

February 5, 1986

SUMMARY AND OUTLOOK

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

February 5, 1986

CONFIDENTIAL - FR
CLASS II FOMC

I-7

STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index*		GNP deflator		Unemployment rate	
	12/11/85	2/5/86	12/11/85	2/5/86	12/11/85	2/5/86	12/11/85	2/5/86	12/11/85	2/5/86
Annual changes:										
1984	<1>	10.8	11.0	6.8	6.6	4.0	4.2	3.8	4.0	7.5
1985	<1>	6.2	5.8	2.5	2.3	3.6	3.6	3.6	3.3	7.2
1986	5.9	6.2	2.4	2.7	3.6	3.7	3.5	3.4	7.2	6.7
1987	—	6.5	—	2.9	—	3.8	—	3.5	—	6.5
Quarterly changes:										
1985	Q1	5.6	6.9	.3	3.7	3.6	3.5	5.4	3.0	7.3
	Q2	4.5	4.5	1.9	1.1	3.7	3.6	2.6	3.3	7.3
	Q3	6.7	5.8	4.3	3.0	2.8	2.7	2.3	2.9	7.2
	Q4	6.3	5.9	2.6	2.4	3.4	4.5	3.7	3.3	7.1
1986	Q1	6.0	7.2	2.0	3.3	4.0	4.0	4.0	4.0	7.1
	Q2	5.2	5.8	1.8	2.3	3.6	3.4	3.4	3.4	7.2
	Q3	5.7	6.2	2.1	3.1	3.7	3.4	3.5	3.0	7.2
	Q4	6.8	6.5	2.6	3.3	3.7	3.5	4.1	3.1	7.3
1987	Q1	—	6.4	—	2.6	—	3.8	—	3.7	—
	Q2	—	6.8	—	3.1	—	4.0	—	3.6	—
	Q3	—	7.0	—	3.0	—	4.2	—	3.9	—
	Q4	—	7.0	—	2.6	—	4.5	—	4.3	—
Two-quarter changes: <2>										
1985	Q2	5.1	5.7	1.1	2.4	3.7	3.5	4.0	3.1	.1
	Q4	6.5	5.9	3.4	2.7	3.1	3.6	3.0	3.1	-.2
1986	Q2	5.6	6.5	1.9	2.8	3.8	3.7	3.6	3.7	.1
	Q4	6.2	6.3	2.3	3.2	3.7	3.5	3.8	3.0	-.1
1987	Q2	—	6.6	—	2.9	—	3.9	—	3.6	—
	Q4	—	7.0	—	2.8	—	4.3	—	4.1	—
Four-quarter changes: <3>										
1984	Q4	<1>	9.5	9.0	5.7	4.7	4.0	4.2	3.6	4.1
1985	Q4	<1>	5.8	5.8	2.2	2.5	3.4	3.5	3.5	3.1
1986	Q4	5.9	6.4	2.1	3.0	3.7	3.6	3.7	3.4	.2
1987	Q4	—	6.8	—	2.8	—	4.1	—	3.9	—

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

* Previous projection is for gross domestic business product fixed-weighted price index.

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

	Units	1979	1980	1981	1982	1983	1984	1985	Projection	
									1986 1987	
<u>Expenditures</u>										
Nominal GNP	Billions of \$	2508.2	2732.0	3052.6	3166.0	3401.6	3774.7	3992.5	4239.2	4516.8
Real GNP	Billions of 82\$	3192.4	3187.1	3248.8	3166.0	3275.2	3492.0	3573.5	3671.1	3778.7
Real GNP	Percent change*	.6	-.1	.6	-1.9	6.3	4.7	2.5	3.0	2.8
Gross domestic purchases		-.4	-1.1	.8	-.8	8.2	6.2	3.2	2.4	1.9
Final sales		2.2	-.2	.1	.3	3.6	4.3	3.6	2.4	2.9
Private dom. final purchases		1.3	-1.7	-.3	.8	7.6	5.3	3.6	3.0	2.4
Personal consumption expend.		1.4	-.1	.2	2.9	5.3	3.4	2.9	2.8	2.0
Durables		-3.8	-5.6	-3.3	9.0	14.5	9.2	5.1	5.2	2.8
Nondurables		.8	-1.4	.5	1.8	4.3	2.0	2.9	1.8	1.4
Services		3.5	2.4	.9	2.3	3.7	2.8	2.3	2.8	2.1
Business fixed investment		5.0	-4.8	5.6	-11.3	11.5	16.5	6.0	.8	3.3
Producers' durable equipment		1.6	-6.5	2.2	-12.5	20.3	17.2	5.0	3.4	4.9
Nonresidential structures		12.0	-1.8	11.7	-9.1	-2.1	15.2	7.9	-4.0	-.2
Residential structures		-7.2	-14.2	-22.4	4.9	38.5	3.5	6.4	12.1	5.2
Exports		13.7	.5	2.4	-13.8	6.9	5.1	-4.5	6.9	10.9
Imports		3.4	-8.8	4.9	-5.9	25.8	17.0	2.2	1.4	2.2
Government purchases		.1	1.0	2.9	3.8	-2.7	8.1	6.9	-2.9	.6
Federal		-.3	3.1	9.5	8.2	-7.5	14.7	11.8	-7.5	.0
Defense		3.3	3.1	7.6	8.8	5.2	7.6	6.5	.0	.5
State and local		.4	-.3	-1.3	.6	1.0	3.3	2.9	1.0	1.0
Change in business inventories	Billions of 82\$	15.0	-6.9	23.9	-24.5	-5.5	62.7	7.3	19.6	19.0
Nonfarm	Billions of 82\$	10.4	-2.3	19.0	-23.1	.4	55.9	10.1	21.0	19.0
Net exports	Billions of 82\$	3.6	57.0	49.4	26.3	-21.9	-85.0	-105.1	-118.8	-89.0
Nominal GNP	Percent change*	9.5	9.9	9.3	3.1	10.0	9.0	5.8	6.4	6.8
<u>Employment and Production</u>										
Nonfarm payroll employment	Millions	89.8	90.4	91.2	89.6	90.2	94.5	97.7	100.4	102.5
Unemployment rate	Percent	5.8	7.1	7.6	9.7	9.6	7.5	7.2	6.7	6.5
Industrial production index	Percent change*	.9	-.8	-1.0	-7.7	14.3	7.2	1.6	3.4	3.2
Capacity utilization rate-mfg.	Percent	84.6	79.3	78.3	70.3	74.0	80.8	80.3	80.4	80.8
Housing Starts	Millions	1.72	1.30	1.10	1.06	1.70	1.77	1.74	1.82	1.96
Auto sales	Millions	10.68	9.04	8.56	8.00	9.18	10.43	11.09	10.73	10.70
Domestic	Millions	8.36	6.62	6.24	5.77	6.77	7.97	8.24	7.68	7.60
Foreign	Millions	2.32	2.42	2.32	2.23	2.41	2.46	2.84	3.05	3.10
<u>Income and saving</u>										
Nominal personal income	Percent change*	11.4	12.0	9.2	5.3	7.5	8.6	5.4	6.5	6.7
Real disposable income	Percent change*	.5	1.1	.7	1.0	5.1	3.9	1.3	3.0	1.9
Personal saving rate	Percent	6.8	7.1	7.5	6.8	5.5	6.5	4.6	4.2	4.3
Corp. profits with IVA & CCAdj	Percent change*	-10.7	-6.8	2.3	-19.1	69.5	11.6	14.8	2.8	2.3
Profit share of GNP	Percent	8.0	6.5	6.2	4.7	6.3	7.2	7.5	7.6	7.2
Federal govt. surplus/deficit	Billions of \$	-16.1	-61.4	-63.9	-145.9	-179.4	-172.9	-196.9	-183.7	-156.7
State and local govt. surplus		27.6	26.8	34.1	35.1	48.6	64.4	58.3	58.4	63.1
<u>Prices and costs</u>										
GNP implicit deflator	Percent change*	8.9	9.9	8.7	5.2	3.5	4.1	3.1	3.4	3.9
GNP fixed-weight price index		8.8	9.8	8.5	5.0	3.8	4.2	3.5	3.6	4.1
Cons. & fixed invest. prices		9.5	10.1	8.2	4.4	3.1	3.9	3.1	3.3	4.2
CPI		12.8	12.5	9.6	4.4	3.2	4.1	3.5	3.1	4.3
Exc. food and energy		10.7	12.2	10.2	5.2	4.2	4.8	4.3	4.7	5.1
Nonfarm business sector										
Output per hour		-2.7	1.0	-.6	1.0	3.4	.8	-.1	1.0	.9
Compensation per hour		9.7	10.9	8.3	7.2	3.6	3.8	3.7	4.3	4.9
Unit labor costs		12.7	9.7	8.9	6.2	.2	2.9	3.8	3.2	4.0

* Percent changes are from fourth quarter to fourth quarter.

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		
<u>Expenditures</u>													
Nominal GNP	Billions of \$	4016.9	4075.1	4146.5	4205.2	4268.7	4336.4	4404.4	4477.8	4553.9	4631.2		
Real GNP	Billions of 82\$	3584.1	3605.0	3634.1	3654.6	3682.9	3712.7	3737.0	3765.9	3793.8	3817.8		
Real GNP	Percent change	3.0	2.4	3.3	2.3	3.1	3.3	2.6	3.1	3.0	2.6		
Gross domestic purchases		5.0	3.1	2.5	2.6	2.3	2.3	1.8	1.9	2.0	2.0		
Final sales		5.0	2.1	1.8	1.3	3.3	3.4	2.8	3.3	3.0	2.7		
Private dom. final purchases		4.5	1.9	3.0	3.6	3.0	2.6	2.3	2.3	2.3	2.5		
Personal consumption expend.		4.6	-.2	3.7	3.2	2.3	2.0	1.8	1.9	1.9	2.3		
Durables		24.3	-15.7	10.4	1.9	5.5	3.4	3.0	3.0	2.6	2.8		
Nondurables		1.5	1.5	2.2	2.8	1.2	1.1	1.3	1.2	1.4	1.8		
Services		1.4	3.9	3.0	4.0	2.2	2.2	1.7	2.1	2.1	2.4		
Business fixed investment		2.4	10.3	-1.5	1.3	1.6	2.0	3.4	3.2	3.2	3.2		
Producers' durable equipment		3.0	12.4	.6	4.0	4.5	4.5	4.9	4.9	4.9	4.9		
Nonresidential structures		1.2	6.4	-5.6	-3.7	-3.8	-2.9	.4	-.4	-.3	-.3		
Residential structures		8.5	8.6	5.6	14.3	15.6	13.3	6.7	6.0	4.8	3.5		
Exports		-5.1	8.0	4.9	3.9	8.0	10.9	11.6	11.9	11.8	8.2		
Imports		12.8	13.0	-1.1	5.9	.1	1.0	2.9	.4	2.3	3.2		
Government purchases		18.2	7.0	-6.3	-6.2	.0	1.0	.2	.6	.7	.7		
Federal		37.3	16.1	-14.5	-14.5	-1.2	1.1	-.7	.3	.3	.0		
Defense		22.0	-1.1	2.2	-3.1	-1.6	2.7	.2	.8	1.0	.0		
State and local		4.7	-.1	1.2	1.2	.9	.8	.9	.9	1.1	1.3		
Change in business inventories	Billions of 82\$	-1.8	.1	13.5	22.5	21.5	21.0	20.0	19.0	19.0	18.0		
Nonfarm	Billions of 82\$	1.6	16.5	18.0	23.0	22.0	21.0	20.0	19.0	19.0	18.0		
Net exports	Billions of 82\$	-119.8	-127.6	-121.8	-125.3	-118.3	-109.8	-102.6	-91.8	-83.1	-78.7		
Nominal GNP	Percent change	5.8	5.9	7.2	5.8	6.2	6.5	6.4	6.8	7.0	7.0		
<u>Employment and Production</u>													
Nonfarm payroll employment	Millions	98.0	98.8	99.6	100.1	100.7	101.2	101.7	102.3	102.8	103.2		
Unemployment rate	Percent*	7.2	7.0	6.8	6.7	6.7	6.6	6.6	6.5	6.5	6.5		
Industrial production index	Percent change	2.0	1.3	4.7	2.2	3.1	3.5	3.2	3.6	3.4	2.7		
Capacity utilization rate-mfg.	Percent*	80.3	79.9	80.3	80.3	80.4	80.6	80.7	80.8	80.9	80.8		
Housing Starts	Millions	1.67	1.73	1.75	1.80	1.85	1.90	1.92	1.94	1.97	2.00		
Auto sales	Millions	12.31	10.24	10.90	10.60	10.70	10.70	10.70	10.70	10.70	10.70		
Domestic	Millions	9.40	6.84	7.90	7.60	7.60	7.60	7.60	7.60	7.60	7.60		
Foreign	Millions	2.90	3.40	3.00	3.00	3.10	3.10	3.10	3.10	3.10	3.10		
<u>Income and saving</u>													
Nominal personal income	Percent change	2.3	7.4	7.0	6.0	6.4	6.6	7.2	6.4	6.6	6.8		
Real disposable income	Percent change	-4.5	2.4	4.5	2.8	2.7	2.0	3.5	1.2	1.3	1.5		
Personal saving rate	Percent*	3.7	4.1	4.3	4.2	4.2	4.2	4.6	4.4	4.2	4.0		
Corp. profits with IVA & CCAdj	Percent change	32.5	11.0	3.7	-.9	-2.2	10.9	-6.7	1.9	6.1	8.3		
Profit share of GNP	Percent*	7.7	7.8	7.7	7.6	7.4	7.5	7.3	7.2	7.2	7.2		
Federal govt. surplus/deficit	Billions of \$	-201.3	-214.4	-206.8	-185.2	-172.3	-170.6	-172.5	-160.6	-149.6	-144.3		
State and local govt. surplus		56.9	55.8	59.7	60.1	56.7	57.1	58.6	61.8	64.5	67.6		
<u>Prices and costs</u>													
GNP implicit deflator	Percent change	2.9	3.3	4.0	3.4	3.0	3.1	3.7	3.6	3.9	4.3		
GNP fixed-weight price index		2.7	4.5	4.0	3.4	3.4	3.5	3.8	4.0	4.2	4.5		
Cons. & fixed invest. prices		2.4	4.2	3.7	2.6	3.3	3.6	4.1	4.2	4.4	4.4		
CPI		2.4	4.1	3.7	1.9	3.1	3.6	4.1	4.2	4.3	4.4		
Exc. food and energy		3.6	4.8	4.9	4.7	4.6	4.7	5.0	5.0	5.2	5.3		
Vonfarm business sector		.3	-1.8	1.0	.4	1.3	1.3	.7	1.1	.9	.8		
Output per hour		2.8	3.5	4.5	4.0	4.2	4.4	4.8	4.7	4.9	5.1		
Compensation per hour		2.5	5.4	3.5	3.6	2.9	3.1	4.1	3.6	4.0	4.3		
Unit labor costs													

* Not at an annual rate.

February 5, 1986

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1985*	FRB staff estimates											
		FY1986 ^e		FY1987 ^e		CY1986 ^e		Calendar quarters; not seasonally adjusted					
		Admin. 1/	FRB Staff	Admin. 1/	FRB Staff	CY 1985*	FRB Staff	1985 IV*	I	II	III	IV	I
Budget receipts ²	734	777	777	850	834	745	784	177	180	227	193	184	194
Budget outlays ²	946	980	978	994	1001	961	977	252	245	263	238	250	253
Surplus/deficit(-) to be financed ²	-212	-203	-201	-144	-167	-216	-193	-75	-65	-15	-46	-67	-59
Means of financing deficit:													
Net borrowing from public	197	204	200	142	162	224	173	91	37	30	43	63	55
Decrease in cash operating balance	13	-3	-3	0	0	-13	16	-14	22	-11	1	5	0
Other ³	1	2	4	2	5	5	4	-2	6	-3	3	-1	4
Cash operating balance, end of period	17	20	20	20	20	31	15	31	9	21	20	15	15
Memo: Sponsored agency borrowing ⁴	20	n.a.	18	n.a.	23	20	17	6	3	4	5	5	6
<u>NIPA Federal Sector</u>													
Receipts	769	823	824	905	881	786	838	809	816	829	843	862	871
Expenditures	961	1016	1019	1044	1045	983	1021	1023	1023	1014	1016	1032	1044
Purchases	343	359	369	373	375	354	366	379	371	362	364	369	374
Defense	256	270	276	289	290	262	279	273	277	277	278	285	288
Nondefense	87	89	93	83	85	92	87	106	94	85	85	85	86
All other expenditures	618	657	650	671	670	629	655	645	652	653	652	663	670
Surplus/deficit(-)	-192	-193	-195	-139	-164	-197	-184	-214	-207	-185	-172	-171	-173
High employment surplus/deficit(-) evaluated at 6 percent unemployment	-155	n.a.	-163	n.a.	-139	-161	-154	-180	-175	-153	-143	-144	-147
	*--actual			e--estimated			n.a.--not available						

T-10

1. Budget of the United States Government, Fiscal Year 1987 (February 1986).
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.

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

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 a payment basis. The Administration's definition of borrowing by these agencies is somewhat broader.

FEBRUARY 4, 1986

OUTLOOK FOR U.S. NET EXPORTS AND RELATED ITEMS
(BILLIONS OF DOLLARS, SEASONALLY ADJUSTED ANNUAL RATES)

	1985	ANNUAL		1985				1986				1987			
		1986-P	1987-P	Q3	Q4	Q1-P	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P		
1. GNP EXPORTS AND IMPORTS 1/															
CURRENT \$, NET	-74.4	-89.5	-73.9	-87.8	-97.2	-92.3	-91.8	-88.0	-85.8	-82.9	-76.2	-69.8	-66.4		
EXPORTS OF G+S	370.4	391.9	448.7	363.2	369.7	377.8	385.4	395.7	408.7	424.3	440.6	457.9	472.1		
IMPORTS OF G+S	444.8	481.4	522.6	451.0	466.9	470.1	477.2	483.7	494.6	507.2	516.8	527.8	538.5		
CONSTANT 82 \$, NET	-105.1	-118.9	-89.1	-119.8	-127.6	-121.9	-125.4	-118.4	-109.8	-102.6	-91.8	-83.1	-78.7		
EXPORTS OF G+S	360.2	373.5	412.3	353.5	360.4	364.8	368.4	375.5	385.3	396.0	407.3	418.8	427.1		
IMPORTS OF G+S	465.3	492.4	501.4	473.3	488.0	486.7	493.7	493.9	495.1	498.6	499.1	501.9	505.9		
2. U.S. MERCHANDISE TRADE BALANCE 2/	-121.6^P	-139.5	-125.7	-132.6	-145.8^P	-142.4	-141.4	-137.6	-136.4	-133.0	-127.2	-122.6	-120.0		
EXPORTS	214.8 ^P	228.5	272.6	209.2	214.2 ^P	217.2	223.3	231.6	241.7	254.3	267.2	279.2	289.9		
AGRICULTURAL	29.1 ^P	27.5	28.5	26.1	29.1 ^P	28.3	27.4	27.2	27.0	27.7	28.2	28.8	29.4		
NONAGRICULTURAL	185.7 ^P	201.0	244.1	183.2	185.1 ^P	189.0	195.8	204.5	214.7	226.6	238.9	250.4	260.5		
IMPORTS	336.4 ^P	367.9	398.3	341.8	360.0 ^P	359.6	364.7	369.3	378.0	387.3	394.4	401.8	409.9		
PETROLEUM AND PRODUCTS	49.6 ^P	41.5	40.3	50.2	54.1 ^P	45.8	42.1	38.9	39.0	39.8	39.7	40.1	41.7		
NONPETROLEUM	286.8 ^P	326.4	358.0	291.6	305.9 ^P	313.8	322.5	330.4	339.0	347.5	354.7	361.7	368.2		
3. U.S. CURRENT ACCOUNT BALANCE	-118.7^P	-137.9	-124.3	-121.8	-145.3^P	-140.1	-139.6	-135.8	-136.1	-133.2	-126.6	-120.3	-117.1		
OF WHICH: NET INVESTMENT INCOME	20.4 ^P	16.3	14.1	30.2	19.7 ^P	18.4	17.3	15.0	14.3	13.3	13.5	14.7	14.9		
4. FOREIGN OUTLOOK 3/															
REAL GNP--TEN INDUSTRIAL 4/	2.7 ^P	3.3	3.0	3.6	3.2 ^P	3.4	3.0	3.0	3.0	3.0	2.9	3.1	3.1		
REAL GNP--NONOPEC LDC 5/	3.7 ^P	3.7	4.2	3.4	3.6 ^P	3.8	3.9	3.9	3.9	4.0	4.3	4.6	5.0		
CONSUMER PRICES--TEN IND. 4/	4.3 ^P	3.1	3.1	1.4	3.2 ^P	3.1	3.7	2.9	3.0	3.0	3.5	3.0	3.1		

1/ ECONOMIC ACTIVITY AND PRODUCT ACCOUNT DATA.

2/ INTERNATIONAL ACCOUNTS BASIS.

3/ PERCENT CHANGE, ANNUAL RATES.

4/ WEIGHTED BY MULTILATERAL TRADE-WEIGHTS OF G-10 COUNTRIES PLUS SWITZERLAND; PRICES ARE NOT SEASONALLY ADJUSTED.

5/ WEIGHTED BY SHARE IN NONOPEC LDC GNP.

P/ PROJECTED

February 5, 1986

RECENT DEVELOPMENTS

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

**ADMINISTRATION CURRENT SERVICES BUDGET
(Fiscal years)**

	1986	1987	1988	1989	1990	1991
----- Billions of dollars -----						
Revenues	777	844	927	989	1,053	1,120
Outlays	982	1,026	1,077	1,128	1,179	1,224
Deficit	206	182	150	139	126	104
Memo:						
Deficit reduction proposals	3	38	56	71	91	105
Deficit with proposals	203	144	94	68	36	-1

Source: Budget of the United States Government, Fiscal Year 1987.

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

	1985			1986	
	Q4	Nov.	Dec.	Q1 ^f	Jan. ^p
<u>Treasury financing</u>					
Combined surplus/deficit(-)	-75.2	-33.4	-14.7	-64.8	-4.5
Means of financing deficit:					
Net cash borrowing from the public	90.6	45.9	33.4	37.3	12.7
Marketable borrowings/ repayments(-)	63.3	39.5	17.2	35.8	12.2
Bills	15.7	7.9	2.3	-4.8	-.3
Coupons	47.6	31.6	14.9	40.6	12.5
Nonmarketable	27.3	6.4	16.2	1.5	.5
Decrease in the cash balance	-13.8	-8.3	-20.8	21.5	-9.3
Memo: Cash balance at end of period	30.9	10.1	30.9	9.4	40.2
Other ²	-1.6	-4.2	2.1	6.0	1.1
<u>Federally sponsored credit agencies, net cash borrowing³</u>					
FHLBs	6.3	-.5	1.5	2.7	-1.5
FNMA	2.1	.7	1.0	1.0	-1.1
Farm Credit Banks	2.2	2.0	-.7	2.5	.8
FHLMC	2.5	-1.2	.7	-2.5	-1.8
SLMA	-1.2	-2.2	.5	1.0	.4
	0.7	.2	.0	.7	.2

p--preliminary. f--staff forecast.

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.

CONFIDENTIAL (FR)
CLASS III - FOMC

February 7, 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

Table 1

ADMINISTRATION CURRENT SERVICES BUDGET
(Fiscal years)

	1986	1987	1988	1989	1990	1991
-----Billions of dollars-----						
Revenues	777	844	927	989	1,053	1,120
Outlays	982	1,026	1,077	1,128	1,179	1,224
Deficit	206	182	150	139	126	104
Memo:						
Deficit reduction proposals	3	38	56	71	91	105
Deficit with proposals	203	144	94	68	36	-1

Table 2

ECONOMIC ASSUMPTIONS
(Calendar years)

	1986	1987	1988	1989	1990	1991
-----Percent change, Q4 to Q4-----						
Nominal GNP	8.0	8.3	7.7	7.0	6.2	5.6
Real GNP	4.0	4.0	4.0	3.7	3.6	3.5
GNP deflator	3.8	4.1	3.6	3.2	2.5	2.0
-----Percent, fourth quarter-----						
Unemployment rate	6.7	6.5	6.2	6.0	5.7	5.5
Treasury bill rate	7.2	6.1	5.3	4.5	4.1	4.0

Table 3
ADMINISTRATION CURRENT SERVICES DEFICIT ESTIMATES

Budget	1986	1987	Fiscal years			1990	1991
			1988	1989	1990		
-----Billions of dollars-----							
1985	233	237	221	208	n.a.	n.a.	
1986	230	246	248	233	224	n.a.	
1987	206	182	150	139	126	104	
-----Percent of GNP-----							
1985	5.4	5.1	4.4	3.8	n.a.	n.a.	
1986	5.4	5.3	4.9	4.3	3.9	n.a.	
1987	4.9	4.0	3.1	2.6	2.2	1.7	

Table 4
BUDGET RECEIPT TRENDS 1981-1985
(Fiscal years, billions of dollars)

	1981	1985	Increase	Memo: Level as a percent of GNP		
				1981	1985	1991*1
Total receipts	559.3	734.1	134.8	20.1	18.4	18.6
Individual	285.9	334.5	48.6	9.6	8.4	8.6
Corporate	61.1	61.3	0.2	2.0	1.5	2.1
Social insurance	182.7	265.2	82.5	6.1	6.6	6.8
Excise and other	69.6	73.1	3.5	2.3	1.8	1.2

1. Calculated from the FY1987 Budget (February 1986).

Table 5
BUDGET OUTLAY TRENDS 1981-1985
(Fiscal years)

Budget function	Level: (Billion of dollars)		Change: Billions of dollars		Memo: 1981	Level as a percent total outlays	
	1981	1985		Annual percentage rate		1985	1991 ³
Total outlays	678.2	946.3	268.1	8.7	100.0	100.0	100.0
Defense	157.5	252.7	95.2	12.5	23.2	26.7	32.6
Interest	68.7	129.4	60.7	17.2	10.1	13.7	10.3
Social security (OASDI)	139.6	188.6	49.0	7.8	20.6	19.9	23.5
Medicare	39.1	65.8	26.7	13.9	5.8	7.0	8.8
Income security ¹	99.7	128.2	28.5	6.5	14.7	13.5	11.8
Agriculture ²	11.3	25.6	14.3	22.7	1.7	2.7	1.0
Health	26.9	33.5	6.6	5.6	4.0	3.5	3.6
International affairs	13.1	16.2	3.1	5.5	1.9	1.7	1.6
Transportation	23.4	25.8	2.4	2.5	3.5	2.7	2.1
Science	6.5	8.6	2.1	7.2	1.0	.9	1.0
Natural resources	13.6	13.4	-.2	-.4	2.0	1.4	1.0
Regional Development	10.6	7.7	-2.9	-7.7	1.6	.8	.5
Commerce-Housing	8.2	4.2	-4.0	-15.4	1.2	.4	-.2
Education	33.7	29.3	-4.4	-3.4	5.0	3.1	2.3
Energy	15.2	5.7	-9.5	-21.7	2.2	.6	.3
Other	11.1	11.6	.5	1.1	1.6	1.2	.1

1. The FY1985 figure was elevated by a one-time \$14 billion payment for HUD-guaranteed notes to finance low-income housing. Without these payments, the annual rate of change would have been 3.5 percent.

2. Year-to-year agricultural outlays tend to be especially volatile. The change from 1981 to the average of 1984 and 1985 was an annual rate of 14.8 percent.

3. Calculated from policy levels in the FY1987 Budget (February 1986).

Table 6
DEFICIT REDUCTION PROPOSALS IN THE FY1987 BUDGET
(Fiscal years, billions of dollars)

	1987	1988	1989
Total savings	38.2	56.4	71.4
Receipts	6.3	5.9	6.9
Outlays	28.7	45.9	63.8
Defense	2.7	4.5	6.3
Low-income benefits ¹	0.7	0.9	1.1
Human and social services ²	15.4	24.0	31.0
Other ³	7.5	13.6	16.0
Changes in user fees ⁴	2.4	2.8	3.2
Net asset sales	3.2	4.6	0.7

1. Includes, among other things, aid for families with dependent children and food stamp outlays.

2. Includes spending for education, housing assistance, Medicare, and Medicaid.

3. Major items in this category are outlays for agriculture, rural housing, transportation, community and regional development, and civilian agency pay.

4. Includes off-setting collections which appear in the budget as negative outlays.