

September 17, 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

September 17, 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)			
	8/13/86	9/17/86	8/13/86	9/17/86	8/13/86	9/17/86	8/13/86	9/17/86	8/13/86	9/17/86		
<b>Annual changes:</b>												
1984	<1>	10.5	10.5	6.4	6.4	4.0	4.0	3.8	3.8	7.5	7.5	
1985	<1>	6.2	6.2	2.7	2.7	3.7	3.7	3.3	3.3	7.2	7.2	
1986		5.4	5.4	2.7	2.7	2.8	2.8	2.7	2.6	7.0	7.0	
1987		5.7	5.6	3.1	3.0	2.9	2.9	2.6	2.5	6.7	6.6	
<b>Quarterly changes:</b>												
1985	Q1	<1>	6.8	6.8	3.1	3.1	4.2	4.2	3.7	3.7	7.3	7.3
	Q2	<1>	5.8	5.8	2.3	2.3	3.6	3.6	3.3	3.3	7.3	7.3
	Q3	<1>	6.8	6.8	4.1	4.1	2.8	2.8	2.5	2.5	7.2	7.2
	Q4	<1>	5.8	5.8	2.1	2.1	4.0	4.0	3.6	3.6	7.0	7.0
1986	Q1	<1>	6.2	6.2	3.8	3.8	2.5	2.5	2.5	2.5	7.1	7.1
	Q2	<1>	3.2	3.0	1.1	.6	1.8	1.9	2.1	2.5	7.2	7.2
	Q3		5.0	5.2	2.5	3.0	2.5	2.7	2.5	2.0	7.0	6.9
	Q4		5.7	5.4	3.6	3.8	2.3	2.4	2.0	1.5	6.9	6.8
1987	Q1		6.0	5.8	3.3	2.9	3.2	3.2	2.6	2.8	6.8	6.7
	Q2		6.1	6.0	3.2	3.0	3.2	3.2	2.8	2.9	6.7	6.6
	Q3		6.1	6.0	3.2	3.0	3.2	3.2	2.9	2.8	6.7	6.6
	Q4		6.4	6.3	3.2	3.0	3.3	3.3	3.2	3.2	6.6	6.6
<b>Two-quarter changes: &lt;2&gt;</b>												
1985	Q2	<1>	6.3	6.3	2.7	2.7	3.9	3.9	3.5	3.5	.1	.1
	Q4	<1>	6.3	6.3	3.1	3.1	3.2	3.2	3.1	3.1	-.3	-.3
1986	Q2	<1>	4.7	4.6	2.4	2.2	2.3	2.3	2.3	2.5	-.2	-.2
	Q4		5.4	5.3	3.0	3.4	2.4	2.5	2.2	1.7	-.3	-.4
1987	Q2		5.0	5.9	3.2	3.0	3.2	3.2	2.7	2.9	-.2	-.2
	Q4		6.3	6.1	3.2	3.0	3.3	3.3	3.0	3.0	-.1	.0
<b>Four-quarter changes: &lt;3&gt;</b>												
1984	Q4	<1>	8.5	8.5	4.6	4.6	3.9	3.9	3.6	3.6	-1.3	-1.3
1985	Q4	<1>	6.3	6.3	2.9	2.9	3.6	3.6	3.3	3.3	-.2	-.2
1986	Q4		5.0	4.9	2.7	2.8	2.4	2.4	2.3	2.1	-.1	-.2
1987	Q4		6.2	6.0	3.2	3.0	3.3	3.3	2.9	2.9	-.3	-.2

&lt;1&gt; Actual.

&lt;2&gt; Percent change from two quarters earlier.

&lt;3&gt; Percent change from four quarters earlier.

September 17, 1986

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	4179.8	4232.9	4288.4	4349.4	4413.5	4477.8	4546.8
Real GNP	Billions of 82\$	3603.8	3622.3	3655.9	3661.5	3688.7	3723.2	3750.1	3778.1	3806.4	3835.0
Real GNP	Percent change	4.1	2.1	3.8	.6	3.0	3.8	2.9	3.0	3.0	3.0
Gross domestic purchases		4.6	4.0	3.0	3.2	2.2	2.5	1.8	1.9	1.7	1.7
Final sales		6.1	2.7	-1.3	3.8	5.6	.9	2.3	2.6	3.0	3.0
Private dom. final purchases		4.8	3.4	.9	5.6	4.9	-.6	1.8	1.8	1.7	1.7
Personal consumption expend.		5.3	1.7	3.6	6.5	5.3	-.7	2.6	2.4	1.9	1.7
Durables		23.8	-11.1	-1.8	16.4	17.9	-17.1	2.6	2.6	1.8	1.8
Nondurables		1.2	1.6	6.5	8.4	3.3	2.6	2.2	2.2	1.9	1.5
Services		3.2	6.0	3.2	2.4	3.0	2.5	3.0	2.6	1.9	1.8
Business fixed investment		.1	12.5	-15.1	-2.3	2.0	-.9	-.6	1.3	1.8	1.5
Producers' durable equipment		2.6	18.7	-17.0	19.9	7.9	1.2	1.0	3.5	3.5	3.5
Nonresidential structures		-4.6	.3	-10.8	-38.6	-11.4	-6.1	-4.9	-4.3	-2.9	-3.9
Residential structures		11.7	3.4	11.0	13.5	7.3	1.2	-2.7	-5.1	-.7	3.0
Exports		-5.8	8.2	7.1	-5.6	8.2	11.4	14.0	12.0	15.8	15.0
Imports		.3	23.3	.2	16.5	.4	-.6	2.5	1.4	2.2	2.4
Government purchases		13.9	10.0	-12.3	9.8	3.7	1.3	-1.0	.3	1.4	1.2
Federal		26.0	22.7	-27.5	11.9	6.4	1.4	-4.1	-1.2	.8	.4
Defense		15.8	-4.7	-1.0	20.3	6.7	2.7	-1.1	-.5	1.1	.8
State and local		5.1	.3	2.6	8.4	1.5	1.2	1.5	1.5	1.8	1.9
Change in business inventories	Billions of 82\$	.7	-5.2	39.8	11.6	-11.5	14.3	19.8	24.0	24.0	25.0
Nonfarm	Billions of 82\$	1.4	16.1	37.0	8.2	-11.5	17.5	20.0	24.0	24.0	25.0
Net exports	Billions of 82\$	-113.8	-132.0	-125.9	-150.5	-143.8	-132.9	-123.3	-113.8	-101.4	-89.6
Final GNP	Percent change	6.8	5.8	6.2	3.0	5.2	5.4	5.8	6.0	6.0	6.3
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	97.8	98.7	99.4	99.8	100.4	100.9	101.5	102.1	102.7	103.2
Unemployment rate	Percent*	7.2	7.0	7.1	7.2	6.9	6.8	6.7	6.6	6.6	6.6
Industrial production index	Percent change	1.8	2.0	1.2	-2.1	1.6	3.5	2.8	3.1	3.2	3.3
Capacity utilization rate-mfg.	Percent*	60.1	79.9	80.0	79.5	79.6	79.8	79.9	80.0	80.1	80.2
Housing Starts	Millions	1.69	1.77	2.00	1.91	1.80	1.72	1.67	1.67	1.68	1.70
Auto sales	Millions	12.31	10.24	10.65	11.22	13.11	10.29	10.47	10.90	11.00	11.00
Domestic	Millions	9.40	6.84	7.84	8.18	9.83	6.97	7.40	7.70	7.80	7.80
Foreign	Millions	2.90	3.40	2.81	3.05	3.28	3.32	3.07	3.20	3.20	3.20
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change	3.0	7.4	6.0	6.4	4.0	6.3	5.9	6.2	6.7	6.3
Real disposable income	Percent change	-4.0	2.6	6.5	7.4	-.2	2.2	2.1	1.7	2.1	1.8
Personal saving rate	Percent*	4.2	4.4	5.0	5.1	3.8	4.4	4.3	4.1	4.1	4.1
Corp. profits with IVA & CCAdj	Percent change	36.2	-13.7	16.0	-6.8	-5.6	6.9	-8.0	-1.4	-3.9	2.0
Profit share of GNP	Percent*	7.4	7.0	7.1	7.0	6.8	6.8	6.6	6.5	6.9	6.2
Federal govt. surplus/deficit	Billions of \$	-197.5	-217.6	-201.6	-236.9	-201.2	-207.3	-183.7	-173.3	-167.5	-159.8
State and local govt. surplus	Billions of \$	59.5	62.5	70.0	59.9	57.1	58.0	58.9	60.4	60.7	61.2
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change	2.5	3.6	2.5	2.5	2.0	1.5	2.8	2.9	2.8	3.2
GNP fixed-weight price index		2.8	4.0	2.5	1.9	2.7	2.4	3.2	3.2	3.3	3.3
Cons. & fixed invest. prices		2.7	4.3	1.6	.3	3.3	3.4	3.6	3.7	3.6	3.5
CPI		2.6	4.3	1.5	-1.7	2.8	3.5	3.9	3.6	3.8	3.7
Exc. food and energy		3.5	4.9	4.3	3.4	3.3	3.4	4.0	4.1	4.4	4.4
Nonfarm business sector		2.2	-3.5	4.3	-.5	1.3	2.2	.4	.7	.9	1.0
Output per hour		3.2	3.7	3.1	2.2	2.7	3.0	3.4	3.5	3.6	3.7
Compensation per hour		1.0	7.4	-1.2	2.8	1.4	.8	3.0	2.8	2.7	2.7
Unit labor costs											

Not at an annual rate.

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	4212.6	4446.9	
Real GNP	Billions of 82\$	3192.4	3187.1	3248.8	3166.0	3279.1	3489.9	3585.2	3682.3	3792.4	
Real GNP	Percent change*	.6	-.1	.6	-1.9	6.5	4.6	2.9	2.8	3.0	
Gross domestic purchases		-.4	-1.1	.8	-.8	8.4	5.9	3.9	2.7	1.8	
Final sales		2.2	-.2	.1	.3	3.7	4.4	4.0	2.2	2.7	
Private dom. final purchases		1.3	-1.7	-.3	.8	7.7	5.3	4.2	2.7	1.8	
Personal consumption expend.		1.4	-.1	.2	2.9	5.4	3.6	3.5	3.6	2.2	
Durables		-3.8	-5.6	-3.3	9.0	14.7	8.8	6.2	2.8	2.2	
Nondurables		.8	-1.4	.5	1.8	4.4	2.2	2.0	5.2	1.9	
Services		3.5	2.4	.9	2.3	3.9	3.3	3.9	2.8	2.3	
Business fixed investment		5.0	-4.8	5.6	-11.3	10.8	14.7	6.5	-4.3	1.0	
Producers' durable equipment		1.6	-6.5	2.2	-12.5	20.9	16.0	8.1	2.1	2.9	
Nonresidential structures		12.0	-1.8	11.7	-9.1	-4.8	12.1	3.3	-17.8	-4.0	
Residential structures		-7.2	-14.2	-22.4	4.9	38.1	5.3	7.8	8.1	-1.4	
Exports		13.7	.5	2.4	-13.8	5.8	5.5	-3.2	5.1	14.2	
Imports		3.4	-8.8	4.9	-5.8	23.8	16.5	5.8	3.9	2.1	
Government purchases		.1	1.0	2.9	3.8	-2.7	7.7	8.4	-.3	.5	
Federal		-.3	3.1	9.5	8.2	-8.1	14.2	14.3	-3.3	-1.0	
Defense		3.3	3.1	7.6	8.8	5.1	6.8	5.9	6.9	.1	
State and local		.4	-.3	-1.3	.6	1.5	3.1	3.7	3.4	1.7	
Change in business inventories	Billions of 82\$	15.0	-6.9	23.9	-24.5	-6.4	59.2	9.0	13.6	23.2	
Nonfarm	Billions of 82\$	10.4	-2.3	19.0	-23.1	-.1	54.3	10.9	12.8	23.3	
Net exports	Billions of 82\$	3.6	57.0	49.4	26.3	-19.9	-83.6	-108.2	-138.3	-107.0	
Nominal GNP	Percent change*	9.5	9.9	9.3	3.1	10.4	8.5	6.3	4.9	6.0	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	89.8	90.4	91.2	89.6	90.2	94.5	97.6	100.1	102.4	
Unemployment rate	Percent	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.0	6.6	
Industrial production index	Percent change*	.9	-.8	-1.0	-7.7	14.3	6.6	1.7	1.0	3.1	
Capacity utilization rate-mfg.	Percent	84.6	79.3	78.3	70.3	74.0	80.5	80.1	79.7	80.0	
Housing Starts	Millions	1.72	1.30	1.10	1.06	1.71	1.76	1.74	1.86	1.68	
Auto sales	Millions	10.68	9.04	8.56	8.00	9.18	10.43	11.09	11.32	10.84	
Domestic	Millions	8.36	6.62	6.24	5.77	6.77	7.97	8.24	8.20	7.68	
Foreign	Millions	2.32	2.42	2.32	2.23	2.41	2.46	2.84	3.11	3.17	
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change*	11.4	12.0	9.2	5.3	7.8	8.4	6.1	5.7	6.3	
Real disposable income	Percent change*	1.5	1.1	.7	1.0	5.1	4.2	1.9	3.9	1.9	
Personal saving rate	Percent	6.8	7.1	7.5	6.8	5.4	6.3	5.1	4.6	4.1	
Corp. profits with IVA & CCAdj	Percent change*	-10.7	-6.8	2.3	-19.1	70.1	6.6	7.8	2.2	-2.9	
Profit share of GNP	Percent	8.0	6.5	6.2	4.7	6.3	7.0	7.0	6.9	6.4	
Federal govt. surplus/deficit	Billions of \$	-16.1	-61.3	-63.8	-145.9	-176.0	-170.0	-198.0	-211.7	-171.1	
State and local govt. surplus		27.6	26.8	34.1	35.1	47.5	68.5	61.7	61.3	60.3	
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change*	8.9	9.9	8.7	5.2	3.6	3.6	3.3	2.1	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	2.1	3.6	
CPI		12.7	12.5	9.6	4.5	3.3	4.1	3.5	1.5	3.8	
Exc. food and energy		10.7	12.2	10.2	5.2	4.3	4.8	4.3	3.6	4.2	
Nonfarm business sector		-2.7	1.0	-.6	1.0	3.6	1.0	.2	1.8	.7	
Output per hour		9.7	10.9	8.3	7.3	3.3	4.3	3.9	2.7	3.5	
Compensation per hour		12.7	9.8	9.0	6.2	-.3	3.2	3.7	.9	2.8	
Unit labor costs											

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

September 17, 1986

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

	<b>Fiscal Year 1985*</b>	<b>FY1986e</b>		<b>FY1987e</b>		<b>CY1986e FRB Staff</b>	<b>1985 IV*</b>	<b>FRB Staff Estimates</b>				
		<b>Admin<sup>1</sup></b>	<b>FRB Staff</b>	<b>Admin<sup>1</sup></b>	<b>FRB Staff</b>			<b>I*</b>	<b>II*</b>	<b>1986 III</b>	<b>IV</b>	<b>I</b>
Not seasonally adjusted												
Budget receipts <sup>2</sup>	734	765	768	831	829	745	776	177	180	215	196	185
Budget outlays <sup>2</sup>	946	995	992	975	1006	961	990	252	241	245	254	250
Surplus/deficit(-) to be financed <sup>2</sup>	-212	-230	-224	-144	-177	-216	-213	-75	-61	-30	-57	-65
Means of financing deficit:												
Borrowing from public	197	235	234	144	175	224	200	91	37	51	55	43
Cash balance decrease	13	-3	-10	0	-3	-13	14	-14	19	-12	-2	10
Other	1	-2	0	0	4	5	0	-2	5	-8	5	-2
Cash operating balance, end of period	17	20	27	20	30	31	17	31	12	25	27	17
Memo: Sponsored agency borrowing <sup>4</sup>	20	n. a.	13	n. a.	21	20	12	5	-2	5	5	4
NIPA Federal Sector												
Receipts	771	810	810	890	866	787	819	806	800	806	828	844
Expenditures	963	1025	1024	1033	1049	985	1031	1023	1002	1043	1029	1051
Purchases	341	367	369	375	379	354	368	381	356	367	373	376
Defense	254	273	274	290	291	259	279	268	266	278	283	287
Nondefense	88	94	95	84	88	95	89	113	89	89	90	89
All other expend.	621	658	655	658	670	631	663	643	646	676	656	675
Surplus/deficit(-)	-191	-214	-214	-143	-183	-198	-212	-218	-202	-237	-201	-207
High-employment surplus/deficit(-) evaluated at 6 percent unemp.	-151	n. a.	-177	n. a.	-152	-159	-175	-180	-167	-197	-163	-173

\*--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.

September 17, 1986

**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	-99.7	-97.6	-83.7	-105.3	-93.7	-100.2	-100.3	-104.5	-103.9	-101.6	-95.6	-89.4
Exports of G+S	369.7	375.2	426.2	362.3	368.2	374.8	367.9	374.2	384.1	400.4	415.4	434.7	454.4
Imports of G+S	448.6	474.9	523.8	446.0	473.6	468.5	468.1	474.5	488.6	504.3	516.9	530.3	543.8
Constant 82 \$, Net	-108.2	-138.3	-107.0	-113.8	-132.0	-125.9	-150.5	-143.8	-132.9	-123.3	-113.8	-101.5	-89.6
Exports of G+S	362.3	371.4	413.9	355.8	362.9	369.2	363.9	371.1	381.3	394.1	405.4	420.6	435.6
Imports of G+S	470.5	509.7	520.9	469.6	494.8	495.1	514.4	514.9	514.2	517.3	519.2	522.0	525.1
<b>2. U.S. Merchandise Trade Balance 2/</b>	-124.4	-147.7	-146.5	-126.7	-149.4	-145.8	-144.1	-149.6	-151.2	-152.9	-149.3	-144.4	-139.3
Exports	214.4	218.0	249.9	210.0	210.9	214.6	219.2	216.3	222.0	231.8	243.0	255.7	269.3
Agricultural	29.6	25.6	27.3	26.7	28.5	28.4	24.6	23.8	25.4	26.4	26.7	27.4	28.5
Non-Agricultural	184.8	192.5	222.7	183.3	182.4	186.2	194.5	192.5	196.6	205.4	216.2	228.2	240.7
Imports	338.9	365.7	396.4	336.7	360.3	360.5	363.3	365.9	373.2	384.7	392.2	400.1	408.5
Petroleum and Products	50.5	34.4	38.7	49.5	56.5	40.1	31.3	31.2	35.1	37.8	38.3	39.0	39.7
Non-Petroleum	288.3	331.3	357.7	287.2	303.8	320.4	331.9	334.7	338.1	346.9	354.0	361.2	368.9
<b>3. U.S. Current Account Balance</b>	-117.7	-143.6	-146.5	-113.8	-134.8	-136.2	-138.9	-146.7	-152.8	-151.3	-150.4	-145.0	-139.3
Of Which: Net Investment Income	25.2	18.9	11.2	33.0	37.0	26.1	21.2	15.2	13.3	12.0	10.4	11.0	11.5
<b>4. Foreign Outlook 3/</b>													
Real GNP--Ten Industrial 4/	2.8	2.7	2.8	3.0	2.5	0.2	5.2	2.9	2.9	2.7	2.6	2.5	2.5
Real GNP--NonOPEC LDC 5/	3.4	3.2	4.1	2.9	3.0	3.0	3.3	3.6	3.9	4.1	4.4	4.7	5.0
Consumer Prices--Ten Ind. 4/	4.3	2.1	2.4	1.4	3.1	1.7	1.7	0.5	2.8	2.7	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

September 17, 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**

GRAMM-RUDMAN-HOLLINGS BASE LEVEL FEDERAL  
OUTLAY ESTIMATES FOR 1987<sup>1</sup>

	Billions of dollars	Percent of total
<b>Total</b>	<b>990.5</b>	<b>100.0</b>
<b>Defense</b>	<b>274.6</b>	<b>27.6</b>
Subject to across-the-board sequestration	169.0	17.1
<b>Exempt</b>	<b>104.6</b>	<b>10.6</b>
 <b>Nondefense</b>		
Subject to sequestration	231.1	23.3
Across-the-board	96.0	9.7
Special rules	135.2	13.6
 <b>Exempt</b>	<b>485.8</b>	<b>49.0</b>
Social security	204.3	20.6
Net interest	138.7	14.0
Income support <sup>2</sup> and veterans' benefits	92.9	9.3
Other <sup>3</sup>	49.9	5.0

1. Figures are the average of OMB and CBO estimates, which differed by \$16 billion because of disagreements over interpretations of the law, differences in economic assumptions, and technical estimating differences.

2. Includes, among other things, spending for child nutrition, food stamps, medicaid, and state unemployment benefits.

3. Outlays from prior-year appropriations, certain prior legal obligations, and small exempt programs.

Source: OMB and CBO, Initial Sequestration Report for Fiscal 1987, August 20, 1986.

Note: Outlay estimates were based on FY1986 appropriation levels and other laws and regulations in effect August 15, 1986.

broadeners that affect business tend to be industry specific. For example, completed contract accounting provisions will increase the tax payments of firms such as defense contractors that produce products under long-term contracts; financial institutions face new restrictions on deductions of interest to carry tax-exempt securities and on loan loss reserve deductions; various special deductions specific to the insurance industry are repealed; rehabilitation credits for old buildings are reduced; and new restrictions are placed on private-purpose tax-exempt bond issuance.

The tax reform also raises some revenues from sources that are not strictly rate or base changes--stricter IRS enforcement and an acceleration of estimated tax payments, for example.

Revenue estimates

As shown below, tax reform will, if not offset by other fiscal actions, contribute to deficit reduction and be a restraining economic influence in 1987, will add to the unified deficit in 1988 and 1989, and will again become a restraining influence in 1990 and 1991. In the context of deficit reduction, tax reform will ease the job of hitting the Gramm-Rudman targets in 1987, but will significantly complicate the task in the following two years.

Revenue Effects of the Conference Agreement  
on the Tax Reform Act of 1986  
(Fiscal years, billions of dollars)

	1987	1988	1989	1990	1991	Total 1987 to 1991
Total revenue	11	-17	-15	9	12	0

Source: Preliminary Joint Committee on Taxation estimates.

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

	<b>Fiscal Year 1986<sup>e</sup></b>	<b>Calendar Year 1986</b>		
		<b>Q3<sup>e</sup></b>	<b>Aug.P</b>	<b>Sep.<sup>e</sup></b>
<b>Treasury financing</b>				
Combined surplus/deficit(-)	-224.1	-57.2	-30.7	-4.3
<b>Means of financing deficit:</b>				
Net cash borrowing from the public	233.5	55.0	20.1	19.9
Marketable borrowings/ repayments(-)	188.4	50.0	17.3	20.3
Bills	26.2	13.7	2.9	6.7
Coupons	162.2	36.3	14.4	13.6
Nonmarketable	45.1	5.0	2.8	-.4
Decrease in the cash balance	-9.8	-2.3	10.4	-16.5
Memo: Cash balance at end of period	26.9	26.9	10.4	26.9
Other <sup>2</sup>	.4	4.5	.2	.9
<b>Federally sponsored credit agencies, net cash borrowing<sup>3</sup></b>				
	13.1	5.5	2.9	1.0
FHLBs	15.2	6.0	3.2	1.3
FNMA	1.5	.7	-.4	.2
Farm Credit Banks	-6.4	-1.7	*	-1.0
FHLMC	-.2	.2	.1	.1
SLMA	3.0	.3	*	.4

p--preliminary                    e--staff estimate                    \*--less than \$500 million.

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.