

August 10, 1988

SUMMARY AND OUTLOOK

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

staff's projected growth in real GNP has been revised up in the second half.

Based on USDA crop estimates as of mid-July, the BEA has indicated to the staff that they are projecting that the drought will reduce real farm output about \$11 billion in 1988 on an annual average basis. The staff has incorporated losses of a similar magnitude in the current projection--considerably more than the \$4 billion that was assumed in the June Greenbook. In the GNP projection, these output losses show up primarily as a run-off of private and government farm inventories, and, to a lesser extent, as a drop in agricultural exports. All told, these effects are projected to reduce current-quarter growth about 3/4 percentage point at an annual rate and fourth-quarter growth 1 percentage point--trimming about 1/2 percentage point from the fourth-quarter growth in real GNP in 1988. In 1989, agricultural production is projected to reverse this year's decline, boosting the growth in real GNP by 1-1/2 percentage points and 3/4 percentage point in the first and second quarters respectively.²

Real GNP and the Drought
(Percent change, annual rate)

	1988		1989	
	Q3	Q4	Q1	Q2
Real GNP	3.1	1.8	3.6	2.5
Real GNP excluding effects of drought	3.8	2.8	2.2	1.8

2. There remains considerable uncertainty surrounding the manner in which the BEA will adjust components of farm output and income in response to emerging information about the drought. Thus, current staff estimates should be viewed as a rough attempt to lay out the dimensions of the effect of the drought on real GNP.

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August 10, 1988

STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)			
	6/22/88	8/10/88	6/22/88	8/10/88	6/22/88	8/10/88	6/22/88	8/10/88	6/22/88	8/10/88		
Annual changes:												
1986	<1>	5.6	5.6	2.9	2.8	2.7	2.8	2.6	2.7	7.0	7.0	
1987	<1>	6.0	6.8	2.9	3.4	3.4	3.6	3.0	3.3	6.2	6.2	
1988	6.8	7.1	3.6	3.9	4.0	4.0	3.1	3.0	5.6	5.5	5.5	
1989	6.3	6.7	2.2	2.7	4.4	4.7	4.1	3.9	5.8	5.6	5.6	
Quarterly changes:												
1987	Q1	<1>	8.6	8.4	4.4	4.6	4.5	4.2	3.5	6.6	6.6	
	Q2	<1>	6.3	8.7	2.5	5.0	4.1	4.2	3.5	6.3	6.3	
	Q3	<1>	7.3	7.7	4.3	4.5	3.4	3.7	2.8	6.0	6.0	
	Q4	<1>	7.6	8.6	4.8	6.1	3.6	3.8	2.7	5.9	5.9	
1988	Q1	<1>	5.4	5.4	3.9	3.4	3.6	3.5	1.7	1.7	5.7	5.7
	Q2	<1>	8.2	7.2	3.3	3.1	4.7	4.7	4.7	4.1	5.6	5.5
	Q3	6.3	7.3	2.1	3.1	4.4	4.6	4.2	4.0	5.7	5.4	5.4
	Q4	6.7	6.1	2.3	1.8	4.5	4.6	4.3	4.2	5.7	5.4	5.4
	Q1	6.5	7.7	2.0	3.6	4.9	5.1	4.4	4.0	5.7	5.4	5.4
	Q2	5.5	6.4	1.7	2.5	4.1	4.6	3.7	3.8	5.8	5.5	5.5
	Q3	6.1	5.8	2.4	2.0	4.0	4.4	3.5	3.7	5.8	5.6	5.6
	Q4	6.1	5.8	2.4	2.0	4.0	4.3	3.6	3.6	5.9	5.7	5.7
Two-quarter changes: <2>												
1987	Q2	<1>	7.5	8.5	3.4	4.8	4.4	4.2	3.9	3.5	-.5	-.5
	Q4	<1>	7.4	8.1	4.6	5.3	3.6	3.7	2.8	2.7	-.4	-.4
1988	Q2	<1>	6.8	6.3	3.6	3.3	4.2	4.0	3.2	2.9	-.3	-.4
	Q4	6.5	6.7	2.2	2.4	4.5	4.6	4.2	4.1	.1	-.1	-.1
1989	Q2	6.0	7.1	1.9	3.0	4.5	4.9	4.0	3.9	.1	.1	.1
	Q4	6.1	5.8	2.4	2.0	4.0	4.4	3.6	3.7	.1	.2	.2
Four-quarter changes: <3>												
1986	Q4	<1>	4.5	4.8	2.2	2.0	2.3	2.7	2.2	2.8	-.3	-.3
1987	Q4	<1>	7.4	8.3	4.0	5.0	4.0	4.0	3.3	3.1	-.9	-.9
1988	Q4	6.7	6.5	2.9	2.8	4.3	4.3	3.7	3.5	-.2	-.5	-.5
1989	Q4	6.0	6.4	2.1	2.5	4.2	4.6	3.8	3.8	.2	.3	.3

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

August 10, 1988

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

	Units	Projection									
		1987		1988		1989					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	4568.0	4662.8	4724.5	4806.9	4892.3	4964.7	5058.1	5136.8	5209.9	5283.4
Real GNP	Billions of 82\$	3865.3	3923.0	3956.1	3986.3	4016.9	4034.6	4070.1	4095.3	4116.0	4136.9
Nominal GNP	Percent change	7.7	8.6	5.4	7.2	7.3	6.1	7.7	6.4	5.8	5.8
Real GNP		4.5	6.1	3.4	3.1	3.1	1.8	3.6	2.5	2.0	2.0
Gross domestic product		4.7	5.8	4.2	3.2	3.3	1.8	3.5	2.5	2.1	2.0
Gross domestic purchases		4.8	5.4	1.6	1.1	2.3	1.4	2.7	1.7	1.2	1.2
Final sales		6.1	.4	3.6	5.4	3.5	3.0	2.8	2.3	2.4	2.6
Private dom. final purchases		6.6	-1.3	4.3	4.0	3.4	2.4	1.6	1.5	1.5	1.4
Personal consumption expend.		4.6	-2.1	4.5	2.3	2.6	2.3	1.3	1.3	1.3	1.3
Durables		16.5	-17.3	14.7	7.2	1.6	1.2	-1.8	.1	.6	.6
Nondurables		.9	-.6	1.0	-2.0	1.3	1.9	1.4	.2	.2	.2
Services		3.7	2.2	4.0	3.9	3.9	2.9	2.3	2.3	2.3	2.3
Business fixed investment		28.4	1.7	7.6	14.0	8.6	5.1	6.2	5.1	3.7	2.5
Producers' durable equipment		29.4	-2.4	21.6	14.8	12.0	7.7	7.0	6.5	5.5	4.5
Nonresidential structures		25.6	13.4	-22.4	11.8	-.4	-2.1	3.9	1.1	-1.5	-3.5
Residential structures		-10.7	1.3	-6.5	2.8	-.2	-2.3	-6.4	-5.7	-2.5	-.8
Exports		25.7	17.7	25.7	8.0	16.8	14.6	15.5	13.8	12.0	11.4
Imports		23.4	9.9	6.9	-6.2	8.6	10.1	7.6	7.0	5.5	4.6
Government purchases		5.7	5.0	-7.9	.4	-.2	3.2	3.3	1.9	2.2	3.1
Federal		12.6	6.7	-21.0	-3.0	-3.1	4.8	5.0	1.6	2.2	4.2
Defense		7.3	-1.9	-5.3	-5.5	-10.6	-.2	2.2	-1.1	-1.6	-.9
State and local		.6	3.8	3.5	2.9	1.9	2.0	2.0	2.0	2.2	2.3
in business inventories	Billions of 82\$	13.0	67.1	-66.0	45.0	41.7	30.2	38.1	40.2	36.6	31.1
arm	Billions of 82\$	18.3	68.2	51.9	33.9	39.1	42.1	39.0	36.2	33.0	32.3
orts	Billions of 82\$	-130.7	-126.0	-109.0	-90.1	-82.7	-79.5	-71.3	-63.9	-56.0	-47.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	102.7	103.7	104.7	105.6	106.5	107.0	107.4	107.8	108.1	108.4
Unemployment rate	Percent*	6.0	5.9	5.7	5.5	5.4	5.4	5.4	5.5	5.6	5.7
Industrial production index	Percent change	8.8	7.0	3.9	4.7	6.4	4.1	2.6	2.4	2.5	2.5
Capacity utilization rate-mfg.	Percent*	81.4	82.3	82.7	83.1	83.6	83.7	83.6	83.4	83.3	83.1
Housing Starts	Millions	1.62	1.53	1.48	1.47	1.47	1.41	1.37	1.35	1.34	1.34
Auto sales	Millions	11.42	10.02	10.79	10.76	10.44	10.52	10.05	10.02	10.05	10.03
Domestic	Millions	7.84	6.63	7.64	7.57	7.36	7.39	7.05	7.05	7.10	7.10
Foreign	Millions	3.58	3.38	3.15	3.19	3.08	3.13	3.00	2.97	2.95	2.93
INCOME AND SAVING											
Nominal personal income	Percent change	7.1	11.6	4.6	6.8	7.4	7.8	8.6	6.2	5.6	6.5
Real disposable income	Percent change	4.8	6.9	5.0	-.4	4.2	2.1	3.3	.5	.6	1.3
Personal saving rate	Percent*	2.3	4.3	4.4	3.8	4.2	4.1	4.6	4.4	4.2	4.2
Corp. profits with IVA & CCAdj	Percent change	23.9	-7.1	.1	12.4	-2.9	-7.1	8.4	6.9	-2.9	.7
Profit share of GNP	Percent*	7.0	6.8	6.7	6.8	6.6	6.4	6.4	6.4	6.3	6.2
Federal govt. surplus/deficit	Billions of \$	-138.3	-160.4	-155.1	-119.8	-125.7	-133.1	-139.5	-132.6	-126.8	-130.2
State and local govt. surplus		52.9	49.7	55.8	51.9	58.9	62.7	67.8	70.4	71.8	72.8
Exc. social insurance funds		-10.1	-14.8	-10.3	-15.8	-10.0	-7.4	-3.5	-2.1	-1.9	-2.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.1	2.4	1.7	4.1	4.0	4.2	4.0	3.8	3.7	3.6
GNP fixed-weight price index		3.7	3.8	3.5	4.7	4.6	4.6	5.1	4.6	4.4	4.3
Cons. & fixed invest. prices		3.9	4.3	2.5	4.9	4.3	4.9	4.9	4.9	4.7	4.6
CPI		3.6	3.9	3.2	4.9	4.3	5.1	5.3	4.9	4.8	4.8
Exc. food and energy		3.6	4.2	4.4	5.0	4.5	5.3	5.2	5.2	5.2	5.2
business sector		3.7	.9	3.4	-1.7	.0	.9	.5	.8	.7	.8
ut per hour		4.5	6.4	3.5	4.1	4.5	4.7	5.1	4.9	5.1	5.2
nsation per hour		.7	5.4	.1	5.9	4.5	3.8	4.6	4.1	4.4	4.4
labor costs											

* Not at an annual rate.

August 10, 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
EXPENDITURES										
Nominal GNP	Billions of \$	3052.6	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4847.1	5172.0
Real GNP	Billions of 82\$	3248.8	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3998.5	4104.6
Real GNP	Percent change*	.6	-1.9	6.5	5.1	3.6	2.0	5.0	2.8	2.5
Gross domestic product		.3	-1.6	6.6	5.3	3.8	2.3	5.1	3.1	2.5
Gross domestic purchases		.8	-.8	8.4	6.4	4.3	2.4	4.4	1.6	1.7
Final sales		.1	.3	3.7	4.7	4.6	2.5	3.0	3.9	2.5
Private dom. final purchases		-.3	.8	7.7	5.6	4.6	2.8	2.4	3.5	1.5
Personal consumption expend.		.2	2.9	5.4	4.1	4.6	4.2	1.8	2.9	1.3
Durables		-3.3	9.0	14.7	10.8	7.0	11.5	-2.4	6.0	-.1
Nondurables		.5	1.8	4.4	2.3	3.3	3.1	.6	.5	.5
Services		.9	2.3	3.9	3.5	5.0	2.7	4.2	3.7	2.3
Business fixed investment		5.6	-11.3	10.8	13.8	3.7	-7.3	8.8	8.8	4.4
Producers' durable equipment		2.2	-12.5	20.9	14.9	4.6	-2.4	9.6	13.9	5.9
Nonresidential structures		11.7	-9.1	-4.8	11.8	1.9	-17.4	6.7	-4.1	-.1
Residential structures		-22.4	4.9	38.1	6.1	5.8	11.3	-3.5	-1.6	-3.9
Exports		2.4	-13.8	5.8	5.9	-2.4	5.6	18.4	16.1	13.2
Imports		4.9	-5.9	23.8	17.4	4.5	7.6	10.4	4.7	6.2
Government purchases		2.9	3.8	-2.7	7.9	8.6	2.9	2.3	-1.2	2.6
Federal		9.5	8.2	-8.1	13.0	13.3	.0	2.1	-6.1	3.2
Defense		7.6	8.8	5.1	6.5	7.1	4.8	6.0	-5.4	-.4
State and local		-1.3	.6	1.5	4.4	4.9	5.3	2.5	2.6	2.1
Change in business inventories	Billions of 82\$	23.9	-24.5	-6.4	62.3	9.1	15.4	34.4	45.7	36.5
Nonfarm	Billions of 82\$	19.0	-23.1	-.1	57.8	13.4	17.9	36.9	41.8	35.1
Net exports	Billions of 82\$	49.4	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-90.3	-59.6
Nominal GNP	Percent change*	9.3	3.1	10.4	8.6	6.6	4.8	8.3	6.5	6.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	91.2	89.6	90.2	94.5	97.5	99.5	102.3	105.9	107.9
Unemployment rate	Percent	7.6	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.6
Industrial production index	Percent change*	-1.0	-7.7	14.3	6.6	1.7	1.0	5.8	4.8	2.5
Capacity utilization rate-mfg.	Percent	78.2	70.3	73.9	80.5	80.1	79.7	81.0	83.3	83.3
Housing Starts	Millions	1.10	1.06	1.71	1.77	1.74	1.81	1.63	1.46	1.35
Auto sales	Millions	8.56	8.00	9.18	10.43	11.09	11.52	10.34	10.63	10.04
Domestic	Millions	6.24	5.77	6.77	7.97	8.24	8.28	7.14	7.49	7.08
Foreign	Millions	2.32	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.96
INCOME AND SAVING										
Nominal personal income	Percent change*	9.2	5.3	7.8	8.4	6.6	5.9	8.5	6.7	6.7
Real disposable income	Percent change*	.7	1.0	5.1	4.3	2.7	3.4	3.0	2.7	1.4
Personal saving rate	Percent	7.5	6.8	5.4	6.1	4.4	4.0	3.2	4.1	4.3
Corp. profits with IVA & CCAdj	Percent change*	2.3	-19.1	70.1	7.4	9.2	.9	7.6	.4	3.2
Profit share of GNP	Percent	6.2	4.7	6.3	7.1	7.0	7.0	6.9	6.6	6.3
Federal govt. surplus/deficit	Billions of \$	-63.8	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-133.4	-132.3
State and local govt. surplus		34.1	35.1	47.5	64.6	65.1	61.2	52.9	57.3	70.7
Exc. social insurance funds		4.1	-1.7	4.4	19.8	13.8	5.0	-9.2	-10.9	-2.4
PRICES AND COSTS										
GNP implicit deflator	Percent change*	8.7	5.2	3.6	3.4	2.9	2.8	3.1	3.5	3.8
GNP fixed-weight price index		8.5	5.0	3.9	3.7	3.3	2.7	4.0	4.3	4.6
Cons. & fixed invest. prices		8.2	4.4	3.3	3.3	3.4	2.5	4.7	4.2	4.8
CPI		9.6	4.4	3.2	4.1	3.5	1.3	4.4	4.4	5.0
Exc. food and energy		10.2	5.2	4.2	4.8	4.3	3.9	4.3	4.8	5.2
Infarm business sector		-.6	1.0	3.6	1.5	1.5	1.2	1.9	.7	.7
Output per hour		8.3	7.3	3.3	4.2	4.5	4.2	4.1	4.2	5.1
Compensation per hour		9.0	6.2	-.3	2.6	2.9	3.0	2.1	3.6	4.3
Unit labor costs										

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

August 10, 1988

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

	Projection										Projection			
	1987		1988				1989				1986	1987	1988	1989
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	42.3	57.7	33.1	30.2	30.6	17.7	35.6	25.2	20.7	20.9	72.3	188.3	111.6	102.3
Gross domestic product	43.6	54.3	40.3	31.1	32.6	18.1	35.2	25.4	20.9	20.0	83.3	188.3	122.1	101.5
Gross domestic purchases	47.0	53.0	16.1	11.3	23.3	14.4	27.4	17.7	12.9	12.1	89.4	171.9	65.1	70.0
Final sales	57.0	3.7	34.2	51.2	33.9	29.2	27.7	23.1	24.3	26.4	90.5	110.7	148.5	101.4
Private dom. final purchases	51.0	-10.7	33.4	31.5	27.0	19.8	13.2	12.0	12.2	11.5	85.8	76.2	111.8	48.9
Personal consumption expend.	28.6	-13.5	28.1	14.4	16.9	14.6	8.6	8.2	8.6	8.6	99.3	45.5	74.0	34.1
Durables	15.2	-18.9	13.5	7.0	1.6	1.2	-1.9	.1	.6	.6	40.9	-9.7	23.3	-.5
Nondurables	2.1	-1.4	2.2	-4.5	2.9	4.2	3.1	.5	.4	.4	27.0	5.2	4.8	4.6
Services	11.3	6.8	12.3	12.1	12.3	9.3	7.4	7.6	7.5	7.5	31.4	50.0	45.9	30.0
Business fixed investment	28.0	2.0	8.6	15.8	10.3	6.3	7.7	6.5	4.8	3.3	-33.6	37.5	41.0	22.2
Producers' durable equipment	20.9	-2.0	16.7	12.3	10.4	7.0	6.5	6.1	5.3	4.4	-7.6	29.2	46.4	22.3
Nonresidential structures	7.1	4.1	-8.1	3.5	-.1	-.7	1.2	.3	-.5	-1.1	-26.1	8.3	-5.4	-.1
Residential structures	-5.5	.6	-3.2	1.3	-.1	-1.1	-3.1	-2.7	-1.2	-.4	20.3	-7.0	-3.1	-7.4
Change in business inventories	-14.8	54.1	-1.1	-21.0	-3.3	-11.5	7.9	2.1	-3.6	-5.5	-18.2	77.6	-36.9	.9
Nonfarm	-6.7	49.9	-16.3	-18.0	5.2	3.0	-3.1	-2.8	-3.2	-.7	-22.0	67.0	-26.1	-9.8
Farm	-8.0	4.2	15.2	-3.0	-8.5	-14.5	11.0	4.9	-.4	-4.8	3.8	10.6	-10.8	10.7
Net exports	-4.7	4.7	17.0	18.9	7.4	3.3	8.2	7.5	7.8	8.8	-17.1	16.4	46.5	32.3
Exports	24.5	18.3	27.0	9.4	19.6	17.8	19.6	18.2	16.3	16.1	20.4	71.4	73.8	70.1
Imports	29.3	13.6	9.9	-9.4	12.3	14.6	11.4	10.7	8.5	7.2	37.6	55.0	27.3	37.8
Government purchases	10.7	9.7	-16.2	.8	-.5	6.1	6.3	3.6	4.3	6.0	21.8	18.1	-9.8	20.3
Federal	10.0	5.6	-19.9	-2.5	-2.6	3.8	4.0	1.3	1.8	3.4	-.1	7.2	-21.2	10.6
Defense	4.7	-1.3	-3.6	-3.7	-7.2	-.1	1.4	-.7	-1.0	-.6	11.7	15.1	-14.6	-.9
Nondefense	5.3	6.9	-16.3	1.2	4.6	3.9	2.6	2.0	2.8	4.0	-11.8	-7.9	-6.6	11.5
State and local	.7	4.1	3.8	3.2	2.1	2.3	2.3	2.3	2.5	2.6	21.9	10.9	11.4	9.7

August 10, 1988

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1987*	FY1988e		FY1989e		CY1988e		1987 IV*	I*	II*	FRB Staff Estimates				
		Admin ¹	FRB Staff	Admin ¹	FRB Staff	CY 1987*	FRB Staff				88 III	IV	I	1989 II	III
Not seasonally adjusted															
Budget receipts ²	854	913	905	974	975	869	912	205	208	268	223	212	229	285	249
Budget outlays ²	1005	1066	1063	1097	1130	1037	1055	287	245	267	264	279	283	282	286
Surplus/deficit ² to be financed ³	-150	-152	-158	-123	-154	-168	-143	-82	-37	1	-40	-66	-53	3	-37
Means of financing:															
Borrowing from public	152	133	152	118	144	142	146	61	43	19	30	55	34	18	38
Cash balance decrease	-5	16	-3	0	-1	8	0	14	0	-17	0	16	8	-15	-10
Other ⁴	4	3	9	5	10	16	-3	7	-5	-3	10	-5	11	-5	10
Cash operating balance, end of period	36	20	39	20	40	23	23	23	23	40	39	23	15	30	40
Memo: Sponsored agency borrowing ⁴	20	n.a.	44	n.a.	32	34	30	19	11	4	10	5	5	10	12
Seasonally adjusted annual rates															
NIPA Federal Sector															
Receipts	895	n.a.	968	n.a.	1041	916	983	944	951	985	990	1006	1033	1055	1069
Expenditures	1058	n.a.	1108	n.a.	1174	1074	1116	1105	1106	1105	1115	1139	1173	1188	1196
Purchases	376	n.a.	380	n.a.	394	382	378	391	378	375	378	383	394	398	401
Defense	290	n.a.	296	n.a.	298	295	294	299	298	296	290	292	299	301	301
Nondefense	86	n.a.	85	n.a.	96	37	84	92	79	80	88	92	95	97	100
All other expend.	682	n.a.	727	n.a.	780	692	738	714	728	730	738	756	779	790	795
Surplus/deficit(-)	-164	n.a.	-140	n.a.	-133	-158	-133	-160	-155	-120	-126	-133	-140	-133	-127
High-employment surplus/deficit(-) evaluated at 6 percent unemp.	-140	n.a.	-149	n.a.	-148	-144	-145	-163	-162	-131	-140	-146	-156	-149	-141

*--actual

e--estimated

n.a.--not available

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

1. Mid-Session Review of the Fiscal 1989 Budget (July 28, 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. Their summer update is scheduled to be published August 19.

2. Includes social security receipts and outlays, which are classified as off-budget under current law.

3. Checks issued less checks paid, accrued items, and other transactions.

4. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation (excluding participation certificates), the Federal National Mortgage Association (excluding mortgage-backed securities), Farm Credit Banks, the Student Loan Marketing Association, and the Financing Corporation. The Administration's definition of borrowing by these agencies is somewhat broader.

**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
1. GNP Exports and Imports 1/													
Current \$, Net	-123.0	-92.4	-69.4	-125.2	-125.7	-112.1	-90.6	-84.4	-82.5	-77.4	-72.7	-66.8	-60.6
Exports of G+S	428.1	515.5	605.5	440.4	459.7	487.8	501.1	524.7	548.4	573.7	595.9	616.3	636.2
Imports of G+S	551.1	607.9	674.9	565.6	585.4	599.9	591.7	609.0	630.9	651.1	668.6	683.1	696.8
Constant 82 \$, Net	-128.9	-90.3	-59.6	-130.7	-126.0	-109.0	-90.1	-82.7	-79.5	-71.3	-63.9	-56.0	-47.2
Exports of G+S	427.8	507.5	578.4	440.9	459.2	486.2	495.6	515.2	533.0	552.6	570.8	587.1	603.2
Imports of G+S	556.7	597.8	638.0	571.6	585.2	595.1	585.7	598.0	612.5	623.9	634.6	643.1	650.3
2. U.S. Merchandise Trade Balance 2/	-160.3	-126.2	-107.3	-158.7	-164.8	-143.8	-125.4	-118.4	-117.0	-113.8	-109.9	-104.7	-100.7
Exports	249.6	320.7	376.2	259.6	272.1	298.7	312.7	328.2	343.3	357.7	370.1	382.4	394.5
Agricultural	29.5	38.5	44.9	33.1	30.5	36.1	37.7	38.9	41.4	43.8	44.6	45.3	46.0
Non-Agricultural	220.1	282.2	331.2	226.5	241.6	262.6	275.0	289.3	301.9	313.9	325.5	337.0	348.4
Imports	409.9	446.9	483.4	418.3	436.8	442.5	438.1	446.6	460.4	471.5	480.0	487.1	495.1
Petroleum and Products	42.9	40.7	47.1	51.0	45.2	39.9	41.3	38.3	43.1	46.0	46.8	47.2	48.5
Non-Petroleum	367.0	406.2	436.3	367.2	391.7	402.5	396.8	408.3	417.3	425.6	433.2	439.9	446.6
3. U.S. Current Account Balance	-154.0	-149.5	-127.8	-167.9	-134.1	-159.0	-149.4	-150.1	-139.5	-132.7	-130.0	-126.2	-122.2
Of Which: Net Investment Income	20.4	-10.2	-9.9	4.3	50.2	-2.4	-10.1	-19.4	-9.1	-6.9	-9.1	-11.4	-12.2
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	2.9	3.3	2.0	5.2	3.5	4.7	1.1	2.0	2.1	1.9	2.1	2.1	2.0
Real GNP--NonOPEC LDC 5/	4.2	3.2	3.6	3.5	3.1	2.9	3.1	3.3	3.6	3.8	3.7	3.6	3.4
Consumer Prices--Ten Ind. 4/	2.1	2.5	2.8	1.7	2.4	1.5	4.0	2.3	2.9	2.3	3.3	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

August 10, 1988

RECENT DEVELOPMENTS

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

MID-SESSION REVIEW OF THE BUDGET.

Budget Totals
(Billions of dollars)

	Fiscal years					
	1988	1989	1990	1991	1992	1993
Outlays	1066	1097	1157	1218	1259	1299
Receipts	913	974	1054	1132	1194	1265
Deficit	152	123	102	85	65	34

Note: Totals, as reported in the Mid-Session Review, include on-budget accounts plus the Social Security trust fund that is legally categorized as off-budget.

Economic Assumptions

	Calendar years					
	1988	1989	1990	1991	1992	1993
-----Percent change, Q4 to Q4-----						
Nominal GNP	6.6	7.1	6.9	6.3	5.8	5.3
Real GNP	3.0	3.3	3.3	3.2	3.2	3.2
GNP deflator	3.5	3.7	3.5	3.0	2.5	2.0
-----Percent, annual average-----						
Civilian unemployment rate	5.6	5.3	5.2	5.1	5.1	5.1
Interest rate (3-month Treasury bills)	6.0	5.5	5.0	4.5	4.0	3.5
(10-year Treasury notes)	8.5	8.1	7.0	6.0	5.0	4.5

Gramm-Rudman-Hollings Targets
(Billions of dollars)

	Fiscal years				
	1989	1990	1991	1992	1993
Target	136	100	64	28	0
Trigger	146	110	74	38	0
Memo:					
G-R-H baseline estimate					
February Budget	143				
Mid-Session Review		140			

Source: Office of Management and Budget, Mid-Session Review of the Budget, July 1988.

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

	1988			1988		
	Q1	Q2	Q3 ^e	Jul. ^P	Aug. ^e	Sep. ^e
<u>Treasury financing</u>						
Total surplus/deficit (-)	-37.0	.9	-40.1	-25.8	-22.4	8.1
Means of financing deficit:						
Net cash borrowing from the public	42.8	18.7	29.6	4.1	16.3	9.2
Marketable borrowings/ repayments (-)	34.1	11.2	27.6	3.6	15.8	8.2
Bills	3.2	-10.4	11.1	.4	9.5	1.2
Coupons	30.9	21.5	16.5	3.2	6.3	7.0
Nonmarketable	8.7	7.5	2.0	.5	.5	1.0
Decrease in the cash balance	-.4	-16.6	0.5	15.6	8.1	-23.2
Memo: Cash balance at end of period	23.0	39.6	39.2	24.1	16.0	39.2
Other ²	-5.4	-3.0	10.0	6.2	-2.1	5.9
<u>Federally sponsored credit agencies, net cash borrowing</u>						
	11.1	4.2	--	5.0	--	--
FHLBs	2.5	-.5	--	1.5	--	--
FNMA	2.8	4.9	--	1.0	--	--
Farm Credit Banks	.9	-.7	--	-.9	--	--
FAC ⁴	--	--	--	.5	--	--
FHLMC	2.5	-1.5 ^P	--	.4	--	--
FICO	.7	1.1	--	.6	--	--
SLMA	1.8	1.0	--	2.0	--	--

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.

4. Financial Assistance Corporation, an institution within Farm Credit System, was created in January 1988 by Congress to provide financial assistance to Farm Credit Banks. It first issued bonds in July 1988.

--staff estimate.

p--preliminary.

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