

March 23, 1988

## **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

CONFIDENTIAL - FR  
CLASS II FOMC

March 23, 1988

## STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)			
	2/3/88	3/23/88	2/3/88	3/23/88	2/3/88	3/23/88	2/3/88	3/23/88	2/3/88	3/23/88		
<b>Annual changes:</b>												
1986	<1>	5.6	5.6	2.9	2.9	2.7	2.7	2.6	2.6	7.0	7.0	
1987	<1>	5.9	6.0	2.9	2.9	3.4	3.4	3.0	3.0	6.2	6.2	
1988		5.9	6.5	2.6	3.2	3.9	3.9	3.2	3.2	6.0	5.7	
1989		6.6	6.5	2.8	2.5	4.2	4.3	3.8	3.9	5.8	5.7	
<b>Quarterly changes:</b>												
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>	6.7	7.3	4.2	4.5	3.7	3.7	2.7	2.7	5.9	5.9
1988	Q1		4.9	6.1	1.3	2.7	4.1	4.2	3.4	3.4	5.9	5.7
	Q2		5.2	5.7	1.7	2.5	3.8	3.6	3.5	3.1	6.0	5.7
	Q3		6.1	6.5	2.6	2.6	3.9	4.2	3.5	3.8	6.0	5.7
	Q4		6.7	6.7	2.9	2.8	4.2	4.3	3.8	3.8	6.0	5.7
?	Q1		7.0	6.7	3.0	2.6	4.3	4.6	3.9	4.0	5.9	5.6
	Q2		6.7	6.6	2.8	2.5	4.2	4.5	3.9	4.1	5.9	5.6
	Q3		6.7	6.2	2.8	2.3	4.2	4.3	3.8	3.9	5.8	5.7
	Q4		6.7	6.3	2.8	2.3	4.2	4.4	3.8	3.9	5.8	5.7
<b>Two-quarter changes: &lt;2&gt;</b>												
1987	Q2	<1>	7.5	7.5	3.4	3.4	4.4	4.4	3.9	3.9	-.6	-.5
	Q4	<1>	7.0	7.3	4.2	4.4	3.6	3.6	2.8	2.8	-.4	-.4
1988	Q2		5.1	5.9	1.5	2.6	4.0	3.9	3.4	3.3	.1	-.2
	Q4		6.4	6.6	2.7	2.7	4.0	4.2	3.6	3.8	.0	.0
1989	Q2		6.9	6.7	2.9	2.5	4.3	4.5	3.9	4.0	-.1	-.1
	Q4		6.7	6.2	2.8	2.3	4.2	4.3	3.8	3.9	-.1	.1
<b>Four-quarter changes: &lt;3&gt;</b>												
1986	Q4	<1>	4.5	4.5	2.2	2.2	2.3	2.3	2.2	2.2	-.2	-.3
1987	Q4	<1>	7.2	7.4	3.8	3.9	4.0	4.0	3.3	3.3	-1.0	-.9
1988	Q4		5.7	6.2	2.1	2.7	4.0	4.1	3.5	3.5	.1	-.2
1989	Q4		6.8	6.4	2.8	2.4	4.2	4.4	3.8	4.0	-.2	.0

&lt;1&gt; Actual.

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

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

CONFIDENTIAL - FR  
CLASS II FOMC

March 23, 1988

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	Q1	Q2
<b>EXPENDITURES</b>													
Nominal GNP	Billions of \$	4524.0	4604.0	4672.6	4737.5	4812.6	4891.6	4971.2	5051.8	5128.5	5207.0		
Real GNP	Billions of 82\$	3835.9	3877.9	3903.4	3927.3	3952.9	3980.7	4005.9	4030.5	4053.2	4076.1		
Nominal GNP	Percent change	7.3	7.3	6.1	5.7	6.5	6.7	6.7	6.6	6.2	6.3		
Real GNP		4.3	4.5	2.7	2.5	2.6	2.8	2.6	2.5	2.3	2.3		
Gross domestic product		4.8	4.8	2.4	2.6	2.7	2.8	2.4	2.5	2.3	2.3		
Gross domestic purchases		4.8	4.1	-1.1	1.6	1.8	1.7	1.1	1.2	.9	.9		
Final sales		6.0	1.0	4.1	1.8	2.7	3.3	3.1	2.7	2.6	2.7		
Private dom. final purchases		7.3	-2.1	3.2	1.7	2.6	2.1	1.5	1.5	1.2	1.3		
Personal consumption expend.		5.4	-3.1	2.8	1.7	2.0	1.7	1.3	1.4	1.2	1.2		
Durables		24.3	-20.4	13.9	-2.8	1.4	2.6	1.4	1.8	1.1	1.2		
Nondurables		-1.5	-2.6	-2.3	2.8	2.6	1.5	1.2	1.2	.7	.7		
Services		5.0	2.8	3.2	2.3	1.8	1.5	1.3	1.5	1.5	1.5		
Business fixed investment		25.8	-.5	11.7	1.7	4.6	4.1	3.8	3.5	3.1	2.8		
Producers' durable equipment		26.3	-2.6	18.4	1.6	5.5	4.4	3.8	3.5	3.2	3.0		
Nonresidential structures		24.6	5.5	-4.9	1.9	2.3	3.2	3.7	3.3	2.9	2.2		
Residential structures		-6.5	8.1	-9.9	1.8	5.4	2.4	-1.8	-2.6	-2.9	-.4		
Exports		23.7	15.1	16.7	14.3	13.2	16.0	16.8	15.3	14.9	14.9		
Imports		22.4	9.7	-5.6	5.4	5.5	5.7	4.8	5.1	4.4	4.4		
Government purchases		2.6	13.4	-6.5	-2.0	-1.3	2.5	2.3	1.2	1.2	1.0		
Federal		4.5	24.4	-15.6	-7.0	-5.5	3.1	2.2	-.5	-.8	-1.4		
Defense		7.5	-1.5	-7.8	-10.4	-8.2	3.7	2.6	-.8	-.9	-1.6		
State and local		1.2	5.3	1.4	2.0	2.0	2.1	2.4	2.5	2.7	2.7		
Change in business inventories	Billions of 82\$	24.6	56.7	43.7	50.1	50.2	45.9	41.2	39.4	36.7	33.3		
Nonfarm	Billions of 82\$	12.1	53.5	34.4	41.6	41.4	37.8	33.7	32.4	30.4	27.8		
Exports	Billions of 82\$	-138.4	-136.4	-110.2	-101.9	-94.6	-83.8	-70.3	-58.2	-45.0	-31.3		
<b>ECONOMIC ACTIVITY AND PRODUCTION</b>													
Nonfarm payroll employment	Millions	102.3	103.3	104.2	104.6	105.0	105.5	105.9	106.3	106.7	107.0		
Unemployment rate	Percent*	6.0	5.9	5.7	5.7	5.7	5.7	5.6	5.6	5.7	5.7		
Industrial production index	Percent change	8.8	7.0	4.0	3.8	4.5	4.2	3.1	3.3	3.3	3.4		
Capacity utilization rate-mfg.	Percent*	81.4	82.3	82.5	82.8	83.0	83.2	83.2	83.2	83.3	83.3		
Housing Starts	Millions	1.62	1.53	1.46	1.53	1.53	1.51	1.50	1.48	1.44	1.44		
Auto sales	Millions	11.42	10.02	10.53	9.84	9.84	10.02	10.05	10.10	10.10	10.10		
Domestic	Millions	7.84	6.63	7.44	6.81	6.84	7.00	7.05	7.10	7.10	7.10		
Foreign	Millions	3.58	3.38	3.09	3.03	3.00	3.02	3.00	3.00	3.00	3.00		
<b>INCOME AND SAVING</b>													
Nominal personal income	Percent change	5.8	10.2	6.8	5.0	5.1	7.9	7.7	5.5	5.8	7.2		
Real disposable income	Percent change	4.5	5.7	4.6	-.6	2.0	2.4	2.3	-.2	.8	1.7		
Personal saving rate	Percent*	2.8	4.8	5.2	4.7	4.7	4.8	5.0	4.6	4.5	4.6		
Corp. profits with IVA & CCAdj	Percent change	26.7	7.4	-13.1	8.8	7.8	6.0	5.2	10.3	3.3	5.5		
Profit share of GNP	Percent*	7.0	7.0	6.6	6.7	6.7	6.7	6.7	6.7	6.7	6.7		
Federal govt. surplus/deficit	Billions of \$	-135.8	-160.1	-167.1	-145.4	-143.1	-150.3	-155.3	-135.9	-124.0	-120.5		
State and local govt. surplus	Billions of \$	46.5	39.1	46.8	50.4	54.1	58.5	62.6	62.9	61.8	61.3		
Exc. social insurance funds	Billions of \$	-5.6	-14.1	-7.3	-4.4	-1.4	2.3	5.7	5.3	3.5	2.3		
<b>PRICES AND COSTS</b>													
GNP implicit deflator	Percent change	2.8	2.7	3.4	3.1	3.8	3.8	4.0	4.1	3.9	3.9		
GNP fixed-weight price index	Percent change	3.4	3.7	4.2	3.6	4.2	4.3	4.6	4.5	4.3	4.4		
Cons. & fixed invest. prices	Percent change	3.9	3.5	3.7	4.2	4.9	4.7	5.0	4.9	4.7	4.7		
CPI	Percent change	3.6	3.9	3.5	4.3	5.2	5.0	4.9	5.2	5.0	5.1		
Exc. food and energy	Percent change	3.6	4.2	4.5	4.9	5.2	5.2	5.3	5.2	5.2	5.2		
Nonfarm business sector		4.2	.3	-1.0	.9	1.0	1.2	.9	1.1	1.0	1.2		
Output per hour		3.6	3.4	4.9	3.7	3.9	4.2	4.8	4.6	4.7	4.8		
Compensation per hour		-.6	3.1	6.0	2.8	2.9	3.0	3.9	3.5	3.7	3.6		
t labor costs													

at an annual rate.

March 23, 1988

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

	Units	Projection									
		1981	1982	1983	1984	1985	1986	1987	1988	1989	
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	3052.6	3166.0	3405.7	3772.2	4010.3	4235.0	4487.7	4778.6	5089.6	
Real GNP	Billions of 82\$	3248.8	3166.0	3279.1	3501.4	3607.5	3713.3	3820.3	3941.1	4041.4	
Real GNP	Percent change*	.6	-1.9	6.5	5.1	3.3	2.2	3.9	2.7	2.4	
Gross domestic product		.3	-1.6	6.6	5.3	3.5	2.6	4.1	2.6	2.4	
Gross domestic purchases		.8	-.8	8.4	6.4	4.1	2.7	3.4	1.3	1.1	
Final sales		.1	.3	3.7	4.7	4.6	2.6	2.0	3.0	2.7	
Private dom. final purchases		-.3	.8	7.7	5.6	4.6	3.2	1.1	2.4	1.4	
Personal consumption expend.		.2	2.9	5.4	4.1	4.5	4.1	.8	2.0	1.3	
Durables		-3.3	9.0	14.7	10.8	6.6	12.4	-3.7	3.6	1.3	
Nondurables		.5	1.8	4.4	2.3	2.9	2.9	-1.2	1.1	.9	
Services		.9	2.3	3.9	3.5	5.0	2.4	3.8	2.2	1.4	
Business fixed investment		5.6	-11.3	10.8	13.8	4.7	-4.7	4.5	5.4	3.3	
Producers' durable equipment		2.2	-12.5	20.9	14.9	7.0	.2	5.0	7.3	3.4	
Nonresidential structures		11.7	-9.1	-4.8	11.8	.1	-15.4	3.5	.6	3.0	
Residential structures		-22.4	4.9	38.1	6.1	6.0	12.5	-2.4	-.2	-1.9	
Exports		2.4	-13.8	5.8	5.9	-2.7	5.9	16.6	15.1	15.5	
Imports		4.9	-5.9	23.8	17.4	5.2	8.9	9.1	2.6	4.7	
Government purchases		2.9	3.8	-2.7	7.9	8.7	2.4	3.2	-1.9	1.4	
Federal		9.5	8.2	-8.1	13.0	14.9	-.2	3.1	-6.5	-.2	
Defense		7.6	8.8	5.1	6.5	7.0	4.8	5.8	-5.8	-.2	
State and local		-1.3	.6	1.5	4.4	4.0	4.6	3.3	1.9	2.6	
Change in business inventories	Billions of 82\$	23.9	-24.5	-6.4	62.3	7.4	13.8	42.0	47.5	37.7	
Nonfarm	Billions of 82\$	19.0	-23.1	-.1	57.8	12.0	15.4	33.1	38.8	31.1	
Net exports	Billions of 82\$	49.4	26.3	-19.9	-84.0	-108.2	-145.8	-135.7	-97.6	-51.2	
Nominal GNP	Percent change*	9.3	3.1	10.4	8.6	6.6	4.5	7.4	6.2	6.4	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	91.2	89.6	90.2	94.5	97.5	99.6	102.1	104.8	106.5	
Unemployment rate	Percent	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.7	5.7	
Industrial production index	Percent change*	-1.0	-7.7	14.3	6.6	1.7	1.0	5.8	4.1	3.3	
Capacity utilization rate-mfg.	Percent	78.2	70.3	73.9	80.5	80.1	79.7	81.0	82.9	83.3	
Housing Starts	Millions	1.10	1.06	1.71	1.77	1.74	1.81	1.63	1.51	1.46	
Auto sales	Millions	8.56	8.00	9.18	10.43	11.09	11.52	10.34	10.06	10.09	
Domestic	Millions	6.24	5.77	6.77	7.97	8.24	8.28	7.14	7.02	7.09	
Foreign	Millions	2.32	2.23	2.41	2.46	2.84	3.25	3.21	3.03	3.00	
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change*	9.2	5.3	7.8	8.4	6.8	5.5	7.2	6.2	6.6	
Real disposable income	Percent change*	.7	1.0	5.1	4.3	2.8	3.6	2.1	2.1	1.2	
Personal saving rate	Percent	7.5	6.8	5.4	6.1	4.5	4.3	3.8	4.8	4.7	
Corp. profits with IVA & CCAdj	Percent change*	2.3	-19.1	70.1	7.4	4.1	1.2	14.1	1.9	6.0	
Profit share of GNP	Percent	6.2	4.7	6.3	7.1	6.9	6.7	6.8	6.7	6.7	
Federal govt. surplus/deficit	Billions of \$	-63.8	-145.9	-176.0	-169.6	-196.0	-204.7	-151.4	-151.5	-133.9	
State and local govt. surplus		34.1	35.1	47.5	64.6	63.1	56.8	44.3	52.4	62.2	
Exc. social insurance funds		4.1	-1.7	4.4	19.8	16.0	7.4	-7.3	-2.7	4.2	
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change*	8.7	5.2	3.6	3.4	3.1	2.2	3.3	3.5	4.0	
GNP fixed-weight price index		8.5	5.0	3.9	3.7	3.6	2.3	4.0	4.1	4.4	
Cons. & fixed invest. prices		8.2	4.4	3.3	3.3	3.5	2.0	4.3	4.4	4.8	
CPI		9.6	4.4	3.2	4.1	3.5	1.3	4.4	4.5	5.0	
Exc. food and energy		10.2	5.2	4.2	4.8	4.3	3.9	4.3	4.9	5.2	
Nonfarm business sector		-.6	1.0	3.6	1.5	1.0	1.5	1.6	.5	1.1	
Output per hour		8.3	7.3	3.3	4.2	4.8	3.4	2.8	4.2	4.7	
Compensation per hour		9.0	6.2	-.3	2.6	3.7	1.9	1.2	3.7	3.6	
Unit labor costs											

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

CONFIDENTIAL - FR  
CLASS II FOMC

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

March 23, 1988

	Projection										Projection			
	1987		1988				1989				1986	1987	1988	1989
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	40.6	42.0	25.5	24.0	25.6	27.8	25.2	24.6	22.7	22.9	80.6	146.4	102.8	95.4
Gross domestic product	44.5	44.9	23.4	24.7	25.8	27.4	24.0	24.7	22.5	23.2	92.7	153.5	101.3	94.4
Gross domestic purchases	46.3	40.0	-.8	15.6	18.3	17.1	11.6	12.6	9.4	9.2	103.1	131.0	50.3	42.9
Final sales	55.1	9.9	38.3	17.6	25.5	32.1	29.9	26.4	25.4	26.4	93.3	75.5	113.5	108.1
Private dom. final purchases	55.8	-16.7	25.3	13.2	20.7	16.5	11.8	12.1	9.8	10.8	97.7	35.6	75.7	44.5
Personal consumption expend.	33.2	-19.8	17.4	10.3	12.7	10.5	8.1	9.2	7.4	7.5	97.3	20.4	51.0	32.2
Durables	21.5	-22.6	12.7	-2.8	1.4	2.5	1.4	1.8	1.1	1.2	43.9	-14.7	13.8	5.4
Nondurables	-3.3	-5.8	-5.0	6.0	5.6	3.3	2.6	2.6	1.5	1.5	24.6	-10.4	9.8	8.4
Services	15.0	8.5	9.9	7.2	5.7	4.7	4.1	4.8	4.8	4.8	28.6	45.5	27.5	18.5
Business fixed investment	25.9	-.6	12.9	2.0	5.4	4.9	4.6	4.2	3.9	3.4	-22.0	20.0	25.2	16.1
Producers' durable equipment	19.1	-2.2	14.5	1.4	4.7	3.8	3.4	3.1	2.9	2.7	.6	15.8	24.4	12.2
Nonresidential structures	6.8	1.7	-1.6	.6	.7	1.0	1.2	1.1	.9	.7	-22.6	4.3	.7	3.9
Residential structures	-3.3	3.8	-5.1	.9	2.6	1.2	-.9	-1.3	-1.4	-1.2	22.5	-4.9	-.5	-3.8
Change in business inventories	-14.4	32.1	-13.0	6.4	.1	-4.3	-4.7	-1.8	-2.7	-3.4	-12.8	71.1	-10.8	-12.7
Nonfarm	-10.6	41.4	-19.1	7.2	-.2	-3.6	-4.1	-1.3	-2.0	-2.6	-14.4	51.2	-15.7	-10.1
Farm	-3.8	-9.4	6.2	-.8	.3	-.7	-.6	-.5	-.7	-.8	1.6	19.7	5.0	-2.6
Net exports	-5.7	2.0	26.2	8.3	7.3	10.7	13.6	12.0	13.2	13.7	-22.5	15.4	52.6	52.3
Exports	22.6	15.6	17.8	16.0	15.3	19.0	20.7	19.7	19.9	20.6	21.8	64.4	68.1	80.8
Imports	28.4	13.5	-8.4	7.7	8.0	8.3	7.1	7.6	6.6	6.9	44.3	49.0	15.6	28.2
Government purchases	5.0	24.6	-13.2	-3.9	-2.5	4.8	4.5	2.3	2.3	1.9	18.1	24.5	-14.8	11.1
Federal	3.7	18.9	-14.7	-6.1	-4.7	2.5	1.8	-.5	-.7	-1.2	-.7	10.6	-23.0	-.5
Defense	4.8	-1.0	-5.4	-7.1	-5.4	2.3	1.6	-.5	-.6	-1.0	11.6	14.6	-15.6	-.5
Nondefense	-1.2	20.0	-9.3	1.0	.7	.2	.2	.0	-.1	-.2	-12.3	-4.0	-7.4	.0
State and local	1.3	5.7	1.5	2.2	2.2	2.3	2.7	2.8	3.0	3.1	18.7	14.0	8.2	11.6

CONFIDENTIAL FR CLASS II

March 23, 1988

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

Fiscal Year 1987*	FY1988e				FY1989e				CY 1987*	CY1988e	FRB Staff Estimates						
	Admin <sup>1</sup>	FRB Staff	Admin <sup>1</sup>	FRB Staff	1987 IV*	I	II	1988 III	IV	I	1989 II	III					
Not seasonally adjusted																	
Budget receipts <sup>2</sup>	854	909	908	965	973	869	919		205	205	267	230	216	226	284	247	
Budget outlays <sup>2</sup>	1005	1056	1062	1094	1123	1038	1055		287	240	267	269	280	281	283	279	
Surplus/deficit <sup>2</sup> (-) to be financed <sup>2</sup>	-150	-147	-155	-130	-150	-169	-136		-82	-34	1	-39	-63	-55	1	-32	
Means of financing:																	
Borrowing from public	152	127	142	127	147	142	141		61	41	12	28	60	43	19	26	
Cash balance decrease	-5	16	9	0	-7	9	2		14	-2	-8	5	8	5	-15	-5	
Other <sup>3</sup>	4	3	2	3	10	15	-8		6	-5	-5	6	-4	8	-4	11	
Cash operating balance, end of period	36	20	28	20	35	22	20		22	25	32	28	20	15	30	35	
Memo: Sponsored agency borrowing <sup>4</sup>	20	n.a.	42	n.a.	32	35	27		20	4	9	9	5	5	10	12	
Seasonally adjusted annual rates															I-12		
NIPA Federal Sector																	
Receipts	894	974	961	1029	1027	917	974		943	953	976	973	993	1019	1041	1056	
Expenditures	1053	1098	1115	1146	1169	1068	1125		1103	1120	1122	1117	1144	1174	1177	1180	
Purchases	374	375	389	396	395	381	387		395	390	386	383	389	396	398	399	
Defense	290	289	294	295	297	295	292		300	298	292	288	292	298	299	300	
Nondefense	84	86	94	101	98	86	95		95	93	94	96	97	98	99	99	
All other expend.	679	723	727	750	773	688	738		708	730	736	733	755	778	779	781	
Surplus/deficit(-)	-159	-124	-154	-117	-141	-151	-151		-160	-167	-145	-143	-150	-155	-136	-124	
High-employment surplus/deficit(-) evaluated at 6 percent unemp.	-141	n.a.	-156	n.a.	-149	-140	-156		-160	-169	-149	-148	-157	-163	-144	-132	

\*\*-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 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
<b>1. GNP Exports and Imports 1/</b>													
Current \$, Net	-120.3	-102.3	-81.2	-123.7	-126.9	-103.5	-103.0	-103.5	-99.0	-93.4	-85.9	-77.6	-68.1
Exports of G+S	427.4	507.1	601.3	439.2	456.8	477.1	496.1	515.6	539.7	565.5	589.7	612.9	637.2
Imports of G+S	547.7	609.4	682.6	562.9	583.7	580.6	599.1	619.1	638.7	658.9	675.6	690.5	705.3
Constant 82 \$, Net	-135.7	-97.6	-51.2	-138.4	-136.4	-110.2	-101.9	-94.6	-83.8	-70.3	-58.2	-45.0	-31.3
Exports of G+S	425.5	494.9	571.3	437.1	452.7	470.5	486.5	501.8	520.8	541.5	561.2	581.0	601.6
Imports of G+S	561.2	592.5	622.5	575.6	589.1	580.7	588.4	596.4	604.7	611.8	619.4	626.0	632.9
<b>2. U.S. Merchandise Trade Balance 2/</b>	<b>-159.2</b>	<b>-141.7</b>	<b>-127.6</b>	<b>-161.4</b>	<b>-160.7</b>	<b>-141.8</b>	<b>-141.5</b>	<b>-142.9</b>	<b>-140.4</b>	<b>-137.8</b>	<b>-131.6</b>	<b>-124.8</b>	<b>-116.1</b>
Exports	250.8	314.5	376.8	260.4	276.2	292.8	307.3	321.1	336.8	352.5	368.0	384.1	402.6
Agricultural	29.5	35.1	39.3	33.3	30.9	33.7	35.1	34.7	36.8	38.0	38.9	39.4	41.0
Non-Agricultural	221.3	279.4	337.5	227.2	245.3	259.1	272.2	286.4	300.0	314.5	329.1	344.7	361.6
Imports	410.0	456.2	504.4	421.9	436.9	434.6	448.9	464.0	477.2	490.3	499.6	508.9	518.7
Petroleum and Products	42.3	44.0	53.3	50.4	44.4	37.6	43.6	46.9	48.0	51.7	52.7	53.8	55.1
Non-Petroleum	367.7	412.2	451.1	371.4	392.6	397.0	405.3	417.1	429.3	438.6	446.9	455.2	463.6
<b>3. U.S. Current Account Balance</b>	<b>-160.7</b>	<b>-153.0</b>	<b>-139.0</b>	<b>-173.8</b>	<b>-156.0</b>	<b>-152.8</b>	<b>-152.6</b>	<b>-153.9</b>	<b>-152.7</b>	<b>-149.2</b>	<b>-143.0</b>	<b>-136.1</b>	<b>-127.8</b>
Of Which: Net Investment Income	14.5	6.9	3.6	1.2	28.4	8.2	7.2	6.3	5.7	5.4	4.1	3.2	1.8
<b>4. Foreign Outlook 3/</b>													
Real GNP--Ten Industrial 4/	2.7	2.7	1.9	5.0	3.2	2.2	2.1	2.0	1.9	2.0	1.9	2.0	2.0
Real GNP--NonOPEC LDC 5/	3.9	3.6	4.3	3.5	3.4	3.3	3.6	4.0	4.4	4.6	4.5	4.3	4.1
Consumer Prices--Ten Ind. 4/	2.1	2.4	2.8	1.7	2.4	1.7	3.1	2.2	3.5	2.4	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

**March 23, 1988**

## **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**

FEDERAL BUDGET DEFICIT PROJECTIONS  
(Fiscal years; billions of dollars)

	1988	1989
President's budget proposal	147	130
CBO baseline	157	176
CBO reestimate of the President's budget proposal	161	165
Memo: Gramm-Rudman-Hollings deficit target	144	136

MONTHLY BUDGET TOTALS FOR FISCAL YEARS 1987 AND 1988  
(Billions of dollars; not seasonally adjusted)

	Revenues		Outlays		Deficit	
	1987	1988	1987	1988	1987	1988
October	59.0	62.4	84.2	93.1	25.2	30.7
November	53.0	57.0	79.9	83.9	27.0	26.9
December	78.0	85.5	90.0	109.7	12.0	24.2
January	81.8	81.8	83.9	65.7	2.1	-16.0
February	55.5	60.4	83.5	84.3	28.1	23.9
Total, fiscal year to date	327.2	347.0	421.6	436.7	94.4	89.7

Table 1

**ADMINISTRATION FY1989 BUDGET**  
(Billions of dollars, fiscal years)

	1987a	1988	1989
Receipts	854	909	965
Outlays	1005	1056	1094
<b>Deficit</b>	<b>150</b>	<b>147</b>	<b>130</b>
G-R-H Target	144	144	136

a--actual

**POLICY CHANGES TO FY1989 DEFICIT FORECAST SINCE FALL**  
(Billions of dollars)

Pre-summit baseline <sup>1</sup>	185
Summit agreement	46
Enacted	38
Discretionary caps	3
Other to be enacted	5
Program expansions	-3
Proposed reductions	<u>12</u>
Administration budget	130

1. Based on administration's February economic and technical estimating assumptions.

Table 2

## ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS

	<u>Near-term projections</u>		<u>Long-run assumptions</u>			
	1988	1989	1990	1991	1992	1993
- - - Percent change, calendar year average - - -						
<i>Real GNP</i>						
1. Administration	2.9	3.1	3.5	3.4	3.3	3.2
2. CBO	2.3	2.6	2.6	2.6	2.7	2.7
<i>GNP deflator</i>						
3. Administration	3.5	3.8	3.6	3.2	2.7	2.2
4. CBO	3.4	4.1	4.1	4.1	4.1	4.1
<i>CPI-W</i>						
5. Administration	4.3	4.1	3.6	3.2	2.7	2.2
6. CBO	4.5	4.9	4.6	4.4	4.4	4.4
- - - Percent, calendar year average - - -						
<i>Civilian unemployment rate</i>						
7. Administration	5.9	5.7	5.5	5.4	5.3	5.3
8. CBO	6.2	6.1	6.0	5.9	5.9	5.8
<i>3-Month Treasury bill rate</i>						
9. Administration	5.3	5.2	5.0	4.5	4.0	3.5
10. CBO	6.2	6.7	6.6	6.4	6.1	5.9

Table 3

**ADMINISTRATION CURRENT SERVICES AND CBO BASELINE BUDGETS**  
 (Billions of dollars, fiscal years)

	1988	1989	1990	1991	1992	1993
<i>Revenues</i>						
1. Administration	909	964	1043	1123	1189	1257
2. CBO	898	954	1036	1111	1181	1261
<i>Outlays</i>						
3. Administration	1056	1102	1154	1209	1252	1296
4. CBO	1059	1131	1206	1271	1335	1400
<i>Deficit</i>						
5. Administration	148	139	111	86	63	39
6. CBO	161	177	170	159	154	139
<i>Memo: Deficit as a percent of GNP</i>						
7. Administration	3.1	2.8	2.1	1.5	1.0	.6
8. CBO	3.4	3.5	3.1	2.8	2.5	2.1

Table 4

**CBO AND ADMINISTRATION ESTIMATES OF THE ADMINISTRATION'S BUDGET PROGRAM**  
 (By fiscal year, in billions of dollars)

	1988	1989'	1990	1991	1992	1993
<b>Revenues</b>						
Administration	909	965	1,044	1,124	1,190	1,258
CBO	899	955	1,038	1,113	1,182	1,262
<b>Outlays</b>						
Administration	1,056	1,094	1,148	1,204	1,241	1,281
CBO	1,060	1,120	1,195	1,253	1,313	1,371
<b>Deficit</b>						
Administration	147	130	104	79	51	23
CBO	161	165	157	140	131	109
--- CBO less Administration Estimates and Source of Difference ---						
<b>Revenues</b>						
Technical	-3	-2	2	-1	*	2
Economic	-7	-8	-8	-11	-9	2
Total	-10	-10	-6	-12	-8	4
<b>Outlays</b>						
Technical	1	9	14	1	6	1
Economic	3	17	33	48	66	88
Total	4	26	46	49	72	90
<b>Deficit</b>						
Technical	4	11	12	2	5	*
Economic	10	25	41	59	75	86
Total	15	36	53	61	80	86

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\* --less than \$500 million.

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

	1986 Year	1987		1988			e Mar.
		P Year	Q3	Q4 <sup>P</sup>	Jan. <sup>P</sup>	Feb. <sup>P</sup>	
Corporate securities - total <sup>1</sup>	28.18	24.08	26.50	15.68	21.19	21.40	23.50
Public offerings in U.S.	24.48	21.89	23.72	14.78	19.90	19.50	22.50
Stocks--total <sup>2</sup>	5.15	4.45	5.07	1.52	2.50	3.50	4.50
Nonfinancial	2.51	2.32	2.36	.73	.80	.90	.60
Utility	.64	.57	.71	.14	.10	.25	.20
Industrial	1.87	1.75	1.65	.59	.70	.65	.40
Financial	2.64	2.13	2.71	.79	1.70	2.60	3.90
Bonds--total <sup>1</sup>	19.33	17.44	18.65	13.26	17.40	16.00	18.00
Nonfinancial	9.62	6.59	6.62	4.71	5.85	5.90	7.60
Utility	3.61	2.01	2.45	2.03	1.35	2.00	3.20
Industrial	6.01	4.58	4.17	2.68	4.50	3.90	4.40
Financial	9.71	10.85	12.03	8.55	11.55	10.10	10.40
By quality <sup>3</sup>							
Aaa and Aa	4.70	3.27	2.79	4.74	4.45	3.25	3.50
A and Baa	6.05	5.20	4.43	4.03	7.90	5.30	7.60
Less than Baa	3.42	2.77	3.67	1.32	.38	1.60	1.70
No rating (or unknown)	.20	.07	.05	.03	.01	.10	.20
Memo items:							
Equity-based bonds <sup>4</sup>	.86	.87	.47	.35	.20	.10	.10
Mortgage-backed bonds	4.14	5.19	6.36	1.96	4.65	5.50	3.00
Variable-rate notes	1.02	1.87	2.75	.66	.75	1.45	1.50
Bonds sold abroad - total	3.55	2.03	2.51	.85	1.24	1.80	1.00
Nonfinancial	1.50	.94	1.27	.39	.20	.50	.50
Financial	2.05	1.09	1.24	.46	1.04	1.30	.50
Stocks sold abroad - total	.15	.16	.27	.05	.05	.10	.00
Nonfinancial	.09	.12	.16	.05	.05	.06	.00
Financial	.06	.04	.11	.00	.00	.04	.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 FINANCING<sup>1</sup>  
(Total for period; billions of dollars)

	<u>1987</u>	<u>1988</u>	<u>1988</u>		
	Q4 <sup>P</sup>	Q1 <sup>e</sup>	Jan. <sup>P</sup>	Feb. <sup>P</sup>	Mar. <sup>e</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-80.4	-34.3	16.1	-23.9	-26.4
<u>Means of financing deficit:</u>					
Net cash borrowing from the public	60.8	40.8	5.3	20.4	15.1
Marketable borrowings/ repayments (-)	48.6	34.0	5.0	16.5	12.5
Bills	11.0	3.3	.5	.0	2.8
Coupons	37.6	30.7	4.5	16.5	9.7
Nonmarketable	12.2	6.8	.2	3.9	2.6
Decrease in the cash balance	14.0	-2.1	-17.5	11.1	4.4
Memo: Cash balance at end of period	22.4	24.5	39.9	28.9	24.5
Other <sup>2</sup>	5.6	-4.5	-3.8	-7.6	6.9
<u>Federally sponsored credit agencies, net cash borrowing<sup>3</sup></u>					
FHLBs	11.3	2.2	1.7	.1	.4
FNMA	4.4	2.0	.1	1.4	.5
Farm Credit Banks	-.6	-.6	-.5	.6	-.7
FHLMC	3.3	.2	.1	.1	0
FICO	1.2	.7	0	.7	0
SLMA	.1	.3	-.4	.7	0

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.

second half of 1987, although remaining far below the average monthly volume in the years 1984 to 1986.

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

	1986 Year	1987 Year	1987		1987 Dec.	1988		
			Q3	Q4		Jan.	Feb. <sup>P</sup>	Mar. <sup>f</sup>
Total tax-exempt	14.04	9.29	8.16	8.49	8.41	6.00	8.41	9.50
Short-term <sup>1</sup>	1.79	1.37	1.83	1.26	.74	.59	.52	.50
Long-term <sup>2</sup>	12.25	7.92	6.33	7.23	7.67	5.41	7.89	9.00
Refundings <sup>2</sup>	5.29	3.45	1.69	1.87	2.32	2.55	2.46	--
New capital	6.96	4.47	4.63	5.36	5.35	2.86	5.43	--
Total taxable	.35	.32	.15	.58	.75	.41	.33	--

1. Does not include tax-exempt commercial paper.

2. Includes all refunding bonds, not just advance refundings.

p--preliminary.

f--forecast.

In general, the ratios of yields on tax-exempts to yields on taxables at both long and short maturities have been higher subsequent to passage of tax reform legislation in 1986, which lowered marginal tax rates and thereby reduced the tax benefits from owning tax-exempt securities. For instruments of one-year maturity, which are perceived to have relatively little default risk, the ratio of prime-grade tax-exempts to Treasuries rose from less than 56 percent in 1983-84 (the first two years of the current expansion) to more than 66 percent in 1987. At longer maturities, changes in ratios of tax-exempt to taxable yields have been smaller and the net effects of tax reform less clear.

Mortgage Markets

Mortgage interest rates have changed little since the February FOMC meeting. In the primary market, the average contract rate on new