

December 7, 1988

## **SUMMARY AND OUTLOOK**

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**This edition is dedicated to Eleanor Stockwell,  
who presently will retire from the Board after 52 years of distinguished service  
that has included many hours writing and editing portions of the Greenbook.**

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

REAL GNP AND THE DROUGHT  
(Percent change, annual rate)

	1988				1989			1990	
	Q1	Q2	Q3	Q4	Q1	Q2	H2	H1	H2
	--actual--				-----projection-----				
Real GNP	3.4	3.0	2.6	2.2	5.8	2.7	2.2	0.9	1.4
Real GNP excluding effects of the drought	3.4	3.9	3.2	3.5	3.0	2.5	2.1	0.9	1.4

Inventory investment in the first quarter also is damped by a rundown of inventories of imported oil, after a surge in the fourth quarter. Although the staff has fully accounted for these large changes in oil imports in its projection of nonfarm inventories, BEA has significant problems in measuring these swings. Thus, the distinct possibility exists that reported GNP growth could turn out lower in the fourth quarter and higher in the first quarter than shown in the projection.

As 1989 progresses, rising interest rates are projected to continue to push homebuilding lower. Higher interest rates also take a toll on equity prices and other asset values, depressing the growth of consumer spending and business capital outlays. The staff projection for business fixed investment in 1989 as a whole is close to the recent survey results noted above. Increases in real net exports are sizable, although they are damped somewhat relative to the average pace in 1988 by the lagged effects of the dollar appreciation that occurred earlier this year. As a result, growth of real GNP is projected to move down to

prices. The GNP fixed-weight price index is expected to increase 4-1/4 percent over the year, and the CPI is projected to rise more than 4-1/2 percent; excluding food and energy, the CPI is anticipated to be up around 5 percent.

STAFF INFLATION PROJECTION  
(Percent change, annual rate)

	1988	1989		1990	
	Q4	H1	H2	H1	H2
GNP fixed-weight price index	4.3	4.3	4.2	4.7	4.3
Consumer price index	4.5	4.5	4.8	4.8	4.7
Excl. food and energy	5.1	5.0	5.3	5.3	5.1
Compensation per hour	4.7	5.3	5.2	5.7	4.9

In early 1990, an increase in Social Security taxes provides another boost to business costs; this adds about 1/4 percentage point to the rise in hourly compensation for the year. But, over the course of the year, with slack developing in labor and product markets, upward pressure on wages and prices is projected to begin to diminish. As the jobless rate moves closer to 6 percent, compensation per hour is projected to begin to decelerate. And, the GNP fixed-weight price index and the CPI are projected to slow slightly. If the levels of slack prevailing at the end of 1990 were to be maintained into 1991, the staff would expect further progress in lowering inflation.

Details of the staff projection are provided in the tables that follow.

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CLASS II FOMC

## STAFF GNP PROJECTIONS

## Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)	
		10/26/88	12/7/88	10/26/88	12/7/88	10/26/88	12/7/88	10/26/88	12/7/88	10/26/88	12/7/88
Annual changes:											
1987	<1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2
1988		7.3	7.4	3.8	3.9	4.1	4.1	3.3	3.4	5.5	5.5
1989		7.2	7.4	2.9	3.3	4.5	4.5	4.2	4.0	5.5	5.4
1990			5.7		1.5		4.4		4.2		5.9
Quarterly changes:											
1988	Q1 <1>	5.4	5.4	3.4	3.4	3.5	3.5	1.7	1.7	5.7	5.7
	Q2 <1>	8.7	8.7	3.0	3.0	5.0	5.0	5.5	5.5	5.5	5.5
	Q3 <1>	6.6	7.3	2.2	2.6	5.0	5.1	4.4	4.7	5.5	5.5
	Q4	6.7	7.0	1.6	2.2	4.6	4.3	5.0	4.6	5.4	5.3
1989	Q1	8.9	8.8	4.8	5.8	4.6	4.3	3.9	2.9	5.4	5.3
	Q2	6.7	7.0	2.8	2.7	4.2	4.3	3.8	4.1	5.5	5.3
	Q3	6.0	6.2	2.4	2.4	3.9	4.2	3.6	3.7	5.5	5.4
	Q4	5.8	5.9	2.3	2.0	3.9	4.2	3.5	3.8	5.6	5.5
1990	Q1		5.9		.9		4.9		4.9		5.7
	Q2		4.7		.8		4.4		3.9		5.9
	Q3		5.6		1.3		4.3		4.2		6.0
	Q4		5.7		1.4		4.3		4.2		6.1
Two-quarter changes: <2>											
1988	Q2 <1>	7.0	7.0	3.2	3.2	4.2	4.2	3.6	3.6	-.4	-.4
	Q4	6.6	7.1	1.9	2.4	4.8	4.8	4.7	4.7	-.1	-.2
1989	Q2	7.8	7.9	3.8	4.2	4.4	4.3	3.8	3.5	.1	.0
	Q4	5.9	6.1	2.3	2.2	3.9	4.2	3.5	3.8	.1	.2
1990	Q2		5.3		.9		4.6		4.4		.4
	Q4		5.6		1.3		4.3		4.2		.2
Four-quarter changes: <3>											
1987	Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988	Q4	6.8	7.1	2.5	2.8	4.5	4.5	4.1	4.1	-.5	-.6
1989	Q4	6.9	7.0	3.1	3.2	4.2	4.3	3.7	3.6	.2	.2
1990	Q4		5.5		1.1		4.5		4.3		.6

&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									
		1988		1989				1990			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	4909.2	4992.7	5099.5	5185.9	5264.4	5340.6	5417.1	5480.2	5555.2	5632.2
Real GNP	Billions of 82\$	4010.9	4033.0	4089.8	4117.4	4141.8	4162.8	4172.4	4181.0	4194.5	4208.7
Nominal GNP	Percent change	7.3	7.0	8.8	7.0	6.2	5.9	5.9	4.7	5.6	5.7
Real GNP		2.6	2.2	5.8	2.7	2.4	2.0	.9	.8	1.3	1.4
Gross domestic product		2.3	2.3	5.8	2.7	2.4	2.0	.9	.8	1.3	1.4
Gross domestic purchases		2.8	2.4	4.0	2.5	1.7	1.1	.1	.0	.5	.6
Final sales		2.5	2.2	5.1	2.5	3.0	2.6	1.7	1.4	1.3	1.5
Private dom. final purchases		4.1	2.3	3.7	2.4	2.3	1.6	.6	.5	.3	.6
Personal consumption expend.		4.0	2.4	3.5	2.4	2.4	1.8	.8	.6	.4	.7
Durables		-1.1	-1.6	7.3	1.0	.8	-.5	-3.5	-2.5	-3.8	-1.6
Nondurables		5.4	1.8	2.3	2.0	2.0	1.6	1.2	.5	.5	.5
Services		4.7	4.1	3.2	3.2	3.2	2.6	1.8	1.6	1.6	1.6
Business fixed investment		4.8	.6	5.4	4.2	3.5	2.7	1.7	1.1	.4	.1
Producers' durable equipment		5.5	2.0	7.6	6.0	5.0	4.0	3.0	3.0	2.5	2.5
Nonresidential structures		3.2	-3.4	-.7	-1.1	-1.1	-1.4	-2.4	-5.0	-6.3	-7.7
Residential structures		3.2	5.4	1.5	-3.1	-2.4	-2.9	-3.6	-2.2	-1.6	-.5
Exports		11.6	12.0	14.1	12.1	11.2	12.4	10.1	9.4	9.5	8.7
Imports		11.6	11.9	1.2	9.7	5.6	4.9	3.3	3.3	3.5	3.2
Government purchases		-3.0	3.0	2.1	2.0	2.3	1.9	1.3	1.1	1.1	1.2
Federal		-9.2	4.2	2.0	1.8	2.7	1.6	.0	-.4	-.3	.1
Defense		-11.7	-.5	-1.6	-.9	-.6	-2.2	.6	-.3	-.2	-.2
State and local		1.7	2.1	2.2	2.2	2.1	2.2	2.2	2.2	2.1	2.0
% in business inventories	Billions of 82\$	36.7	37.0	44.1	46.7	41.1	35.3	27.9	21.7	22.3	21.2
farm	Billions of 82\$	36.7	51.3	38.5	41.7	37.7	35.4	29.4	23.8	24.8	24.1
exports	Billions of 82\$	-95.2	-97.8	-82.1	-80.9	-74.6	-65.4	-56.3	-47.9	-39.5	-31.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	106.5	107.4	107.9	108.4	108.8	109.2	109.4	109.5	109.8	110.0
Unemployment rate	Percent*	5.5	5.3	5.3	5.3	5.4	5.5	5.7	5.9	6.0	6.1
Industrial production index	Percent change	7.2	4.6	3.5	3.0	2.6	1.9	.4	.5	1.5	1.7
Capacity utilization rate-mfg.	Percent*	84.0	84.5	84.5	84.5	84.3	84.0	83.4	82.8	82.4	82.1
Housing Starts	Millions	1.46	1.51	1.48	1.44	1.42	1.39	1.38	1.36	1.34	1.34
Auto sales	Millions	10.53	10.13	10.40	10.31	10.22	10.05	9.68	9.40	9.20	9.20
Domestic	Millions	7.41	7.14	7.38	7.31	7.22	7.10	6.80	6.60	6.45	6.45
Foreign	Millions	3.12	2.99	3.03	3.00	3.00	2.95	2.88	2.80	2.75	2.75
INCOME AND SAVING											
Nominal personal income	Percent change	7.1	8.1	9.8	6.4	6.2	7.2	7.4	6.0	6.2	6.5
Real disposable income	Percent change	5.6	2.7	5.5	.8	1.2	1.8	1.9	.7	.8	1.2
Personal saving rate	Percent*	4.1	4.2	4.6	4.2	3.9	3.9	4.2	4.2	4.3	4.4
Corp. profits with IVA & CCAAdj	Percent change	-3.4	6.0	12.0	7.7	-1.3	-11.0	-19.4	-15.8	-8.0	-7.5
Profit share of GNP	Percent*	6.6	6.6	6.6	6.6	6.5	6.2	5.8	5.5	5.3	5.2
Federal govt. surplus/deficit	Billions of \$	-124.8	-138.5	-142.3	-132.6	-129.0	-131.8	-123.9	-124.0	-118.1	-119.1
State and local govt. surplus		55.9	61.5	66.4	69.6	71.8	72.6	72.5	71.0	70.6	71.6
Exc. social insurance funds		-13.3	-9.0	-5.4	-3.4	-2.4	-2.7	-3.9	-6.5	-8.0	-8.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.7	4.6	2.9	4.1	3.7	3.8	4.9	3.9	4.2	4.2
GNP fixed-weight price index		5.1	4.3	4.3	4.3	4.2	4.2	4.9	4.4	4.3	4.3
Cons. & fixed invest. prices		4.2	4.3	3.8	4.6	4.5	4.6	4.5	4.5	4.5	4.4
CPI		4.8	4.5	4.1	4.8	4.7	4.9	4.8	4.8	4.7	4.7
Exc. food and energy		4.0	5.1	4.7	5.2	5.3	5.4	5.3	5.2	5.1	5.1
farm business sector		1.9	.4	.8	.8	.8	.8	.5	.6	.8	1.0
ut per hour		5.6	4.7	5.4	5.1	5.2	5.2	6.3	5.1	5.0	4.9
ensation per hour		3.7	4.3	4.6	4.3	4.4	4.4	5.8	4.5	4.2	3.9
t labor costs											

\* Not at an annual rate.

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

		Projection								
	Units	1982	1983	1984	1985	1986	1987	1988	1989	1990
EXPENDITURES										
Nominal GNP	Billions of \$	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4862.6	5222.6	5521.2
Real GNP	Billions of 82\$	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3996.3	4127.9	4189.2
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	2.0	5.0	2.8	3.2	1.1
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.1	3.0	3.2	1.1
Gross domestic purchases		-.8	8.4	6.4	4.3	2.4	4.4	2.0	2.4	.3
Final sales		.3	3.7	4.7	4.6	2.5	3.0	3.6	3.3	1.5
Private dom. final purchases		.8	7.7	5.6	4.6	2.8	2.4	3.8	2.5	.5
Personal consumption expend.		2.9	5.4	4.1	4.6	4.2	1.8	3.5	2.5	.6
Durables		9.0	14.7	10.8	7.0	11.5	-2.4	5.2	2.1	-2.9
Nondurables		1.8	4.4	2.3	3.3	3.1	.6	2.1	2.0	.7
Services		2.3	3.9	3.5	5.0	2.7	4.2	3.9	3.0	1.6
Business fixed investment		-11.3	10.8	13.8	3.7	-7.3	8.8	6.9	4.0	.8
Producers' durable equipment		-12.5	20.9	14.9	4.6	-2.4	9.6	11.8	5.6	2.8
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.4	6.7	-5.4	-1.1	-5.4
Residential structures		4.9	38.1	6.1	5.8	11.3	-3.5	.5	-1.7	-2.0
Exports		-13.8	5.8	5.9	-2.4	5.6	18.4	14.4	12.5	9.4
Imports		-5.9	23.8	17.4	4.5	7.6	10.4	6.5	5.3	3.3
Government purchases		3.8	-2.7	7.9	8.6	2.9	2.3	-1.1	2.1	1.2
Federal		8.2	-8.1	13.0	13.3	.0	2.1	-5.9	2.0	-.2
Defense		8.8	5.1	6.5	7.1	4.8	6.0	-4.8	-1.3	.0
State and local		.6	1.5	4.4	4.9	5.3	2.5	2.6	2.2	2.1
Change in business inventories	Billions of 82\$	-24.5	-6.4	62.3	9.1	15.4	34.4	43.7	41.8	23.3
Nonfarm	Billions of 82\$	-23.1	-.1	57.8	13.4	17.9	36.9	42.5	38.3	25.5
t exports	Billions of 82\$	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-98.7	-75.8	-43.8
Real GNP	Percent change*	3.1	10.4	8.6	6.6	4.8	8.3	7.1	7.0	5.5
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.3	106.0	108.6	109.7
Unemployment rate	Percent	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.4	5.9
Industrial production index	Percent change*	-7.7	14.3	6.6	1.7	1.0	5.8	5.1	2.8	1.0
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.0	83.6	84.3	82.7
Housing Starts	Millions	1.06	1.71	1.77	1.74	1.81	1.63	1.48	1.43	1.36
Auto sales	Millions	8.00	9.18	10.43	11.09	11.52	10.34	10.56	10.25	9.37
Domestic	Millions	5.77	6.77	7.97	8.24	8.28	7.14	7.44	7.25	6.57
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.12	2.99	2.79
INCOME AND SAVING										
Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.9	8.5	6.8	7.4	6.5
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.4	3.0	3.3	2.3	1.1
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.0	3.2	4.1	4.2	4.3
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	.9	7.6	3.9	1.5	-12.8
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.5	5.5
Federal govt. surplus/deficit	Billions of \$	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-137.9	-133.9	-121.3
State and local govt. surplus		35.1	47.5	64.6	65.1	61.2	52.9	57.4	70.1	71.4
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.0	-9.2	-11.0	-3.5	-6.6
PRICES AND COSTS										
GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.8	3.1	4.1	3.6	4.3
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.3	4.5
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.0	4.4	4.5
CPI		4.4	3.2	4.1	3.5	1.3	4.4	4.3	4.6	4.8
Exc. food and energy		5.2	4.2	4.8	4.3	3.9	4.3	4.6	5.1	5.2
Farm business sector		-	-	-	-	-	-	-	-	-
Output per hour		1.0	3.6	1.5	1.5	1.2	1.9	.8	.8	.7
Compensation per hour		7.3	3.3	4.2	4.5	4.2	4.1	4.5	5.2	5.3
Unit labor costs		6.2	-.3	2.6	2.9	3.0	2.1	3.7	4.4	4.6

\* 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)

December 7, 1988

	Projection										Projection			
	1988		1989				1990				1987	1988	1989	1990
											(fourth quarter to fourth quarter, net change)			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	25.7	22.1	56.9	27.5	24.4	21.0	9.6	8.6	13.5	14.2	188.3	110.0	129.8	46.0
Gross domestic product	22.5	23.1	56.9	27.0	24.3	20.6	9.8	8.5	13.6	14.4	188.3	116.3	128.8	46.2
Gross domestic purchases	28.3	24.7	41.2	26.3	18.1	11.7	.6	.2	5.1	6.2	171.9	81.8	97.3	12.2
Final sales	24.2	21.9	49.8	24.9	30.0	26.8	17.0	14.8	12.9	15.3	110.7	140.1	131.5	60.1
Private dom. final purchases	32.8	18.7	30.0	19.7	19.1	13.7	5.4	4.2	2.3	4.8	76.2	120.9	82.6	16.8
Personal consumption expend.	25.5	15.4	22.7	16.0	15.9	11.7	5.0	3.9	2.6	5.0	43.5	88.2	66.3	16.5
Durables	-1.1	-1.7	7.2	1.1	.8	-.5	-3.7	-2.6	-4.0	-1.6	-9.7	20.2	8.6	-11.9
Nondurables	11.9	4.0	5.2	4.5	4.6	3.7	2.8	1.2	1.2	1.2	5.2	19.0	18.0	6.3
Services	14.7	13.0	10.3	10.4	10.5	8.6	6.0	5.4	5.4	5.4	50.0	48.9	39.7	22.1
Business fixed investment	5.8	.7	6.6	5.2	4.4	3.4	2.2	1.4	.5	.1	37.5	31.9	19.6	4.1
Producers' durable equipment	4.9	1.8	6.8	5.6	4.7	3.8	2.9	2.9	2.5	2.5	29.2	39.1	21.0	10.8
Nonresidential structures	1.0	-1.1	-.2	-.3	-.3	-.4	-.8	-1.6	-2.0	-2.4	8.3	-7.2	-1.3	-6.7
Residential structures	1.5	2.5	.7	-1.5	-1.1	-1.4	-1.8	-1.1	-.8	-.2	-7.0	.9	-3.3	-3.8
Change in business inventories	1.4	.3	7.1	2.6	-5.6	-5.8	-7.4	-6.2	.6	-1.1	77.6	-30.1	-1.7	-14.1
Nonfarm	6.6	14.6	-12.8	3.2	-4.0	-2.3	-6.0	-5.6	1.0	-.7	67.0	-16.9	-15.9	-11.3
Farm	-5.3	-14.3	19.9	-.6	-1.6	-3.5	-1.4	-.6	-.4	-.4	10.6	-13.2	14.2	-2.8
Net exports	-2.6	-2.6	15.7	1.2	6.3	9.2	9.1	8.4	8.4	8.0	16.4	28.2	32.5	33.8
Exports	13.8	14.6	17.6	15.8	15.1	17.0	14.4	13.7	14.1	13.3	71.4	66.1	65.4	55.6
Imports	16.4	17.2	1.9	14.6	8.7	7.7	5.3	5.4	5.7	5.4	55.0	37.9	33.0	21.8
Government purchases	-6.0	5.8	4.1	4.0	4.6	3.8	2.5	2.2	2.2	2.5	18.1	-9.0	16.4	9.5
Federal	-7.9	3.4	1.6	1.5	2.2	1.3	.0	-.4	-.3	.1	7.2	-20.6	6.5	-.5
Defense	-8.1	-.3	-1.0	-.6	-.4	-1.4	.4	-.2	-.1	-.1	15.1	-13.0	-3.4	.0
Nondefense	.3	3.7	2.6	2.1	2.6	2.7	-.4	-.2	-.2	.2	-7.9	-7.6	9.9	-.5
State and local	1.9	2.4	2.5	2.5	2.4	2.5	2.5	2.6	2.5	2.4	10.9	11.6	9.9	10.0

December 7, 1988

FEDERAL SECTOR ACCOUNTS  
(Billions of dollars)

	Fiscal Year 1988a	FY1989p			FY1990p			FRB Staff Projection								
		Admin <sup>1</sup>	CBO <sup>2</sup>	FRB Staff	Admin <sup>1</sup>	CBO <sup>2</sup>	FRB Staff	1988 IV	I	1989 II	III	IV	I	1990 II	III	IV
BUDGET																
								Not seasonally adjusted								
Budget receipts <sup>3</sup>	909	974	980	980	1054	1064	1069	217	230	284	249	236	253	315	265	253
Budget outlays <sup>3</sup>	1064	1097	1127	1136	1157	1200	1195	285	286	283	281	304	297	300	293	307
Surplus/deficit(-) to be financed <sup>3</sup>	-155	-123	-148	-156	-102	-136	-126	-69	-56	0	-32	-69	-44	15	-28	-54
(On-budget)	-194	-174	-199	-204	-166	-199	-188	-75	-70	-17	-43	-76	-61	-6	-44	-67
(Off-budget)	39	51	52	48	64	63	61	6	14	17	11	8	17	21	16	13
Means of financing:																
Borrowing	166	118	147	145	n.a.	135	125	48	35	30	33	46	37	10	32	33
Cash decrease	-8	0	n.a.	4	n.a.	n.a.	0	22	10	-23	-5	22	3	-20	-5	22
Other <sup>4</sup>	-3	5	n.a.	7	n.a.	n.a.	1	-1	10	-7	4	0	5	-5	1	-1
Cash operating balance, end of period	44	20	n.a.	40	n.a.	n.a.	40	22	12	35	40	18	15	35	40	18
NIPA FEDERAL SECTOR																
								Seasonally adjusted annual rates								
Receipts	963	1042	1037	1038	n.a.	1130	1123	999	1030	1053	1069	1086	1120	1133	1151	1170
Expenditures	1107	1147	1171	1173	n.a.	1249	1247	1137	1172	1186	1198	1217	1244	1258	1269	1289
Purchases	381	396	396	393	n.a.	416	409	382	392	397	400	403	410	412	414	416
Defense	297	295	306	298	n.a.	315	307	293	298	300	302	302	307	309	310	312
Nondefense	83	101	91	94	n.a.	101	103	88	94	97	99	101	103	103	103	104
Other expend.	726	751	776	781	n.a.	832	838	756	780	789	798	814	834	846	856	874
Surplus/deficit	-143	-105	-134	-136	n.a.	-119	-124	-138	-142	-133	-129	-132	-124	-124	-118	-119
FISCAL INDICATORS <sup>5</sup>																
High-employment (HEB) surplus/deficit(-)	-151	n.a.	n.a.	-157	n.a.	n.a.	-137	-151	-166	-158	-153	-155	-140	-132	-120	-115
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.1	n.a.	n.a.	-.4	.3	.3	-.2	-.1	0	-.3	-.2	-.2	-.1
Fiscal impetus measure (FI), percent	-.2 *	n.a.	n.a.	-4.2 *	n.a.	n.a.	-4.8 *	-.5	-1.4	-.2	-.3	-2.6	-2.5	-.2	-.1	-.1
a--actual				p--projection				*--calendar year								
																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).
2. The Economic and Budget Outlook: An Update (August, 1988); estimates are "baseline" (i.e. current services).
3. Includes social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law.
4. Checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.



Strictly Confidential (FR)  
Class II FOMC

Outlook for U.S. Net Exports and Related Items  
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1988		1989				1990			
	1988-P	1989-P	1990-P	Q3-	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. <u>GNP Exports and Imports 1/</u>													
Current \$, Net	-91.5	-69.8	-39.5	-82.4	-81.1	-73.5	-72.8	-69.4	-63.5	-54.0	-45.0	-34.9	-24.2
Exports of G+S	519.1	603.7	686.9	531.5	549.8	572.4	593.2	613.4	635.8	656.7	676.4	697.0	717.3
Imports of G+S	610.6	673.5	726.4	613.9	630.9	645.9	665.9	682.8	699.4	710.7	721.4	731.9	741.5
Constant 82 \$, Net	-98.7	-75.8	-43.8	-95.2	-97.8	-82.1	-80.9	-74.6	-65.4	-56.3	-47.9	-39.5	-31.6
Exports of G+S	504.8	566.5	625.8	510.7	525.3	542.9	558.7	573.8	590.7	605.1	618.8	633.0	646.3
Imports of G+S	603.4	642.3	669.6	605.9	623.1	625.0	639.6	648.4	656.1	661.4	666.7	672.5	677.9
2. <u>U.S. Merchandise Trade Balance 2/</u>	-122.4	-106.4	-82.1	-114.1	-114.3	-107.9	-108.6	-106.6	-102.4	-94.0	-86.9	-78.4	-69.0
Exports	321.8	367.3	415.8	329.2	338.2	351.3	361.4	371.7	384.8	397.4	408.6	421.4	435.9
Agricultural	39.0	44.9	52.0	41.6	39.8	43.5	44.2	44.5	47.3	50.0	51.2	52.5	54.1
Non-Agricultural	282.7	322.4	363.8	287.6	298.4	307.7	317.2	327.2	337.5	347.3	357.4	368.9	381.8
Imports	444.2	473.7	497.9	443.4	452.5	459.1	470.0	478.3	487.2	491.4	495.5	499.8	504.9
Petroleum and Products	39.4	39.3	44.2	39.5	37.3	35.2	38.5	40.1	43.3	43.5	43.9	44.4	45.0
Non-Petroleum	404.8	434.4	453.7	403.9	415.1	424.0	431.5	438.2	443.9	447.9	451.6	455.4	459.9
3. <u>U.S. Current Account Balance</u>	-131.6	-111.9	-91.8	-128.2	-115.7	-111.5	-112.9	-111.9	-111.5	-101.8	-95.5	-87.8	-82.2
Of Which: Net Investment Income	-0.1	0.3	-8.6	-6.8	9.1	2.9	1.5	-0.6	-2.4	-5.2	-7.5	-9.8	-11.8
4. <u>Foreign Outlook 3/</u>													
Real GNP--Ten Industrial 4/	3.7	2.8	2.4	4.6	3.1	2.6	2.6	2.3	2.2	2.4	2.5	2.6	2.6
Real GNP--NonOPEC LDC 5/	3.2	3.6	3.7	3.3	3.6	3.8	3.8	3.6	3.5	3.5	3.8	4.1	4.4
Consumer Prices--Ten Ind. 4/	2.6	3.2	3.0	2.5	4.1	2.7	3.7	2.6	3.4	2.6	3.4	2.4	3.3

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

December 7, 1988

## **RECENT DEVELOPMENTS**

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**This edition is dedicated to Eleanor Stockwell,  
who presently will retire from the Board after 52 years of distinguished service  
that has included many hours writing and editing portions of the Greenbook.**

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

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households in the 35 to 54 year age bracket is projected to rise more rapidly in coming years than it did in the late eighties. More expensive "trade-up" homes typically are demanded by families in these age groups.

ESTIMATED AVERAGE ANNUAL CHANGE IN HOUSEHOLDS, BY AGE OF HEAD  
(Thousands)

Age of head (years)	Period	
	1985 to 1990	1990 to 1995
Under 25	-145	-69
25 - 34	219	-195
35 - 44	706	534
45 - 54	338	677
55 - 64	-143	-16
65 and over	420	297
All ages	1,395	1,216

Source: U.S. Bureau of the Census, "Projections of the Number of Households and Families: 1986 to 2000," Current Population Reports, Series P-25, no. 986, p. 3. Data shown correspond to Census projection Series B.

Federal Government

In October, the first month of the 1989 fiscal year, the federal government recorded a budget deficit of \$27.4 billion, compared with \$30.8 billion a year earlier. The year-earlier deficit figure, however, was inflated by special factors that changed the timing of outlays and boosted October 1987 spending by roughly \$3 billion. Moreover, in some key sectors, outlays this October were not yet

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

	1988		1988		
	Q3	Q4 <sup>e</sup>	Oct.	Nov. <sup>p</sup>	Dec. <sup>e</sup>
<u>Treasury financing</u>					
Total surplus/deficit (-)	-35.8	-68.7	-27.4	-27.1	-14.1
Means of financing deficit:					
Net cash borrowing from the public	41.7	47.7	10.7	30.4	6.6
Marketable borrowings/repayments (-)	32.8	37.0	8.0	26.6	2.4
Bills	16.2	15.8	5.2	16.0	-5.4
Coupons	16.7	21.2	2.8	10.6	7.8
Nonmarketable <sup>2</sup>	3.8	5.8	2.2	2.8	.8
Other borrowing <sup>2</sup>	5.0	4.9	.4	1.0	3.5
Decrease in the cash balance	-4.8	22.0	13.8	9.2	-1.0
Memo: Cash balance at end of period	44.4	22.4	30.6	21.4	22.4
Other <sup>3</sup>	-1.1	-1.0	3.0	-12.5	8.5
<u>Federally sponsored credit agencies, net cash</u>					
<u>borrowing<sup>4</sup></u>	10.5	--	1.3 <sup>p</sup>	--	--
FHLBs	8.2	--	1.1 <sup>p</sup>	--	--
FNMA	1.2	--	-.3	--	--
Farm Credit Banks	-1.7	--	.2	--	--
FAC <sup>5</sup>	.5	--	.0	.2	--
FHLMC	.7	--	.2 <sup>p</sup>	--	--
FICO	.9	--	.0	.7	--
SLMA	.7	--	.1 <sup>p</sup>	--	--

1. Data reported on a not seasonally adjusted, payment basis.

2. Securities issued by federal agencies under special financing authorities (primarily FSLIC).

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

4. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

5. 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.

e--staff estimate.

p--preliminary.

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

during the third quarter. In part, this may reflect an overall slowing in credit demands by other agencies over that period.

### Municipal Securities

Gross new issues of long-term tax-exempt securities totaled about \$9 billion in November, a decline from October's pace. Most of the slowdown followed a midmonth increase in interest rates that resulted in a substantial drop in issuance of refunding bonds; new capital offerings, which are less sensitive to interest rate movements, equaled October's volume.

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

	1986	1987	1988			1988		
	Year	Year	Q1	Q2	Q3	Sept.	Oct. <sup>p</sup>	Nov. <sup>f</sup>
Total offerings <sup>1</sup>	14.39	10.44	8.68	11.73	11.52	10.21	10.96	10.30
Total tax-exempt	14.04	10.05	8.46	11.41	11.32	9.86	10.94	9.90
Long-term	12.25	8.53	7.94	9.20	8.80	9.67	10.05	9.00
Refundings <sup>2</sup>	5.29	3.80	3.05	3.18	1.87	2.59	3.29	2.20
New capital <sup>3</sup>	6.96	4.73	4.89	6.02	6.93	7.08	6.76	6.80
Short-term	1.79	1.52	.52	2.21	2.52	.64	.89	.90
Total taxable	.35	.39	.22	.32	.20	.36	.02	.40

p--preliminary. f--staff forecast.

1. Includes issues for public and private purposes; also includes taxable issues.

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

3. Does not include tax-exempt commercial paper.

Nearly \$210 billion of industrial development bonds backed by corporations, but issued by municipalities prior to the imposition of restrictions in the Tax Reform Act of 1986, has been adversely affected by greater corporate leveraging. Prices of other tax-exempt bonds, on the other hand, generally fared better immediately after the RJR