

August 13, 1986

## **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

August 13, 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)	
	7/2/86	8/13/86	7/2/86	8/13/86	7/2/86	8/13/86	7/2/86	8/13/86
<b>Annual changes:</b>								
1984	<1>	11.0	10.5	6.5	6.4	4.3	4.0	4.1
1985	<1>	5.7	6.2	2.2	2.7	3.6	3.7	3.3
1986		4.9	5.4	2.2	2.7	2.8	2.8	2.7
1987		5.9	5.7	3.1	3.1	3.0	2.9	2.7
							2.7	2.6
								6.7
								6.7
<b>Quarterly changes:</b>								
1985	Q1	<1>	6.9	6.8	3.7	3.1	3.5	4.2
	Q2	<1>	4.5	5.8	1.1	2.3	3.6	3.6
	Q3	<1>	5.8	6.8	3.0	4.1	2.7	2.8
	Q4	<1>	4.3	5.8	.7	2.1	3.9	4.0
							3.3	3.6
								7.0
1986	Q1	<1>	5.7	6.2	2.9	3.8	2.5	2.5
	Q2	<1>	4.0	3.2	1.5	1.1	2.0	1.8
	Q3		4.8	5.0	2.7	2.5	2.3	2.5
	Q4		6.0	5.7	3.7	3.6	2.7	2.3
							2.2	2.0
								6.9
								6.9
1987	Q1		6.3	6.0	3.4	3.3	3.3	3.2
	Q2		6.3	6.1	3.2	3.2	3.3	3.2
	Q3		6.3	6.1	3.0	3.2	3.4	3.2
	Q4		6.6	6.4	3.0	3.2	3.7	3.3
							3.5	3.2
								6.6
								6.6
<b>Two-quarter changes: &lt;2&gt;</b>								
1985	Q2	<1>	5.7	6.3	2.4	2.7	3.5	3.9
	Q4	<1>	5.0	6.3	1.9	3.1	3.4	3.2
							3.1	3.1
								-.3
1986	Q2	<1>	4.8	4.7	2.2	2.4	2.3	2.3
	Q4		5.4	5.4	3.2	3.0	2.5	2.4
							2.1	2.2
								-.3
1987	Q2		6.3	6.0	3.3	3.2	3.3	3.2
	Q4		6.4	6.3	3.0	3.2	3.5	3.3
							3.3	3.0
								-.1
								-.1
<b>Four-quarter changes: &lt;3&gt;</b>								
1984	Q4	<1>	9.0	8.5	4.7	4.6	4.2	3.9
1985	Q4	<1>	5.4	6.3	2.1	2.9	3.5	3.6
1986	Q4		5.1	5.0	2.7	2.7	2.4	2.4
1987	Q4		6.4	6.2	3.2	3.2	3.4	3.3
							3.1	2.9
								-.3
								-.3

&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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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
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	4030.5	4087.7	4149.2	4182.3	4233.5	4292.9	4355.7	4420.7	4486.8	4557.4
Real GNP	Billions of 82\$	3603.8	3622.3	3655.9	3665.7	3688.0	3721.0	3751.2	3780.9	3810.5	3840.3
Real GNP	Percent change	4.1	2.1	3.8	1.1	2.5	3.6	3.3	3.2	3.2	3.2
Gross domestic purchases		4.6	4.0	3.0	3.2	1.5	2.5	2.0	2.0	1.8	1.9
Final sales		6.1	2.7	-1.3	3.4	3.0	3.2	3.3	3.1	3.1	3.1
Private dom. final purchases		4.8	3.4	.9	5.1	1.9	2.3	2.3	2.2	1.9	1.9
Personal consumption expend.		5.3	1.7	3.6	5.9	2.4	2.7	2.4	2.4	1.9	1.7
Durables		23.8	-11.1	-1.8	14.8	2.7	2.5	2.6	2.5	1.8	1.7
Nondurables		1.2	1.6	6.5	7.1	2.3	2.2	2.2	2.2	1.9	1.5
Services		3.2	6.0	3.2	2.5	2.5	3.0	2.5	2.6	1.8	1.8
Business fixed investment		.1	12.5	-15.1	-2.6	-3.6	.0	2.7	3.0	3.1	2.7
Producers' durable equipment		2.6	18.7	-17.0	17.1	.3	2.5	4.0	4.0	4.0	4.0
Nonresidential structures		-4.6	.3	-10.8	-35.7	-12.6	-6.2	-.5	.5	.6	-.6
Residential structures		11.7	3.4	11.0	15.4	9.0	3.9	.1	-2.9	-1.2	2.8
Exports		-5.8	8.2	7.1	3.0	10.1	13.0	11.9	12.1	15.5	14.2
Imports		.3	23.3	.2	20.1	.7	1.7	-.3	.7	2.7	2.3
Government purchases		13.9	10.0	-12.3	7.0	2.3	.9	.3	.7	1.5	1.3
Federal		26.0	22.7	-27.5	6.0	4.0	.6	-1.2	-.6	.9	.3
Defense		15.8	-4.7	-1.0	15.6	5.1	1.0	-.8	-.2	1.1	.8
State and local		5.1	.3	2.6	7.7	1.0	1.1	1.6	1.6	1.9	2.0
Change in business inventories	Billions of 82\$	.7	-5.2	39.9	19.6	15.0	19.0	19.5	20.5	21.0	22.0
onfarm	Billions of 82\$	1.4	16.1	37.0	12.1	11.5	19.0	19.5	20.5	21.0	22.0
exports	Billions of 82\$	-113.8	-132.0	-125.9	-146.3	-138.2	-128.7	-117.1	-106.3	-94.5	-82.8
Nominal GNP	Percent change	6.8	5.8	6.2	3.2	5.0	5.7	6.0	6.1	6.1	6.4
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	97.9	98.7	99.4	99.9	100.4	101.0	101.6	102.1	102.7	103.2
Unemployment rate	Percent*	7.2	7.0	7.1	7.2	7.0	6.9	6.8	6.7	6.7	6.6
Industrial production index	Percent change	2.0	1.9	.7	-2.9	-2.5	3.4	3.4	3.3	3.3	3.4
Capacity utilization rate-mfg.	Percent*	80.3	80.0	79.9	79.1	78.3	78.5	78.8	79.0	79.2	79.4
Housing Starts	Millions	1.69	1.77	2.00	1.91	1.75	1.70	1.65	1.65	1.67	1.70
Auto sales	Millions	12.31	10.24	10.65	11.22	11.20	10.70	10.85	10.90	10.90	10.90
Domestic	Millions	9.40	6.84	7.84	8.18	8.06	7.50	7.80	7.80	7.80	7.80
Foreign	Millions	2.90	3.40	2.81	3.05	3.14	3.20	3.05	3.10	3.10	3.10
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change	3.0	7.4	6.0	5.6	3.1	6.8	5.9	6.5	6.8	6.8
Real disposable income	Percent change	-4.0	2.6	6.5	7.2	-.5	2.7	2.2	1.8	2.3	2.1
Personal saving rate	Percent*	4.2	4.4	5.0	5.2	4.5	4.5	4.4	4.2	4.2	4.3
Corp. profits with IVA & CCAdj	Percent change	36.2	-13.7	16.0	20.6	5.8	2.9	-4.7	-1.7	-1.7	.9
Profit share of GNP	Percent*	7.4	7.0	7.1	7.4	7.4	7.4	7.2	7.1	6.9	6.8
Federal govt. surplus/deficit	Billions of \$	-197.5	-217.6	-201.6	-228.7	-187.4	-191.7	-173.6	-162.0	-154.8	-145.4
State and local govt. surplus	Billions of \$	59.5	62.5	70.0	60.9	57.4	58.6	59.9	60.9	61.5	61.5
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change	2.5	3.6	2.5	2.1	2.5	2.0	2.6	2.8	2.9	3.2
GNP fixed-weight price index		2.8	4.0	2.5	1.8	2.5	2.3	3.2	3.2	3.2	3.3
Cons. & fixed invest. prices		2.7	4.3	1.6	-.1	2.4	3.4	4.0	3.7	3.6	3.5
CPI		2.6	4.3	1.5	-1.7	1.8	3.6	4.6	3.7	3.7	3.7
Exc. food and energy		3.5	4.9	4.3	3.4	3.5	3.7	4.0	4.1	4.3	4.4
nonfarm business sector		2.2	-3.5	4.3	1.7	1.1	1.8	1.2	1.1	.9	1.0
Output per hour		3.2	3.7	3.1	2.2	2.9	3.1	3.5	3.3	3.5	3.7
Compensation per hour		1.0	7.4	-1.2	.5	1.8	1.3	2.3	2.2	2.6	2.7
Unit labor costs											

\* Not at an annual rate.

CONFIDENTIAL - FR  
CLASS II FOMC

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August 13, 1986

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

	Units	Projection									
		1979	1980	1981	1982	1983	1984	1985	1986	1987	
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	2508.2	2732.0	3052.6	3166.0	3405.7	3765.0	3998.1	4214.5	4455.2	
Real GNP	Billions of 82\$	3192.4	3187.1	3248.8	3166.0	3279.1	3489.9	3585.2	3682.6	3795.7	
Real GNP	Percent change*	.6	-.1	.6	-1.9	6.5	4.6	2.9	2.7	3.2	
Gross domestic purchases		-.4	-1.1	.8	-.8	8.4	5.9	3.9	2.5	1.9	
Final sales		2.2	-.2	.1	.3	3.7	4.4	4.0	2.1	3.1	
Private dom. final purchases		1.3	-1.7	-.3	.8	7.7	5.3	4.2	2.6	2.1	
Personal consumption expend.		1.4	-.1	.2	2.9	5.4	3.6	3.5	3.7	2.1	
Durables		-3.8	-5.6	-3.3	9.0	14.7	8.8	6.2	4.4	2.2	
Nondurables		.8	-1.4	.5	1.8	4.4	2.2	2.0	4.5	1.9	
Services		3.5	2.4	.9	2.3	3.9	3.3	3.9	2.8	2.2	
Business fixed investment		5.0	-4.8	5.6	-11.3	10.8	14.7	6.5	-5.5	2.9	
Producers' durable equipment		1.6	-6.5	2.2	-12.5	20.9	16.0	8.1	.0	4.0	
Nonresidential structures		12.0	-1.8	11.7	-9.1	-4.8	12.1	3.3	-17.2	.0	
Residential structures		-7.2	-14.2	-22.4	4.9	38.1	5.3	7.8	9.8	-.3	
Exports		13.7	.5	2.4	-13.8	5.8	5.5	-3.2	8.2	13.4	
Imports		3.4	-8.8	4.9	-5.9	23.8	16.5	5.8	5.4	1.3	
Government purchases		.1	1.0	2.9	3.8	-2.7	7.7	8.4	-.8	.9	
Federal		-.3	3.1	9.5	8.2	-8.1	14.2	14.3	-5.3	-.1	
Defense		3.3	3.1	7.6	8.8	5.1	6.8	5.9	5.0	.2	
State and local		.4	-.3	-1.3	.6	1.5	3.1	3.7	3.1	1.8	
Change in business inventories	Billions of 82\$	15.0	-6.9	23.9	-24.5	-6.4	59.2	9.0	23.4	20.8	
Nonfarm	Billions of 82\$	10.4	-2.3	19.0	-23.1	-.1	54.3	10.9	19.9	20.8	
Net exports	Billions of 82\$	3.6	57.0	49.4	26.3	-19.9	-83.6	-108.2	-134.8	-100.2	
Nominal GNP	Percent change*	9.5	9.9	9.3	3.1	10.4	8.5	6.3	5.0	6.2	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	89.8	90.4	91.2	89.6	90.2	94.5	97.6	100.2	102.4	
Unemployment rate	Percent	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.0	6.7	
Industrial production index	Percent change*	.9	-.8	-1.0	-7.7	14.3	7.2	1.8	-.4	3.3	
Capacity utilization rate-mfg.	Percent	84.6	79.2	78.3	70.3	74.0	80.8	80.3	78.9	79.1	
Housing Starts	Millions	1.72	1.30	1.10	1.06	1.71	1.76	1.74	1.84	1.67	
Auto sales	Millions	10.68	9.04	8.56	8.00	9.18	10.43	11.09	10.94	10.89	
Domestic	Millions	8.36	6.62	6.24	5.77	6.77	7.97	8.24	7.89	7.80	
Foreign	Millions	2.32	2.42	2.32	2.23	2.41	2.46	2.84	3.05	3.09	
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change*	11.4	12.0	9.2	5.3	7.8	8.4	6.1	5.4	6.5	
Real disposable income	Percent change*	.5	1.1	.7	1.0	5.1	4.2	1.9	3.9	2.1	
Personal saving rate	Percent	6.8	7.1	7.5	6.8	5.4	6.3	5.1	4.8	4.3	
Corp. profits with IVA & CCAdj	Percent change*	-10.7	-6.8	2.3	-19.1	70.1	6.6	7.8	11.1	-1.8	
Profit share of GNP	Percent	8.0	8.5	6.2	4.7	6.3	7.0	7.0	7.4	7.0	
Federal govt. surplus/deficit	Billions of \$	-16.1	-61.3	-63.8	-145.9	-176.0	-170.0	-198.0	-202.3	-159.0	
State and local govt. surplus		27.6	26.8	34.1	35.1	47.5	68.5	61.7	61.7	60.9	
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change*	8.9	9.9	8.7	5.2	3.6	3.6	3.3	2.3	2.9	
GNP fixed-weight price index		8.8	9.8	8.5	5.0	3.9	3.9	3.6	2.4	3.3	
Cons. & fixed invest. prices		9.5	10.1	8.2	4.4	3.3	3.6	3.4	1.8	3.7	
CPI		12.7	12.5	9.6	4.5	3.3	4.1	3.5	1.3	3.9	
Exc. food and energy		10.7	12.2	10.2	5.2	4.3	4.8	4.3	3.7	4.2	
Nonfarm business sector		-2.7	1.0	-.6	1.0	3.6	1.0	.2	2.2	1.0	
Output per hour		9.7	10.9	8.3	7.3	3.3	4.3	3.9	2.8	3.5	
Compensation per hour		12.7	9.8	9.0	6.2	-.3	3.2	3.7	.6	2.4	
Unit labor costs											

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

August 13, 1986

**FEDERAL SECTOR ACCOUNTS**  
(Billions of dollars)

	Fiscal Year 1985*	FY1986e				FY1987e				CY1986e FRB Staff	1985 IV*	FRB Staff Estimates					
		Admin 1/	FRB Staff	Admin 1/	FRB Staff	CY 1985*	FRB Staff	I*	II 1986	III	IV	I	1987 II	III			
Not seasonally adjusted																	
Budget receipts 2/	734	765	768	831	836	745	777	177	180	215	197	185	197	243	210		
Budget outlays 2/	946	995	993	975	1003	961	992	252	241	245	255	252	251	251	250		
Surplus/deficit(-) to be financed 2/	-212	-230	-225	-144	-167	-216	-216	-75	-61	-30	-58	-66	-54	-8	-39		
Means of financing deficit:																	
Borrowing from public	197	235	231	144	168	224	197	91	37	51	52	56	49	18	45		
Cash balance decrease	13	-3	-7	0	-6	-13	18	-14	19	-12	0	12	-3	-5	-10		
Other 3/	1	-2	1	0	5	5	1	-2	5	-8	5	-2	8	-5	4		
Cash operating balance, end of period	17	20	24	20	30	31	13	31	12	25	24	13	15	20	30		
Memo: Sponsored agency borrowing 4/	20	n. a.	13	n. a.	21	20	12	5	-2	5	5	4	5	6	6		
Seasonally adjusted annual rates																	
Receipts	771	n. a.	814	n. a.	879	787	827	806	800	811	840	858	871	886	901		
Expenditures	963	n. a.	1023	n. a.	1050	985	1030	1023	1002	1040	1027	1050	1045	1048	1056		
Purchases	341	n. a.	368	n. a.	378	354	366	381	356	365	369	374	377	379	382		
Defense	254	n. a.	274	n. a.	291	259	278	268	266	278	282	287	290	292	294		
Nondefense	88	n. a.	94	n. a.	87	95	88	113	89	87	87	87	87	87	88		
All other expend.	621	n. a.	655	n. a.	672	631	664	643	646	675	658	676	668	669	674		
Surplus/deficit(-)	-191	n. a.	-209	n. a.	-171	-198	-202	-218	-202	-229	-187	-192	-174	-162	-155		
High-employment surplus/ deficit(-) evaluated at 6 percent unemp.	-151	n. a.	-172	n. a.	-139	-159	-166	-180	-167	-190	-149	-156	-141	-132	-127		

\*--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 \$767 billion and \$828 billion, and outlays of \$991 billion and \$1012 billion in FY1986 and FY1987, respectively.
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, FHLMC (excluding participation certificates), FNMA (excluding mortgage-backed securities), Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, and Student Loan Marketing Association marketable debt on payment basis. The Administration's definition of borrowing by these agencies is somewhat broader.

**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-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
<b>1. GNP Exports and Imports 1/</b>													
Current \$, Net	-78.9	-93.5	-88.3	-83.7	-105.3	-93.7	-96.6	-89.0	-94.7	-95.2	-92.2	-86.1	-79.7
Exports of G+S	369.7	383.1	437.8	362.3	368.2	374.8	375.6	384.7	397.3	412.0	427.1	446.5	465.7
Imports of G+S	448.6	476.6	526.1	446.0	473.6	468.5	472.2	473.7	492.0	507.2	519.2	532.6	545.4
Constant 82 \$, Net	-108.2	-134.8	-100.2	-113.8	-132.0	-125.9	-146.5	-138.3	-128.7	-117.1	-106.3	-94.5	-82.8
Exports of G+S	362.3	378.7	424.1	355.8	362.9	369.2	371.9	381.0	392.8	404.0	415.7	431.0	445.6
Imports of G+S	470.5	513.6	524.3	469.6	494.8	495.1	518.5	519.3	521.6	521.2	522.1	525.5	528.5
<b>2. U.S. Merchandise Trade Balance 2/</b>	<b>-124.4</b>	<b>-143.6</b>	<b>-139.1</b>	<b>-126.7</b>	<b>-149.4</b>	<b>-146.3</b>	<b>-145.1<sup>P</sup></b>	<b>-139.9</b>	<b>-143.0</b>	<b>-146.1</b>	<b>-141.7</b>	<b>-137.2</b>	<b>-131.5</b>
Exports	214.4	216.2	250.7	210.0	210.9	214.2	213.9 <sup>P</sup>	214.1	222.8	231.9	243.8	256.7	270.5
Agricultural	29.6	25.3	27.2	26.7	28.5	28.4	25.0 <sup>P</sup>	23.3	24.5	26.1	26.9	27.4	28.4
Non-Agricultural	184.8	191.0	223.5	183.3	182.4	185.8	188.9 <sup>P</sup>	190.8	198.3	205.8	217.0	229.3	242.1
Imports	338.9	359.8	389.9	336.7	360.3	360.5	359.0 <sup>P</sup>	354.0	365.8	378.0	385.6	393.9	402.0
Petroleum and Products	50.5	32.5	38.5	49.5	56.5	40.1	31.0 <sup>P</sup>	25.7	33.1	37.7	37.7	38.8	39.9
Non-Petroleum	288.3	327.4	351.3	287.2	303.8	320.5	328.0 <sup>P</sup>	328.3	332.7	340.2	347.9	355.1	362.1
<b>3. U.S. Current Account Balance</b>	<b>-117.7</b>	<b>-136.1</b>	<b>-135.0</b>	<b>-113.8</b>	<b>-134.8</b>	<b>-134.7</b>	<b>-137.4<sup>P</sup></b>	<b>-131.4</b>	<b>-141.0</b>	<b>-140.6</b>	<b>-138.8</b>	<b>-133.2</b>	<b>-127.3</b>
Of Which: Net Investment Income	25.2	22.4	16.5	33.0	37.0	27.3	22.4 <sup>P</sup>	21.3	18.7	17.3	15.6	16.5	16.6
<b>4. Foreign Outlook 3/</b>													
Real GNP--Ten Industrial 4/	2.8	2.5	3.1	3.0	2.6	0.1	3.5 <sup>P</sup>	3.5	3.6	3.0	2.8	2.7	2.6
Real GNP--NonOPEC LDC 5/	3.4	3.1	4.1	2.9	2.9	3.0	3.2 <sup>P</sup>	3.5	3.8	4.1	4.4	4.7	4.9
Consumer Prices--Ten Ind. 4/	4.3	2.2	2.6	1.4	3.1	1.7	1.7 <sup>P</sup>	1.8	2.4	2.8	3.0	2.8	2.9

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

August 13, 1986

## **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**

INDICATORS OF U.S. AGRICULTURAL PRODUCTION<sup>1</sup>

<u>Commodity (unit)</u>	<u>1985</u>	<u>Projected</u>	
		<u>1986</u>	<u>Percent change</u>
<u>Crop production:</u>			
Corn (billions of bushels)	8.87	8.32	-6.2
Wheat (billions of bushels)	2.43	2.16	-11.1
Soybeans (billions of bushels)	2.10	1.98	-5.7
Cotton (millions of bales)	13.4	10.7	-20.1
<u>Meat production:</u>			
Beef (billions of pounds)	23.6	23.7	.4
Pork (billions of pounds)	14.7	14.2	-3.4
Poultry (billions of pounds)	16.9	17.9	5.9
Total meat and poultry <sup>2</sup>	56.0	56.6	1.1
<u>Livestock inventories:</u>			
Cattle (millions of animals, July 1)	116.3	112.2	-3.5
Cattle on feed, July 1	9.7	8.9	-8.2
Hogs and pigs (millions of animals, June 1)	52.3	48.8	-6.7

1. All data are from the U.S. Agriculture Department. Crop production estimates are based on conditions as of August 1. Projections of meat production are from USDA's supply-demand estimates of August 12. The inventory data are actual, rather than projected, and are based on midyear surveys.

2. Includes some items not shown separately.

**II-A-4**

**Table 1**  
**Administration and Congressional Budget Office Economic Assumptions**  
**(calendar years, percent)**

	<b>1986</b>	<b>1987</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>
<b>Real GNP (year to year)</b>						
Administration (August)	2.9	4.0	4.1	3.9	3.6	3.5
Administration (February)	3.4	4.0	4.0	3.9	3.6	3.5
CBO (August)	2.8	3.4	3.2	3.2	3.1	3.0
CBO (February)	3.2	3.1	3.3	3.5	3.5	3.2
<b>GNP deflator (year to year)</b>						
Administration (August)	2.6	3.3	3.7	3.3	2.8	2.1
Administration (February)	3.5	4.2	3.7	3.3	2.8	2.1
CBO (August)	2.7	3.3	4.1	4.1	4.1	4.1
CBO (February)	3.6	4.1	4.1	4.1	4.1	4.1
<b>Civilian unemployment rate (annual average)</b>						
Administration (August)	7.0	6.6	6.4	6.2	5.9	5.7
Administration (February)	6.8	6.6	6.4	6.2	5.9	5.7
CBO (August)	7.0	6.7	6.4	6.3	6.1	6.0
CBO (February)	6.7	6.7	6.5	6.3	6.1	6.0
<b>Three-month Treasury bill rate (annual average)</b>						
Administration (August)	6.2	6.2	5.6	5.1	4.5	4.0
Administration (February)	7.3	6.5	5.6	4.8	4.3	4.0
CBO (August)	6.2	6.4	6.3	6.0	5.7	5.3
CBO (February)	6.8	6.7	6.4	6.1	5.7	5.4

**Table 2**  
**Administration Current Services and Congressional Budget Office**  
**Baseline Budget Projections**  
**(Fiscal years, billions of dollars)**

	1986	1987	1988	1989	1990	1991
<b>Receipts:</b>						
Administration	765	828	914	983	1050	1111
CBO	767	828	915	987	1067	1148
<b>Outlays:</b>						
Administration	995	999	1054	1099	1140	1175
CBO	991	1012	1065	1113	1162	1217
<b>Deficit:</b>						
Administration	230	172	140	116	91	64
CBO	224	184	150	127	96	69
<b>Memo:</b>						
<b>Recent deficit projections:</b>						
Administration current services:						
February 1986	206	182	150	139	126	104
August 1985	243	253	256	244	238	n.a.
CBO baseline:						
February 1986	208	181	165	144	120	104
August 1985	212	229	243	264	285	n.a.

Note: Detail may not add to totals because of rounding.

Table 3  
Revisions to Baseline Deficit Projections  
(Fiscal years, billions of dollars)

	1986	1987	1988	1989	1990	1991
<b>Administration:</b>						
<b>Current services deficit in February</b>	205.6	181.8	150.0	138.9	126.3	103.9
<b>Effect on deficit of:</b>						
National defense	5.6	-2.8	-4.6	-10.3	-19.2	-26.2
Enacted policy	-.1	-8.3	-3.4	-7.6	-10.9	-11.1
Economic assumptions	10.5	6.3	.3	-8.4	-6.8	-4.1
Technical reestimates	<u>8.6</u>	<u>-5.5</u>	<u>-2.0</u>	<u>3.4</u>	<u>1.4</u>	<u>1.6</u>
<b>Updated current services deficit in Mid-session Review</b>	230.2	171.5	140.3	116.0	90.7	64.1
<b>Congressional Budget Office:</b>						
<b>Baseline deficit in February</b>	208	181	165	144	120	104
<b>Effect on deficit of:</b>						
Enacted policy	-5	-12	-10	-13	-15	-16
Economic assumptions	7	3	-12	-17	-25	-35
Technical reestimates	<u>14</u>	<u>12</u>	<u>7</u>	<u>12</u>	<u>15</u>	<u>16</u>
<b>Updated baseline deficit in August Budget Outlook</b>	224	184	150	127	96	69

Note: Detail may not add to totals because of rounding.

Table 4  
 Proposed Administration and Congressional Policy  
 (Fiscal years, billions of dollars)

	1987	1988	1989	1990	1991
<b>Administration:</b>					
Current services deficit	171.5	140.3	116.0	90.7	64.1
Revenue increases	3.6	4.6	4.4	2.8	2.7
Outlay cuts	<u>24.0</u>	<u>38.2</u>	<u>50.5</u>	<u>64.8</u>	<u>68.8</u>
Deficit on a policy basis	143.9	97.5	61.1	23.0	-7.4
<b>Congressional Budget Resolution:</b>					
CBO baseline deficit	184	150	127		
Revenue increases <sup>1</sup>	6	6	7		
Outlay cuts <sup>1</sup>	<u>17</u>	<u>26</u>	<u>36</u>		
Deficit on a policy basis	161	118	84		
<b>Memo:</b>					
Gramm-Rudman deficit target	144	108	72	36	0

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Note: Detail may not add to totals because of rounding.

1. As reestimated by the CBO in the August Budget Outlook.

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

	1986					
	Q2	Q3 <sup>e</sup>	June	July <sup>P</sup>	Aug. <sup>e</sup>	Sep. <sup>e</sup>
<u>Treasury financing<sup>5</sup></u>						
Combined surplus/deficit(-)	-30.5	-57.9	-1.0	-24.4	-28.0	-5.5
Means of financing deficit:						
Net cash borrowing from the public	50.8	52.3	18.5	15.2	17.5	19.6
Marketable borrowings/ repayments(-)	39.8	47.8	16.3	12.4	16.6	18.8
Bills	3.5	11.8	1.8	4.1	2.3	5.4
Coupons	36.3	36.0	14.5	8.3	14.3	13.4
Nonmarketable	11.0	4.5	2.2	2.8	0.9	0.8
Decrease in the cash balance	-12.4	.4	-11.8	3.8	11.3	-14.7
Memo: Cash balance at end of period	24.6	24.2	24.6	20.8	9.5	24.2
Other <sup>2</sup>	-7.9	5.2	-5.7	5.4	-.8	0.6
<u>Federally sponsored credit agencies, net cash borrowing<sup>3,4</sup></u>						
	4.8	5.1	1.5	2.3	1.1	1.7
FHLBs	6.8	6.0	2.8	2.3	2.0	1.7
FNMA	.1	.0	-.1	.1	-.4	0.3
Farm Credit Banks	-2.5	-2.2	-1.2	-0.6	-1.0	-0.6
FHLMC	-0.5	0.3	.0	0.2	0.1	*
SLMA	0.9	1.0	.0	0.3	0.4	.3

p--preliminary

e--staff estimate

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.
4. Second quarter numbers are based on both preliminary data and staff estimates.
5. Third quarter estimates are based on the assumption that the Congress will pass a temporary increase in the debt ceiling before its Labor Day recess. This increase should allow the Treasury to borrow in the market with only minor disruptions in its normal schedule.

**CONFIDENTIAL (FR)**  
**CLASS III - FOMC**

**August 15, 1986**

**SUPPLEMENT**

**CURRENT ECONOMIC AND FINANCIAL CONDITIONS**

**Prepared for the  
Federal Open Market Committee**

**By the Staff  
Board of Governors  
of the Federal Reserve System**

CONFIDENTIAL F.R.  
CLASS II - FOMC

Flow of Funds Projections

August 15, 1986

Division of Research and Statistics  
Board of Governors of the Federal Reserve System

Table I  
GROWTH RATES OF MAJOR DEBT AGGREGATES BY SECTOR

	DOMESTIC NONFINANCIAL SECTORS												MEMO:	
	HOUSEHOLDS			NONFINANCIAL			BUSINESS		STATE &		NON-	PRIVATE		
	TOTAL	U.S.	PVT.	NONFIN	TOTAL	HOME MTGES	CONSUMER CREDIT	TOTAL	LONG TERM	SHORT TERM	LOCAL GOVTS	FINAN-	FINAN.	ASSETS
ANNUAL GROWTH (PERCENT)														
1975	9.2	23.7	6.1	7.2	8.8	4.5	5.3	9.2	-1.3	5.9	14.2	9.4	9.5	
1976	10.7	15.5	9.5	11.7	12.6	11.4	8.4	8.9	7.4	6.0	21.2	11.1	10.5	
77	12.8	11.0	13.2	16.3	16.9	16.2	12.4	11.1	14.7	5.1	12.2	12.7	10.5	
>78	13.1	9.4	14.0	17.0	17.5	16.9	12.8	10.5	17.1	6.7	27.2	13.6	11.0	
1979	12.1	6.0	13.6	15.1	16.1	13.5	13.6	9.9	20.1	6.7	12.5	12.1	11.2	
1980	9.5	11.9	9.0	8.9	11.4	1.2	9.7	8.7	11.2	6.2	14.9	9.8	9.4	
1981	9.5	11.8	9.0	8.3	7.9	6.0	11.1	7.6	16.6	2.3	13.0	9.7	11.0	
1982	9.2	19.4	6.8	5.6	4.8	4.5	7.6	7.1	8.3	8.5	6.6	9.1	9.9	
1983	11.6	18.8	9.7	11.3	10.3	13.6	7.7	9.2	5.5	11.4	8.3	11.4	11.7	
1984	14.7	16.9	14.0	13.0	11.1	20.0	15.4	13.2	18.7	12.2	1.1	14.1	14.2	
1985	15.0	16.2	14.6	14.1	11.9	17.0	11.3	14.3	7.1	34.2	.6	14.4	12.8	
1986	11.1	12.3	10.8	11.1	12.4	10.6	10.1	13.4	5.0	12.3	3.9	10.9	8.2	
1987	9.5	8.5	9.8	11.1	13.4	7.4	9.2	11.6	5.3	6.6	1.7	9.2	7.4	
QUARTERLY GROWTH (PERCENT - SAAR)														
1984 -- I	12.9	14.7	12.3	11.2	10.5	16.9	14.6	9.5	22.3	6.5	-2.7	12.2	12.2	
II	14.0	14.0	14.0	14.0	11.9	23.4	15.7	12.3	20.6	5.0	21.6	14.3	14.5	
III	12.7	15.4	11.9	11.2	10.1	17.0	12.3	12.9	11.4	14.0	-15.0	11.5	11.9	
IV	16.1	19.5	15.1	13.2	10.3	17.3	15.8	15.6	16.0	21.5	1.5	15.5	15.2	
1985 -- I	11.4	10.5	11.6	11.7	9.4	18.7	11.0	12.4	9.0	14.8	-1.3	10.9	10.9	
II	12.6	15.7	11.7	11.5	10.4	15.1	10.2	13.8	5.0	20.4	-1.3	12.1	10.1	
III	12.7	11.5	13.1	14.8	13.1	18.0	8.9	12.2	4.2	25.6	4.7	12.4	11.9	
IV	20.2	23.8	19.1	15.8	12.7	12.2	13.3	16.0	9.3	62.8	.3	19.5	16.0	
1986 -- I	8.7	7.5	9.1	8.1	7.0	11.1	11.2	14.0	7.0	4.5	8.8	8.7	5.7	
II	11.3	14.8	10.2	11.0	11.8	11.8	9.0	13.5	2.0	12.4	8.1	11.2	8.5	
III	12.0	11.7	12.1	11.8	14.4	9.4	9.3	11.5	5.8	25.5	-1.3	11.6	9.6	
IV	10.7	13.0	10.0	11.9	14.1	8.7	9.3	12.1	4.8	4.9	.1	10.3	7.8	
1987 -- I	9.7	9.4	9.8	11.0	13.2	7.9	9.5	11.9	5.5	6.6	1.6	9.5	7.5	
II	9.2	8.0	9.6	10.7	13.0	7.3	9.1	11.3	5.5	6.4	1.5	9.0	7.6	
III	9.1	8.4	9.3	10.5	12.5	7.1	8.7	10.8	5.0	6.4	1.7	8.8	6.8	
IV	8.6	7.0	9.1	10.4	12.3	6.7	8.3	10.5	4.6	6.4	2.0	8.4	6.9	

## HIGHLIGHTS

Table 2:

## HIGHLIGHTS

## FLOW OF FUNDS PROJECTIONS' HIGHLIGHTS

QUARTERLY, AT ANNUAL RATES

QUARTERLY, AT ANNUAL RATES

	CALENDAR YEARS				1986				1987			
	1984	1985	1986	1987	I	II	III	IV	I	II	III	IV
<b>NET FUNDS BORROWED BY DOMESTIC NONFINANCIAL SECTORS</b>												
1 2 PER CENT OF GNP (%)	765.9 20.3	898.2 22.5	765.6 18.2	723.9 16.2	601.9 14.5	794.8 19.0	869.7 20.5	795.8 18.5	744.5 17.1	720.5 16.3	727.0 16.2	703.5 15.4
<b>BANK CREDIT - F/F BASIS:</b>												
3 4 TOTAL BUSINESS LOANS	187.4 76.0	207.5 28.9	122.0 20.6	132.3 19.7	147.2 37.4	73.9 14.4	138.8 15.8	128.1 14.9	131.8 19.7	132.2 19.9	131.9 19.6	133.4 19.4
5 PERCENT OF TOTAL FUNDS BORROWED (1)	24.4	23.1	15.7	18.2	23.6	9.1	16.0	16.1	17.6	18.3	18.0	18.8
<b>NONFINANCIAL CORPORATE BUSINESS:</b>												
6 FINANCING GAP (2)	59.5	17.9	19.2	42.7	31.5	9.5	13.6	22.2	34.5	40.4	45.5	50.3
7 NET FUNDS RAISED IN MARKETS	115.6	85.6	76.9	92.6	105.7	61.2	63.0	77.6	92.2	93.6	91.6	93.0
8 NET EQUITY ISSUES	-77.0	-81.6	-73.8	-57.5	-60.0	-75.0	-85.0	-75.0	-65.0	-60.0	-55.0	-50.0
9 BONDS AND MTGS.	66.0	99.4	116.6	118.0	105.7	132.1	107.4	121.2	122.4	117.9	116.2	115.3
10 ST PAPER AND OTHER DEBT	126.5	67.8	34.0	32.1	60.0	4.1	40.6	31.4	34.7	35.6	30.4	27.7
11 LIQ. ASSETS/S.T.LIABILITIES	27.4	25.8	26.1	25.5	26.2	26.3	26.1	25.9	25.8	25.6	25.5	25.3
<b>HOUSEHOLDS:</b>												
12 NET ACQUISITION OF DEPOSITS AND CREDIT MARKET INSTRUMENT	424.6	364.3	278.7	309.3	185.2	296.0	297.4	336.4	313.1	326.3	293.5	304.4
13 DEPOSITS	298.7	179.4	235.3	237.2	236.4	223.0	242.7	238.9	281.0	247.2	189.6	231.0
14 CREDIT MKT.INSTRUMENTS (3)	126.0	184.9	43.5	72.1	-51.2	73.0	54.6	97.5	32.1	79.1	103.9	73.4
<b>AS PERCENT OF DPI:</b>												
15 NET ACQUISITIONS (L. 12)	15.9	12.9	9.3	9.8	6.3	9.9	9.9	11.1	10.1	10.4	9.2	9.4
16 DEPOSITS (L. 13)	11.2	6.3	7.9	7.5	8.1	7.5	8.1	7.9	9.1	7.9	6.0	7.1
17 CR.MKT.INSTRUMENTS (L. 14)	4.7	6.5	1.5	2.3	-1.7	2.5	1.8	3.2	1.0	2.5	3.3	2.3

(1) TOTAL IN THIS RATIO INCLUDES FOREIGN  
BORROWING IN THE U.S.(2) EXCESS OF CAPITAL EXPENDITURES OVER  
GROSS CASH FLOW

(3) EXCLUDES CORPORATE EQUITIES

JULY 15, 1986  
Funds Raised

Table 3  
Funds Raised in Credit Markets

Funds Raised

SEASONALLY ADJUSTED ANNUAL RATES

SEASONALLY ADJUSTED ANNUAL RATES

	1984	1985	1986	1987	1985	IV	I	II	1986	III	IV	H1	H2
<hr/>													
Net borrowing in credit markets by domestic nonfinan. sectors	765.9	898.2	765.6	723.9	809.9	1323.4	601.9	794.8	869.7	795.8	732.5	715.2	1
U.S. Government	198.8	223.6	196.5	152.1	168.5	358.8	119.5	241.6	198.6	226.2	158.1	146.2	2
Private domestic nonfinan. State + local govts.	567.1	674.5	569.1	571.7	641.4	964.6	482.4	553.2	671.1	569.6	574.4	569.1	3
Nonfinancial business	283.4	241.8	237.3	238.7	201.4	305.4	264.8	218.0	230.8	235.5	244.0	233.4	5
Bonds + mortgages	145.7	180.4	190.9	187.2	163.6	220.9	199.7	199.2	175.5	189.1	189.6	184.8	6
Loans + short-term paper	137.7	61.4	46.4	51.5	37.8	84.5	65.1	18.8	55.3	46.4	54.3	48.6	7
Households	238.8	291.9	263.9	292.1	324.9	359.0	192.7	265.7	293.3	303.9	289.9	294.3	8
Home mortgages	130.0	152.6	180.1	218.7	176.9	177.2	102.4	175.5	219.7	222.7	217.0	220.4	9
Consumer credit	94.8	96.6	70.9	54.8	111.2	78.8	73.9	80.8	66.4	62.7	56.5	53.0	10
Other	14.0	42.7	12.9	18.6	36.8	103.0	16.5	9.5	7.2	18.5	16.3	20.9	11
Net foreign borrowing in U. S. credit markets	2.8	1.5	9.8	4.2	11.5	.8	22.0	20.0	-3.2	.3	3.9	4.6	12
Total, all nonfin. sectors	768.7	899.7	775.3	728.1	821.3	1324.2	623.9	814.8	866.5	796.2	736.3	719.9	13
Net credit market borrowing by financial sectors	138.2	193.7	208.4	204.4	210.0	230.2	154.9	231.3	230.1	217.2	206.0	202.7	14
Sponsored credit agencies	30.4	21.7	14.2	30.4	4.2	30.4	3.6	5.1	21.2	26.8	30.0	30.8	15
Mortgage pool securities	44.4	79.9	128.9	120.4	87.3	99.0	95.0	147.2	138.7	134.7	121.6	119.1	16
Private finance	63.3	92.1	65.3	53.6	118.6	100.8	56.3	78.9	70.2	55.7	54.5	52.8	17
Net credit market borrowing by all sectors	906.9	1093.4	980.9	930.5	1031.4	1554.4	777.1	1040.3	1094.5	1011.7	940.4	920.6	18
<hr/>													
Borrowing as per cent of GNP:													
Domestic nonfinancial	20.3	22.5	18.2	16.2	20.1	32.4	14.5	19.0	20.5	18.5	16.7	15.8	19
By U.S. Govt.	5.3	5.6	4.7	3.4	4.2	8.8	2.9	5.8	4.7	5.3	3.6	3.2	20
By private domestic nonfin.	15.1	16.9	13.5	12.8	15.9	23.6	11.6	13.2	15.9	13.3	13.1	12.6	21

JULY 15, 1986  
Funds Advanced

Funds Advanced

Table 4  
Funds Advanced Directly in Credit Markets

SEASONALLY ADJUSTED ANNUAL RATES

SEASONALLY ADJUSTED ANNUAL RATES

	1984	1985	1986	1987	III	1985	IV	I	II	1986	III	IV	H1	H2	1987
Net direct lending	906.9	1093.4	980.9	930.5	1031.4	1554.4	777.1	1040.3	1094.5	1011.7	940.4	920.6	1		
To nonfinancial sectors	768.7	899.7	775.3	728.1	821.3	1324.2	623.9	814.8	866.5	796.2	736.3	719.9	2		
To financial sectors	138.2	193.7	208.4	204.4	210.0	230.2	154.9	231.3	230.1	217.2	206.0	202.7	3		
<b>B</b>															
Total private finance	555.6	555.2	584.8	545.3	581.9	737.8	591.3	569.3	628.8	549.8	542.3	548.3	4		
Commercial banking	181.7	196.6	122.3	131.7	191.5	312.2	120.1	103.4	138.2	127.5	131.4	131.9	5		
Thrift institutions	146.3	86.0	112.0	126.2	146.1	83.5	66.2	111.8	143.8	126.2	123.0	129.4	6		
Insurance + pension funds	119.0	125.2	130.3	136.5	137.1	160.2	108.5	147.2	131.1	134.4	135.5	137.4	7		
Other private finance	108.6	147.4	223.0	152.9	107.2	181.8	298.2	212.6	217.8	163.5	154.3	151.6	8		
<b>U.S. Government related</b>															
Direct	98.8	140.7	170.6	167.7	115.8	161.6	96.0	206.4	176.6	203.5	165.0	170.3	9		
Sponsored agencies	17.1	17.4	10.3	4.5	25.6	7.9	12.1	16.5	3.2	9.4	4.3	4.6	10		
Mortgage pools	28.8	21.7	16.4	30.9	19.8	5.0	-4.2	19.4	19.5	31.1	30.7	31.0	11		
Federal Reserve	44.4	79.9	128.9	120.4	87.3	99.0	95.0	147.2	138.7	134.7	121.6	119.1	12		
8.4	21.6	15.0	11.9	-16.8	49.6	-6.9	23.2	15.3	28.3	8.4	15.5	13			
<b>Foreign</b>															
Households	45.9	75.7	114.3	95.6	96.8	99.6	97.5	124.3	105.4	130.0	128.9	62.3	14		
Nonfinancial business	126.0	184.9	43.5	72.1	110.5	265.9	-51.2	73.0	54.6	97.5	55.6	88.7	15		
State+local governments	30.8	3.2	2.1	.8	11.8	18.4	12.4	4.7	-7.9	-.7	-.5	2.1	16		
49.9	133.7	65.5	49.1	114.5	271.1	31.0	62.4	137.0	31.7	49.1	49.0	17			

of total advances to nonfinancial sectors:

Commercial banking	23.6	21.9	15.8	18.1	23.3	23.6	19.2	12.7	15.9	16.0	17.8	18.3	18
Total private finance	72.3	61.7	75.4	74.9	70.9	55.7	94.8	69.9	72.6	69.1	73.6	76.2	19
U.S. Government related	12.8	15.6	22.0	23.0	14.1	12.2	15.4	25.3	20.4	25.6	22.4	23.7	20

Net Issues of Corporate Equities

Total net equity issues	-33.6	32.9	117.8	98.5	29.6	50.6	181.6	113.4	89.4	86.9	94.5	102.6	1
Domestic nonfinancial corp.	-77.0	-81.6	-73.8	-57.5	-75.0	-100.0	-60.0	-75.0	-85.0	-75.0	-62.5	-52.5	2
Domestic financial corps.	42.3	110.6	186.0	152.3	100.6	147.4	233.2	186.4	168.4	155.9	152.1	152.4	3
Foreign net sales to U.S.	1.1	4.0	5.6	3.8	4.0	3.2	8.4	2.0	6.0	6.0	4.9	2.7	4
Net purchases by:													
Households	-41.2	-15.7	51.5	24.7	-14.3	22.3	99.0	47.3	46.0	13.6	21.6	27.8	5
Foreign	-2.7	4.7	20.2	14.3	7.7	16.7	22.7	23.0	18.0	17.0	15.5	13.0	6
Finance	10.3	43.8	46.2	59.6	36.2	11.6	59.8	43.1	25.5	56.3	57.4	61.7	7