit(-)	-159	-124	-148	-117	-140	-151	-143	-160	-152	-141	-137	-142	-151	-140	-129
High-employment surplus/ deficit(-) evaluated at 6 percent unemp.	-141	n.a.	-155	n.a.	-149	-141	-153	-161	-159	-153	-148	-153	-161	-147	-136

**-actual

e--estimated

n.a.--not available

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

1. Budget of the United States Government, Fiscal Year 1989 (February 1988). The Congressional Budget Office baseline estimates released March 1988 indicated receipts of \$898 and \$954 billion, outlays of \$1059 and \$1131 billion, and deficits of \$161 and \$177 billion in FY1988 and FY1989, respectively.
2. Includes social security receipts and outlays, which are 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, the Federal Home Loan Mortgage Corporation (excluding participation certificates), the Federal National Mortgage Association (excluding mortgage-backed securities), Farm Credit Banks, the Student Loan Marketing Association, and the Financing Corporation. The Administration's definition of borrowing by these agencies is somewhat broader.

Strictly Confidential (FR)
Class II FOMC

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

	ANNUAL			1987		1988				1989			
	1987-	1988-P	1989-P	Q3-	Q4-	Q1-	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
GNP Exports and Imports 1/													
Current \$, Net	-119.6	-98.0	-63.9	-123.7	-124.3	-109.4	-95.6	-96.8	-90.2	-78.4	-68.5	-59.2	-49.5
Exports of G+S	427.8	512.7	611.2	439.2	458.1	482.7	501.3	521.1	545.8	574.1	600.3	624.0	646.5
Imports of G+S	547.4	610.7	675.1	562.9	582.4	592.1	596.9	617.9	636.0	652.4	668.8	683.2	696.0
Constant 82 \$, Net	-135.5	-103.6	-54.8	-138.4	-135.8	-119.1	-103.0	-100.9	-91.4	-75.8	-61.0	-47.8	-34.6
Exports of G+S	425.7	494.7	571.0	437.1	453.5	475.3	487.4	499.1	517.1	538.9	561.4	582.1	601.7
Imports of G+S	561.3	598.2	625.7	575.6	589.3	594.3	590.3	599.9	608.4	614.6	622.4	629.8	636.2
2. U.S. Merchandise Trade Balance 2/	-160.3	-136.4	-112.4	-158.7	-164.8	-143.8	-132.6	-136.8	-132.2	-123.4	-115.7	-108.6	-102.0
Exports	249.6	320.4	382.8	259.6	272.1	298.7	315.4	325.6	341.7	359.6	375.6	390.5	405.4
Agricultural	29.5	36.7	41.9	33.1	30.5	36.1	39.0	34.7	37.0	40.9	42.4	42.4	42.0
Non-Agricultural	220.1	283.7	340.8	226.5	241.5	262.6	276.5	290.9	304.7	318.7	333.1	348.1	363.4
Imports	409.8	456.7	495.2	418.3	436.8	442.5	448.1	462.4	474.0	483.0	491.2	499.1	507.4
Petroleum and Products	42.9	42.6	48.8	51.0	45.2	39.9	40.8	43.7	46.0	46.9	48.2	49.4	50.7
Non-Petroleum	367.0	414.1	446.4	367.2	391.7	402.5	407.3	418.7	428.0	436.1	443.1	449.6	456.7
3. U.S. Current Account Balance	-154.0	-153.1	-125.8	-167.9	-134.1	-159.0	-152.0	-153.9	-147.5	-137.7	-129.6	-122.0	-114.0
Of Which: Net Investment Income	20.4	-3.7	-3.1	4.3	50.2	-2.4	-5.7	-4.7	-2.0	-2.3	-3.0	-3.7	-3.3
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	2.8	3.2	1.9	5.2	3.3	4.5	1.4	1.7	1.9	1.8	2.1	2.1	1.9
Real GNP--NonOPEC LDC 5/	4.1	3.3	3.6	3.6	3.3	3.1	3.2	3.4	3.6	3.8	3.7	3.5	3.4
Consumer Prices--Ten Ind. 4/	2.1	2.4	2.7	1.7	2.4	1.5	3.7	2.1	3.0	2.3	3.1	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

I-23

June 22, 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	Q4	Q1 P	Apr. P	May P	June e
Corporate securities - total ¹	24.08	15.68	23.50	21.01	22.44	27.50
Public offerings in U.S.	21.89	14.78	22.11	18.80	20.80	24.70
Stocks--total ²	4.45	1.52	3.85	2.80	3.80	3.70
Nonfinancial	2.32	.73	.76	.90	1.30	2.40
Utility	.57	.14	.32	.30	.15	.20
Industrial	1.75	.59	.44	.60	1.15	2.20
Financial	2.12	.79	3.09	1.90	2.50	1.30
Bonds--total ¹	17.44	13.26	18.26	16.00	17.00	21.00
Nonfinancial	6.61	4.74	6.58	6.60	6.60	9.00
Utility	2.02	2.03	2.25	2.10	2.20	1.80
Industrial	4.59	2.71	4.33	4.50	4.40	7.20
Financial	10.83	8.52	11.68	9.40	10.40	12.00
By quality ³						
Aaa and Aa	3.27	4.74	3.83	3.40	2.70	3.50
A and Baa	5.20	4.03	7.05	5.70	6.30	9.30
Less than Baa	2.77	1.32	1.32	1.70	2.10	3.50
No rating (or unknown)	.07	.03	.05	.30	.20	.20
Memo items:						
Equity-based bonds ⁴	.87	.35	.13	.27	.06	.80
Mortgage-backed bonds	5.19	1.97	5.47	4.70	4.25	2.50
Variable-rate notes	1.88	.64	1.44	1.10	2.25	.50
Bonds sold abroad - total	2.03	.85	1.34	2.10	1.60	2.50
Nonfinancial	.94	.39	.39	.74	.64	.90
Financial	1.09	.46	.95	1.36	.96	1.60
Stocks sold abroad - total	.16	.05	.05	.11	.04	.30
Nonfinancial	.12	.05	.04	.04	.04	.30
Financial	.04	.00	.01	.07	.00	.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.

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

	1988		1988		
	Q1	Q2 ^e	Apr.	May ^p	Jun. ^e
<u>Treasury financing</u>					
Total surplus/deficit (-)	-37.0	-1.4	13.9	-22.5	7.1
Means of financing deficit:					
Net cash borrowing from the public	42.8	16.2	-.3	7.5	9.0
Marketable borrowings/ repayments (-)	34.1	9.8	-2.7	6.5	6.0
Bills	3.2	-10.8	-6.6	-2.9	-1.3
Coupons	30.9	20.6	3.9	9.4	7.3
Nonmarketable	8.7	6.4	2.4	1.0	3.0
Decrease in the cash balance	-.4	-12.3	-23.3	27.3	-16.2
Memo: Cash balance at end of period	23.0	35.3	46.3	19.0	35.3
Other ²	-5.4	-2.5	9.7	-12.3	.1
<u>Federally sponsored credit agencies, net cash borrowing³</u>					
FHLBs	2.5	5.9	-.1	2.5	3.5
FNMA	2.8	3.3	1.1	1.0	1.2
Farm Credit Banks	.9	-1.3	-1.8	.3	.3
FHLMC	2.5	2.5	.8	.9	.8
FICO	.7	1.1	.3	.8	0
SLMA	1.8	.9	.6	-.4	.7

-
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.
- e--staff estimate.
p--preliminary.
Note: Details may not add to totals due to rounding.

Municipal Securities

Long-term tax-exempt issuance in May totaled \$6.9 billion--up from April but about \$1 billion below the first quarter's monthly average. Most of the recent monthly pickup reflected issuance to raise new capital, as refunding volume totaled only \$2.2 billion. Activity so far this month and the remaining calendar suggest a substantial further rise in long-term volume, with several large issues coming to market.

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

	<u>1986</u> <u>Year</u>	<u>1987</u> <u>Year</u>	<u>1987</u>		<u>1988</u> <u>Q1</u>	<u>1988</u>		
			<u>Q3</u>	<u>Q4</u>		<u>Apr.</u>	<u>May^P</u>	<u>June^e</u>
Total offerings ¹	14.39	10.44	9.12	9.99	8.68	9.04	7.69	--
Total tax-exempt	14.04	10.05	8.84	9.38	8.46	8.88	7.34	12.00
Long-term	12.25	8.53	6.82	7.84	7.94	5.85	6.88	9.00
Refundings ²	5.29	3.80	2.05	2.16	3.05	1.90	2.20	--
New capital ³	6.96	4.73	4.77	5.68	4.89	3.95 ⁴	4.68	--
Short-term	1.79	1.52	2.02	1.54	.52	3.03 ⁴	.46	3.00
Total taxable	.35	.39	.28	.61	.22	.16	.35	--

-
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. Includes \$2.6 billion of short-term notes issued by the state of New York; large Spring issuance by New York is not unusual. Last April N.Y. State issued \$2.8 short-term bonds.
- p--preliminary.
e--staff estimate.

Residential Mortgage Markets

Fixed-rate mortgage (FRM) interest rates have fallen over the past few weeks, along with yields on secondary mortgage market instruments,

CONFIDENTIAL (FR)
CLASS III - FOMC

June 24, 1988

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

**Prepared for
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	1987-Q4	1988-Q1	
			Previous	Revised
1. Gross national product	4.0	4.8	3.9	3.6
1a. Gross domestic product	4.1	4.4	4.3	4.4
1b. Gross domestic purchases	3.4	4.3	2.1	1.9
2. Final sales	2.0	.9	4.5	3.6
2a. Excluding CCC purchases	2.5	-.1	6.3	5.8
3. Consumer spending	1.0	-2.5	4.3	3.8
3a. Excluding motor vehicles	1.6	.6	3.5	3.3
4. Business fixed investment	5.1	1.6	20.8	21.0
4a. Producers' durable equipment	5.4	-.9	32.8	33.1
5. Residential structures	-2.6	7.4	-9.4	-8.8
6. Federal purchases	.9	14.1	-21.2	-25.7
6a. Defense	5.9	-.9	-4.3	-5.6
6b. Nondefense	-12.9	92.7	-62.3	-70.6
7. State and local purchases	3.3	5.5	1.5	1.7
8. Exports of goods and services	16.8	15.9	20.7	22.8
9. Imports of goods and services	9.1	9.9	3.4	5.9
<hr/>				
ADDENDA:				
10. Inventory change ¹	42.9 ²	60.5	55.4	61.0
10a. Nonfarm ¹	32.5 ²	51.5	37.6	39.4
10b. Farm ¹	10.4 ²	9.0	17.8	21.6
11. Net exports ¹	-135.5 ²	-135.8	-119.1	-120.3
12. Nominal GNP	7.5	7.6	5.4	5.1
13. GNP implicit price deflator	3.3	2.7	1.7	1.4
14. GNP fixed-weighted price index	4.0	3.6	3.6	3.7
15. Disposable personal income	2.2	6.0	3.9	3.5
16. Saving rate (percent)	3.7 ²	4.8	4.7	4.7

1. Level, billions of constant dollars.

2. Annual average.