

December 11, 1985

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

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STAFF GNP PROJECTIONS

December 11, 1985

Percent changes, annual rate											
		Nominal GNP		Real GNP		Gross domestic business product fixed-weighted price index				Unemployment rate (percent)	
						Total		Excluding food and energy			
		10/30/85	12/11/85	10/30/85	12/11/85	10/30/85	12/11/85	10/30/85	12/11/85	10/30/85	12/11/85
Annual changes:											
1983	<1>	7.7	7.7	3.7	3.7	3.7	3.7	4.6	4.6	9.6	9.6
1984	<1>	10.8	10.8	6.8	6.8	4.0	4.0	4.3	4.3	7.5	7.5
1985		6.2	6.2	2.4	2.5	3.6	3.6	4.2	4.3	7.2	7.2
1986		6.0	5.9	2.4	2.4	3.5	3.6	3.9	3.9	7.2	7.2
Quarterly changes:											
1984	Q1 <1>	14.9	14.9	10.1	10.1	4.2	4.2	3.4	3.4	7.9	7.9
	Q2 <1>	10.7	10.7	7.1	7.1	4.1	4.1	5.4	5.4	7.5	7.5
	Q3 <1>	5.6	5.6	1.6	1.6	4.0	4.0	4.9	4.9	7.4	7.4
	Q4 <1>	7.1	7.1	4.3	4.3	3.5	3.5	3.9	3.9	7.2	7.2
1985	Q1 <1>	5.6	5.6	.3	.3	3.6	3.6	4.6	4.6	7.3	7.3
	Q2 <1>	4.5	4.5	1.9	1.9	3.7	3.7	3.8	3.8	7.3	7.3
	Q3 <1>	6.7	6.7	3.3	4.3	2.6	2.8	3.5	3.7	7.2	7.2
	Q4	6.0	6.3	2.6	2.6	3.3	3.4	3.5	3.8	7.1	7.1
1986	Q1	5.7	6.0	2.1	2.0	3.7	4.0	3.8	4.0	7.1	7.1
	Q2	6.0	5.2	2.2	1.8	3.7	3.6	4.2	4.1	7.2	7.2
	Q3	6.2	5.7	2.4	2.1	3.9	3.7	4.3	4.1	7.2	7.2
	Q4	6.9	6.8	2.8	2.6	4.0	3.7	4.5	4.1	7.2	7.3
Two-quarter changes: <2>											
1984	Q2 <1>	12.8	12.8	8.6	8.6	4.2	4.2	4.4	4.4	-1.0	-1.0
	Q4 <1>	6.4	6.4	2.9	2.9	3.8	3.8	4.4	4.4	-.3	-.3
1985	Q2 <1>	5.1	5.1	1.1	1.1	3.7	3.7	4.2	4.2	.1	.1
	Q4	6.3	6.5	2.9	3.4	2.9	3.1	3.5	3.7	-.2	-.2
1986	Q2	5.8	5.6	2.1	1.9	3.7	3.8	4.0	4.1	.1	.1
	Q4	6.5	6.2	2.6	2.3	4.0	3.7	4.4	4.1	.0	.1
Four-quarter changes: <3>											
1983	Q4 <1>	10.4	10.4	6.3	6.3	3.7	3.7	4.4	4.4	-2.1	-2.1
1984	Q4 <1>	9.5	9.5	5.7	5.7	4.0	4.0	4.4	4.4	-1.3	-1.3
1985	Q4	5.7	5.8	2.0	2.2	3.3	3.4	3.9	4.0	-.1	-.1
1986	Q4	6.2	5.9	2.4	2.1	3.8	3.7	4.2	4.1	.1	.2

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

December 11, 1985

	1983				1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross National Product	3173.8	3267.0	3346.6	3431.7	3553.3	3644.7	3694.6	3758.7
Gross domestic purchases	3154.2	3273.4	3363.0	3461.5	3604.8	3703.4	3785.2	3814.8
Final sales	3216.8	3286.4	3350.9	3419.0	3479.5	3594.1	3622.8	3722.1
Private	2538.0	2604.2	2661.1	2727.6	2775.1	2850.4	2861.8	2941.6
Domestic final purchases	2518.4	2610.7	2677.5	2757.4	2826.6	2909.1	2952.4	2997.6
Personal consumption expenditures	2070.4	2141.6	2181.4	2230.2	2276.5	2332.7	2361.4	2396.5
Goods	1034.6	1073.0	1095.8	1122.8	1152.2	1179.0	1178.6	1192.8
Services	1035.8	1068.6	1085.7	1107.5	1124.4	1153.7	1182.8	1203.8
Gross private domestic investment	405.0	449.6	491.9	540.0	623.8	627.0	662.8	637.8
Residential structures	113.3	129.8	142.3	143.4	151.2	155.6	155.3	153.5
Business fixed investment	334.6	339.3	353.9	383.9	398.8	420.8	435.7	447.7
Change in business inventories	-42.9	-19.4	-4.3	12.7	73.8	50.6	71.8	36.6
Nonfarm	-32.6	-5.4	11.6	14.1	60.6	47.0	63.7	27.2
Net exports of goods and services <1>	19.6	-6.5	-16.4	-29.8	-51.5	-58.7	-90.6	-56.0
Exports	328.5	328.1	342.0	346.1	358.9	362.4	368.6	367.2
Imports	308.9	334.5	358.4	375.9	410.4	421.1	459.3	423.2
Gov't. purchases of goods and services	678.8	682.2	689.8	691.4	704.4	743.7	761.0	780.5
Federal <2>	273.0	270.5	269.2	266.3	267.6	296.4	302.0	315.7
State and local	405.8	411.6	420.6	425.1	436.8	447.4	458.9	464.8
Gross national product in constant (1972) dollars	1491.0	1524.8	1550.2	1572.7	1610.9	1638.8	1645.2	1662.4
Personal income	2662.8	2714.4	2763.3	2836.5	2920.5	2984.6	3047.3	3096.2
Wage and salary disbursements	1608.1	1642.1	1671.3	1715.4	1755.7	1793.1	1819.5	1847.6
Disposable personal income	2261.4	2302.9	2367.4	2428.6	2502.2	2554.3	2606.4	2644.5
Saving rate (percent)	5.7	4.2	5.0	5.3	6.1	5.7	6.3	6.2
Corporate profits with I.V.A. and C.C. Adj.	179.1	216.7	245.0	260.0	277.4	291.1	282.8	291.6
Corporate profits before tax	161.7	198.2	227.4	225.5	243.3	246.0	224.8	228.7
Federal government surplus or deficit (-) (N.I.A. basis)	-185.7	-167.3	-180.9	-180.5	-161.3	-163.7	-180.6	-197.8
High employment surplus or deficit (-) <3>	-80.9	-74.2	-102.5	-113.1	-113.3	-129.6	-146.1	-169.3
State and local government surplus or deficit(-) (N.I.A. basis)	34.1	43.9	47.4	51.2	53.9	54.5	47.6	55.6
Excluding social insurance funds	-1.9	7.0	9.5	12.0	13.4	12.6	4.3	11.1
Civilian labor force (millions)	110.7	111.2	112.1	112.1	112.7	113.5	113.8	114.2
Unemployment rate (percent)	10.4	10.1	9.3	8.5	7.9	7.5	7.4	7.2
Nonfarm payroll employment	88.8	89.6	90.5	91.8	93.0	94.0	94.9	95.8
Manufacturing	18.1	18.3	18.5	18.9	19.2	19.4	19.5	19.6
Industrial production (1977=100)	103.3	106.8	111.7	114.9	119.3	121.5	123.4	123.1
Capacity utilization: all manufacturing (percent)	70.2	72.5	75.8	77.4	79.8	80.8	81.6	81.0
Materials (percent)	71.4	73.6	77.0	79.3	82.0	82.6	83.0	81.4
Housing starts, private (million units, A.R.)	1.64	1.67	1.79	1.72	1.95	1.86	1.66	1.60
New auto sales (millions, A.R.)	8.46	9.10	9.22	9.94	10.52	10.60	10.30	10.29
Domestic models	6.06	6.81	6.92	7.29	8.22	8.23	7.94	7.50
Foreign models	2.40	2.28	2.31	2.65	2.30	2.38	2.36	2.79

- <1> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.
 <2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Account table which follows.
 <3> Estimates in table are evaluated at a 6 percent high employment unemployment rate.

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PERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS
(Annual rates compounded quarterly)

	1983				1984			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	3.3	9.4	6.8	5.9	10.1	7.1	1.6	4.3
Gross domestic purchases	3.7	12.3	7.4	8.7	12.9	7.9	5.4	.9
Final sales	1.1	6.4	4.9	4.2	3.6	10.3	-1.0	7.9
Private	3.5	8.6	6.2	6.3	4.2	8.5	-2.4	8.4
Domestic final purchases	4.0	12.1	6.9	9.7	7.6	9.5	2.3	4.0
Personal consumption expenditures	2.6	10.0	3.8	6.8	4.6	7.9	.7	3.6
Goods	3.5	12.6	5.4	9.5	7.8	10.7	-1.9	3.8
Services	1.5	7.3	2.1	3.8	1.2	4.6	3.8	3.3
Gross private domestic investment	34.1	52.5	38.4	37.0	71.6	-2.2	24.9	-13.1
Residential structures	64.5	78.1	31.6	4.0	21.3	1.2	-4.6	-5.5
Business fixed investment	.0	9.6	18.7	30.6	20.6	21.3	13.7	8.5
Gov't. purchases of goods and services	-8.2	-2.6	-.5	-4.3	1.0	18.6	5.4	5.9
Federal	-17.4	-5.9	-5.3	-8.7	-2.8	45.2	6.2	15.2
National defense	6.8	7.6	-1.9	9.2	3.4	12.2	-2.3	17.5
State and local	-1.2	-.2	2.7	-1.4	3.5	3.7	4.8	-.2
Disposable personal income	2.1	3.3	7.7	8.2	8.6	6.3	3.9	3.5
<u>Current Dollars</u>								
Gross national product	8.5	12.3	10.1	10.6	14.9	10.7	5.6	7.1
Gross domestic purchases	6.7	16.0	11.4	12.2	17.6	11.4	9.1	3.2
Final sales	5.9	8.9	8.1	8.4	7.3	13.8	3.2	11.4
Personal consumption expenditures	4.8	14.5	7.6	9.2	8.6	10.2	5.0	6.1
Goods	3.6	15.7	8.8	10.2	10.9	9.6	-.1	4.9
Services	6.1	13.3	6.6	8.3	6.2	10.9	10.5	7.3
Gross private domestic investment	34.3	52.0	43.2	45.3	78.0	2.0	24.9	-14.3
Residential structures	79.3	71.9	44.4	3.3	23.6	12.1	-.6	-4.7
Business fixed investment	-5.5	5.7	18.5	38.4	16.5	23.9	14.9	11.5
Gov't. purchases of goods and services	-1.3	2.0	4.5	.9	7.8	24.3	9.6	10.7
Federal	-8.9	-3.6	-2.0	-4.3	2.0	50.5	7.8	19.4
National defense	7.9	9.8	3.3	13.2	12.5	14.7	-.8	22.1
State and local	4.2	5.8	9.0	4.4	11.5	10.0	10.7	5.2
Disposable personal income	4.3	7.5	11.7	10.7	12.7	8.6	8.4	6.0
Personal income	3.6	8.0	7.3	11.0	12.4	9.1	8.6	6.7
Wage and salary disbursements	5.6	8.7	7.3	11.0	9.7	8.8	5.9	6.5
Corporate profits with I.V.A. and C.C.Adj.	94.8	114.3	63.4	26.8	29.6	21.3	-10.9	13.0
Corporate profits before tax	16.0	125.7	73.3	-3.3	35.5	4.5	-30.3	7.1
Nonfarm payroll employment	.5	3.4	4.2	5.8	5.5	4.3	3.9	4.0
Manufacturing	-1.2	4.4	6.2	7.8	6.4	4.5	2.4	1.1
Nonfarm business sector								
Output per hour	4.4	8.1	2.1	1.0	2.9	5.5	-1.1	2.2
Compensation per hour	5.7	3.5	2.2	4.1	6.1	3.7	3.6	3.7
Unit labor costs	1.3	-4.2	.1	3.0	3.1	-1.7	4.7	1.4
GNP implicit deflator <1>	5.0	2.6	3.1	4.4	4.4	3.3	3.9	2.8
Gross domestic business product								
fixed-weighted price index <2>	2.7	3.9	4.5	3.5	4.2	4.1	4.0	3.5
Excluding food and energy	4.9	3.5	5.4	3.8	3.4	5.4	4.9	3.9
Consumer price index (all urban)	.4	4.3	4.2	4.2	5.2	3.7	3.7	3.6
Industrial production	11.5	14.0	19.8	12.0	16.0	7.6	6.4	-.7

<1> Excluding the federal pay increase, the rate of change in 1983-Q4 was 4.4 percent.

<2> Uses expenditures in 1972 as weights.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Quarterly figures are seasonally adjusted. Expenditures and income
figures are billions of current dollars at annual rates.)

	1985				Projected 1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross National Product	3810.6	3853.1	3915.9	3976.3	4035.1	4086.9	4144.0	4212.2
Gross domestic purchases	3885.2	3947.1	4019.9	4088.6	4140.7	4197.0	4254.5	4315.3
Final sales	3770.0	3835.2	3916.2	3953.6	4014.0	4062.8	4118.4	4183.7
Private	2978.1	3024.3	3066.7	3091.8	3148.6	3192.2	3239.2	3294.7
Domestic final purchases	3052.6	3118.3	3170.7	3204.0	3254.2	3302.3	3349.8	3397.8
Personal consumption expenditures	2446.5	2493.0	2539.0	2562.9	2605.6	2643.5	2679.8	2716.4
Goods	1212.1	1231.1	1253.6	1255.2	1274.1	1286.3	1297.7	1309.8
Services	1234.4	1261.9	1285.3	1307.7	1331.5	1357.2	1382.1	1406.6
Gross private domestic investment	646.8	643.2	631.5	663.8	669.8	682.9	695.5	709.8
Residential structures	155.2	158.0	163.2	168.2	171.2	177.2	183.7	189.7
Business fixed investment	450.9	467.3	468.6	472.9	477.5	481.7	486.2	491.6
Change in business inventories	40.7	17.9	-3	22.7	21.1	24.0	25.5	28.5
Nonfarm	34.1	11.4	-9	21.5	16.3	21.1	23.7	26.7
Net exports of goods and services <1>	-74.5	-94.0	-104.0	-112.3	-105.6	-110.1	-110.5	-103.1
Exports	360.7	347.7	346.8	353.5	361.6	368.9	377.5	391.2
Imports	435.2	441.6	450.8	465.8	467.2	479.0	488.0	494.2
Gov't. purchases of goods and services	791.9	810.9	849.5	861.9	865.4	870.6	879.2	889.0
Federal <2>	319.9	324.2	350.6	355.5	351.5	349.6	351.3	354.3
State and local	472.0	486.7	498.8	506.4	513.9	521.0	527.9	534.7
Gross national product in constant (1972) dollars	1663.5	1671.3	1688.9	1699.6	1708.0	1715.5	1724.3	1735.3
Personal income	3143.8	3174.7	3197.4	3260.3	3315.3	3363.7	3412.3	3466.4
Wage and salary disbursements	1882.7	1910.6	1933.6	1968.2	1998.8	2028.5	2057.3	2087.8
Disposable personal income	2654.8	2726.5	2710.7	2762.9	2819.8	2856.8	2894.5	2937.1
Saving rate (percent)	4.5	5.1	2.7	3.6	4.0	3.8	3.7	3.8
Corporate profits with I.V.A. and C.C. Adj.	292.3	298.5	321.4	313.1	302.6	296.3	295.4	296.9
Corporate profits before tax	222.3	221.0	232.8	224.5	215.2	210.7	208.8	209.3
Federal government surplus or deficit (-) (N.I.A. basis)	-165.1	-214.1	-201.0	-201.1	-195.5	-182.4	-174.4	-163.0
High employment surplus or deficit (-) <3>	-129.4	-178.3	-169.2	-168.6	-160.7	-144.5	-134.1	-120.9
State and local government surplus or deficit(-) (N.I.A. basis)	53.7	50.3	49.6	48.3	48.1	47.5	48.4	49.8
Excluding social insurance funds	8.3	4.2	3.0	1.5	.8	-.6	-.5	.1
Civilian labor force (millions)	115.2	115.2	115.5	116.1	116.7	117.1	117.6	118.1
Unemployment rate (percent)	7.3	7.3	7.2	7.1	7.1	7.2	7.2	7.3
Nonfarm payroll employment	96.6	97.3	98.0	98.7	99.1	99.5	99.9	100.3
Manufacturing	19.6	19.4	19.3	19.4	19.4	19.4	19.4	19.5
Industrial production (1977=100)	123.8	124.2	124.7	125.2	125.8	126.4	127.2	128.1
Capacity utilization: all manufacturing (percent)	80.5	80.3	80.3	80.1	80.0	79.9	79.8	79.9
Materials (percent)	81.5	80.4	79.5	78.9	78.8	78.7	78.7	78.7
Housing starts, private (million units, A.R.)	1.80	1.77	1.66	1.75	1.75	1.80	1.85	1.85
New auto sales (millions, A.R.)	10.87	10.92	12.31	10.00	10.70	10.70	10.70	10.70
Domestic models	8.46	8.27	9.40	6.80	7.70	7.70	7.60	7.60
Foreign models	2.42	2.65	2.90	3.20	3.00	3.00	3.10	3.10

<1> Balance of payments data and details underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Account table which follows.

<3> Estimates in table are evaluated at a 6 percent high employment unemployment rate.

	1985				Projected 1986			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<u>Constant (1972) Dollars</u>								
Gross national product	.3	1.9	4.3	2.6	2.0	1.8	2.1	2.6
Gross domestic purchases	3.9	3.2	5.3	2.7	1.8	1.7	1.7	1.7
Final sales	-.3	4.6	5.7	.3	1.9	1.5	2.2	2.6
Private	-.4	4.8	2.8	.1	3.1	2.3	2.6	3.0
Domestic final purchases	4.1	6.4	4.1	.3	2.8	2.3	2.0	1.8
Personal consumption expenditures	5.2	4.8	5.4	-.7	3.0	2.0	1.6	1.5
Goods	5.4	5.4	8.0	-3.7	3.5	1.5	1.1	1.0
Services	5.0	4.2	2.4	2.9	2.5	2.7	2.3	2.0
Gross private domestic investment	3.1	-3.5	-8.3	18.1	2.5	4.5	3.0	3.2
Residential structures	5.3	6.4	11.5	10.9	4.7	11.4	12.0	10.0
Business fixed investment	-1.6	14.5	-3.7	2.3	1.3	.8	1.1	1.4
Gov't. purchases of goods and services	.3	3.7	19.0	1.4	-2.9	-1.8	.5	1.0
Federal	.7	-.4	40.9	.5	-9.0	-6.3	-.8	.3
National defense	-.2	7.2	25.8	.4	1.2	-3.2	-2.0	.8
State and local	.0	6.7	5.1	2.1	1.9	1.7	1.5	1.5
Disposable personal income	-1.6	8.2	-4.3	3.2	4.6	1.5	1.4	1.9
<u>Current Dollars</u>								
Gross national product	5.6	4.5	6.7	6.3	6.0	5.2	5.7	6.8
Gross domestic purchases	7.6	6.5	7.6	7.0	5.2	5.5	5.6	5.8
Final sales	5.2	7.1	8.7	3.9	6.2	5.0	5.6	6.5
Personal consumption expenditures	8.6	7.8	7.6	3.8	6.8	5.9	5.6	5.6
Goods	6.6	6.4	7.5	.5	6.2	3.9	3.6	3.8
Services	10.6	9.2	7.6	7.2	7.5	7.9	7.5	7.3
Gross private domestic investment	5.8	-2.2	-7.1	22.1	3.6	8.1	7.6	8.5
Residential structures	4.6	7.4	13.7	12.8	7.3	14.8	15.5	13.7
Business fixed investment	3.0	15.3	1.2	3.7	3.9	3.6	3.9	4.5
Gov't. purchases of goods and services	5.9	10.0	20.4	6.0	1.6	2.5	4.0	4.5
Federal	5.4	5.6	36.7	5.7	-4.4	-2.1	2.0	3.5
National defense	4.0	12.8	25.2	7.1	5.5	.6	1.7	3.4
State and local	6.3	13.0	10.4	6.2	6.0	5.7	5.4	5.3
Disposable personal income	1.6	11.2	-2.3	7.9	8.5	5.3	5.4	6.0
Personal income	6.3	4.0	2.9	8.1	6.9	6.0	5.9	6.5
Wage and salary disbursements	7.8	6.1	4.9	7.4	6.4	6.1	5.8	6.1
Corporate profits with I.V.A. and C.C.Adj.	1.0	8.8	34.4	-9.9	-12.8	-8.1	-1.2	2.0
Corporate profits before tax	-10.7	-2.3	23.1	-13.5	-15.6	-8.1	-3.6	1.0
Nonfarm payroll employment	3.3	2.9	2.6	3.0	1.8	1.6	1.5	1.6
Manufacturing	.0	-2.7	-2.0	.8	.6	.2	.6	1.0
Nonfarm business sector								
Output per hour	-3.1	1.2	2.1	.2	.3	.6	1.2	1.4
Compensation per hour	5.0	3.4	3.7	4.0	4.6	4.2	4.4	4.6
Unit labor costs	8.4	2.1	1.6	3.8	4.3	3.6	3.2	3.2
GNP implicit deflator <1>	5.4	2.6	2.3	3.7	4.0	3.4	3.5	4.1
Gross domestic business product								
fixed-weighted price index <2>	3.6	3.7	2.8	3.4	4.0	3.6	3.7	3.7
Excluding food and energy	4.6	3.8	3.7	3.8	4.0	4.1	4.1	4.1
Consumer price index (all urban)	3.2	4.2	2.4	3.7	4.3	3.7	3.9	4.0
Industrial production	2.1	1.3	1.6	1.7	1.9	1.9	2.4	2.9

<1> Excluding Federal pay increase, the rate of change in 1985-Q1 is 5.0 percent and in 1986-Q1 is 3.8 percent.
<2> Uses expenditures in 1972 as weights.

CONFIDENTIAL - FR
CLASS II FOMC

I-12
GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Expenditures and income figures are billions of current dollars.)

December 11, 1985

	1979	1980	1981	1982	1983	1984	---Projected---	
							1985	1986
Gross national product	2417.8	2631.7	2957.7	3069.2	3304.8	3662.8	3889.0	4119.5
Gross domestic purchases	2404.5	2607.7	2929.8	3050.2	3313.1	3727.0	3985.2	4226.8
Final sales	2403.5	2641.4	2931.7	3095.4	3318.3	3604.6	3868.8	4094.7
Private	1929.2	2103.7	2335.2	2444.9	2632.7	2857.2	3040.2	3218.7
Domestic final purchases	1915.9	2079.7	2307.2	2425.9	2641.0	2921.4	3136.4	3326.0
Personal consumption expenditures	1507.1	1668.0	1849.1	1984.9	2155.9	2341.8	2510.3	2661.3
Goods	813.4	883.5	966.1	1002.6	1081.5	1175.7	1238.0	1292.0
Services	693.7	784.5	883.0	982.2	1074.4	1166.1	1272.3	1369.3
Gross private domestic investment	423.0	401.9	484.2	414.9	471.6	637.8	646.3	689.5
Residential construction	118.5	102.9	104.3	91.3	132.2	153.9	161.1	180.4
Business fixed investment	290.2	308.8	353.9	349.6	352.9	425.7	464.9	484.2
Change in business inventories	14.3	-9.8	26.0	-26.1	-13.5	58.2	20.3	24.8
Nonfarm	8.6	-4.5	18.2	-23.9	-3.1	49.6	16.5	22.0
Net exports of goods and services <1>	13.2	23.9	28.0	19.0	-8.3	-64.2	-96.2	-107.3
Exports	281.3	338.8	369.9	348.4	336.2	364.3	352.2	374.8
Imports	268.1	314.8	341.9	329.4	344.4	428.5	448.3	482.1
Gov't. purchases of goods and services	474.4	537.8	596.5	650.5	685.5	747.4	828.5	876.0
Federal <2>	168.3	197.0	228.9	258.9	269.7	295.4	337.5	351.7
State and local	306.0	340.8	367.6	391.5	415.8	452.0	491.0	524.4
Gross national product in constant (1972) dollars	1479.4	1475.0	1512.1	1480.0	1534.7	1639.3	1680.8	1720.8
Personal income	1951.1	2165.3	2429.4	2584.6	2744.2	3012.1	3194.0	3389.4
Wage and salary disbursements	1237.6	1356.7	1493.1	1568.7	1659.2	1804.0	1923.8	2043.1
Disposable personal income	1650.2	1828.9	2041.7	2180.5	2340.1	2576.8	2713.7	2877.1
Saving rate (percent)	5.9	6.0	6.7	6.2	5.0	6.1	4.0	3.8
Corporate profits with I.V.A. and C.C. Adj.	194.8	175.4	189.9	159.1	225.2	285.7	306.3	297.8
Corporate profits before tax	252.7	234.6	221.2	165.6	203.2	235.7	225.1	211.0
Federal government surplus or deficit (-) (N.I.A. basis)	-16.1	-61.2	-64.3	-148.2	-178.6	-175.8	-195.4	-178.8
High employment surplus or deficit (-)	-20.8	-36.4	-31.3	-61.6	-92.7	-139.6	-161.4	-140.1
State and local government surplus or deficit (-) (N.I.A. basis)	30.4	30.6	37.6	32.9	44.1	52.9	50.5	48.5
Excluding social insurance funds	6.6	3.5	7.8	-8	6.6	10.4	4.2	.0
Civilian labor force (millions)	105.0	106.9	108.7	110.2	111.6	113.5	115.5	117.4
Unemployment rate (percent)	5.8	7.1	7.6	9.7	9.6	7.5	7.2	7.2
Nonfarm payroll employment (millions)	89.8	90.4	91.2	89.6	90.2	94.5	97.7	99.7
Manufacturing	21.0	20.3	20.2	18.8	18.4	19.4	19.4	19.4
Industrial production (1967=100)	110.7	108.6	111.0	103.1	109.2	121.8	124.5	126.9
Capacity utilization: all manufacturing (percent)	84.6	79.3	78.3	70.3	74.0	80.8	80.3	79.9
Materials (percent)	87.1	81.1	81.1	71.7	75.3	82.3	80.1	78.8
Housing starts, private (million units, A.R.)	1.72	1.30	1.10	1.06	1.70	1.77	1.75	1.81
New auto sales (millions, A.R.)	10.68	9.04	8.56	8.00	9.18	10.43	11.04	10.70
Domestic models	8.36	6.62	6.24	5.77	6.77	7.97	8.23	7.65
Foreign models	2.32	2.42	2.32	2.23	2.41	2.46	2.81	3.05

<1> Balance of payments data underlying these estimates are shown in the International Developments section of this part of the Greenbook.

<2> Components of purchases and total receipts and total expenditures are shown in the Federal Sector Accounts table which follows.

December 11, 1985

CONFIDENTIAL - FR
CLASS II FOMCPERCENT CHANGES IN GROSS NATIONAL PRODUCT
AND RELATED ITEMS

	1979	1980	1981	1982	1983	1984	---Projected---	
							1985	1986
<u>Constant (1972) Dollars</u>								
Gross national product	2.8	-.3	2.5	-2.1	3.7	6.8	2.5	2.4
Gross domestic purchases	2.0	-1.2	3.1	-1.2	5.0	8.7	3.7	2.4
Final sales	3.5	.5	1.5	-.7	3.2	5.0	3.5	2.2
Private	4.0	.1	1.6	-1.3	4.1	5.3	2.9	2.4
Domestic final purchases	2.9	-1.0	2.2	-.2	5.6	7.6	4.4	2.4
Personal consumption expenditures	2.7	.5	2.0	1.4	4.8	5.3	4.1	2.2
Goods	1.9	-1.4	1.7	.4	6.0	7.1	4.2	1.9
Services	3.7	2.7	2.3	2.5	3.4	3.2	3.9	2.7
Gross private domestic investment	-.2	-11.8	10.7	-15.8	13.7	31.2	.1	3.9
Residential structures	-5.3	-20.3	-5.5	-14.8	41.7	12.2	2.9	9.3
Business fixed investment	7.3	-2.4	5.6	-4.7	2.5	19.8	6.3	1.5
Gov't. purchases of goods and services	1.3	2.2	1.0	2.0	-.3	3.5	6.0	1.7
Federal	1.8	4.2	3.6	6.1	-.6	5.4	10.7	.6
National defense	2.6	3.9	5.1	7.6	7.1	5.8	7.9	2.9
State and local	1.1	1.0	-.6	-.6	.0	2.2	2.8	2.5
Disposable personal income	2.7	.6	2.7	.9	3.5	6.7	2.2	2.2
<u>Current Dollars</u>								
Gross national product	11.7	8.8	12.4	3.8	7.7	10.8	6.2	5.9
Gross domestic purchases	11.1	8.4	12.3	4.1	8.6	12.5	6.9	6.1
Final sales	12.4	9.9	11.0	5.6	7.2	8.6	7.3	5.8
Personal consumption expenditures	11.9	10.7	10.9	7.3	8.6	8.6	7.2	6.0
Goods	11.7	8.6	9.3	3.8	7.9	8.7	5.3	4.4
Services	12.2	13.1	12.6	11.2	9.4	8.5	9.1	7.6
Gross private domestic investment	9.4	-5.0	20.5	-14.3	13.7	35.2	1.3	6.7
Residential structures	6.6	-13.2	1.4	-12.4	44.7	16.4	4.7	12.0
Business fixed investment	16.6	6.4	14.6	-1.2	.9	20.6	9.2	4.2
Gov't. purchases of goods and services	9.8	13.4	10.9	9.0	5.4	9.0	10.9	5.7
Federal	9.6	17.1	16.2	13.1	4.2	9.5	14.3	4.2
National defense	11.5	17.3	17.2	16.8	11.7	10.5	11.7	6.9
State and local	9.9	11.4	7.9	6.5	6.2	8.7	8.6	6.8
Disposable personal income	12.0	10.8	11.6	6.8	7.3	10.1	5.3	6.0
Personal income	12.6	11.0	12.2	6.4	6.2	9.8	6.0	6.1
Wage and salary disbursements	11.9	9.6	10.1	5.1	5.8	8.7	6.6	6.2
Corporate profits with I.V.A. and C.C.Adj.	1.2	-9.9	8.3	-16.2	41.5	26.9	7.2	-2.8
Corporate profits before tax	10.3	-7.1	-5.7	-25.2	22.8	16.0	-4.5	-6.3
Nonfarm payroll employment	3.6	.6	.8	-1.7	.7	4.7	3.4	2.1
Manufacturing	2.6	-3.6	-.6	-6.9	-1.8	5.3	.1	.1
Nonfarm business sector								
Output per hour	-1.5	-.7	1.5	.2	3.5	2.7	.3	.8
Compensation per hour	9.0	10.3	9.6	8.0	4.9	4.1	4.0	4.2
Unit labor costs	10.7	11.1	8.0	7.7	1.4	1.4	3.7	3.4
GNP implicit deflator	8.6	9.2	9.6	6.0	3.8	3.8	3.6	3.5
Gross domestic business product								
fixed-weighted price index <1>	9.9	9.9	9.7	5.9	3.7	4.0	3.6	3.6
Excluding food and energy	8.6	8.5	9.4	7.0	4.6	4.3	4.3	3.9
Consumer price index (all urban)	11.3	13.5	10.3	6.1	3.2	4.3	3.5	3.8
Industrial production	3.9	-1.9	2.2	-7.1	5.9	11.6	2.2	1.9

<1> Uses expenditures in 1972 as weights.

December 11, 1985

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	FRB staff estimates													
	Fiscal Year 1984*	Fiscal Year 1985*	FY1986 ^e 2/3/ Admin. FRB 1/ Staff		CY 1984*	CY1985 ^e FRB Staff	Calendar quarters; not seasonally adjusted							
							1984 IV*	1985 I* II* III* IV				1986 I II III		
Unified budget receipts	666	734	780	774	683	741	166	174	206	188	173	179	227	195
Unified budget outlays	842	937	955	961	868	948	239	230	234	234	250	242	236	233
Surplus/deficit(-), unified budget	-175	-203	-175	-187	-184	-207	-72	-56	-28	-47	-77	-63	-9	-38
Surplus/deficit(-), off-budget agencies ⁴	-10	-9	-2	-5	-10	-11	1	-3	-5	-3	-1	-1	-2	-1
Combined deficit to be financed	-185	-212	-178	-192	-195	-218	-71	-59	-32	-50	-77	-64	-11	-40
Means of financing combined deficit:														
Net borrowing from public	171	197	180	193	199	213	64	42	45	46	80	56	25	32
Decrease in cash operating balance	7	13	0	-8	-6	3	13	4	-10	7	2	1	-11	0
Other ⁵	8	1	-2	7	2	3	-6	13	-3	-3	-5	7	-3	7
Cash operating balance, end of period	30	17	20	25	18	15	18	14	24	17	15	14	25	25
Memo: Sponsored agency borrowing ⁶	30	20	n.a.	21	30	22	4	4	8	4	6	5	5	5
<u>NIA Budget</u>														
							Seasonally adjusted annual rates							
Receipts	688	750	809	800	705	766	722	771	734	772	785	792	804	817
Expenditures	860	944	978	988	881	961	920	937	948	973	987	987	986	992
Purchases	283	328	343	352	295	338	316	320	324	351	356	352	350	351
Defense	215	240	255	263	222	247	232	234	241	255	259	263	263	264
Nondefense	68	87	88	90	74	90	84	86	83	96	96	89	86	87
All other expenditures	577	617	635	636	586	624	604	617	624	622	631	636	637	640
Surplus/deficit(-)	-172	-195	-169	-188	-176	-195	-198	-165	-214	-201	-201	-196	-182	-174
High employment surplus/deficit(-) evaluated at 6 percent unemployment	-126	-162	n.a.	-152	-140	-161	-169	-129	-178	-169	-169	-161	-145	-134
	*--actual		e--estimated				n.a.--not available							

1. Mid-session Review, August 30, 1985.
2. The Congressional Budget Resolution, passed August 1, 1985, shows revenues of \$796 billion, combined unified and off-budget outlays of \$968 billion, and a total deficit of \$172 billion in fiscal year 1986.
3. The latest CBO budget estimates that incorporate the Budget Resolution policy assumptions and the August 1985 CBO economic forecast show revenues of \$790 billion, combined unified and off-budget outlays of \$965 billion, and a total deficit of \$175 billion in fiscal year 1986.

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

4. Includes Federal Financing Bank, Postal Service Fund, Rural Electrification and Telephone Revolving Fund, Rural Telephone Bank, and Strategic Petroleum Reserve.
5. Checks issued less checks paid, accrued items and other transactions.
6. 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.

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DECEMBER 11, 1985

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

	1984-	ANNUAL 1985-P	1986-P	1984 Q3-	Q4-	Q1-	Q2-	1985 Q3-	Q4-P	Q1-P	Q2-P	1986 Q3-P	Q4-P
1. GNP EXPORTS AND IMPORTS 1/													
CURRENT \$, NET	-64.2	-96.2	-107.2	-90.6	-56.0	-74.5	-94.0	-104.0	-112.3	-105.6	-110.1	-110.4	-102.9
EXPORTS OF G+S	364.3	352.2	374.9	368.6	367.2	360.7	347.7	346.8	353.5	361.6	368.9	377.6	391.3
IMPORTS OF G+S	428.5	448.3	482.1	459.3	423.2	435.2	441.6	450.8	465.8	467.2	479.0	488.1	494.3
CONSTANT 72 \$, NET	-15.0	-34.9	-36.6	-27.0	-13.4	-28.4	-33.8	-38.4	-39.0	-38.3	-38.4	-36.7	-33.0
EXPORTS OF G+S	146.0	140.0	144.1	147.4	147.1	143.7	137.9	138.0	140.6	142.0	142.7	144.2	147.5
IMPORTS OF G+S	161.1	175.0	180.7	174.4	160.5	172.1	171.8	176.4	179.6	180.3	181.0	180.9	180.5
2. U.S. MERCHANDISE TRADE BALANCE 2/	-108.3	-129.7	-134.0	-130.0	-98.2	-118.1	-132.0	-130.8 ^P	-137.9	-133.6	-137.2	-135.9	-129.4
EXPORTS	220.3	215.4	231.4	222.1	225.4	222.8	213.0	210.8 ^P	215.1	218.9	226.2	234.9	245.7
AGRICULTURAL	38.4	28.9	27.3	36.9	38.3	33.5	28.4	25.8 ^P	28.1	27.5	27.4	27.2	27.2
NONAGRICULTURAL	181.9	186.5	204.1	185.3	187.2	189.4	184.5	185.0 ^P	187.0	191.3	198.8	207.8	218.4
IMPORTS	328.6	345.1	365.4	352.1	323.6	341.0	345.0	341.6 ^P	353.0	352.5	363.3	370.8	375.0
PETROLEUM AND PRODUCTS	57.5	49.5	44.7	57.8	56.8	45.2	52.8	48.6 ^P	51.3	42.9	46.0	46.3	43.8
NONPETROLEUM	271.1	295.7	320.7	294.4	266.9	295.7	292.2	293.0 ^P	301.7	309.6	317.3	324.5	331.2
3. U.S. CURRENT ACCOUNT BALANCE	-101.5	-126.3	-128.1	-130.0	-101.9	-121.3	-127.2	-123.4 ^P	-133.4	-125.8	-130.2	-130.5	-125.9
OF WHICH: NET INVESTMENT INCOME	19.1	19.3	17.9	13.0	16.0	10.1	22.3	23.0 ^P	21.8	20.8	18.8	16.5	15.6
4. FOREIGN OUTLOOK 3/													
REAL GNP--TEN INDUSTRIAL 4/	3.1	2.7	2.8	4.8	3.4	0.4	4.4	3.3	2.8	2.6	2.6	2.5	2.7
REAL GNP--NONOPEC LDC 5/	4.1	3.5	3.7	4.2	3.5	3.0	3.1	3.4	3.6	3.8	3.8	3.8	3.9
CONSUMER PRICES--TEN IND. 4/	4.9	4.3	3.6	2.6	4.8	5.4	5.7	1.4	3.6	4.1	4.0	3.4	3.1

I-24

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

December 11, 1985

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

NATIONAL DEFENSE APPROPRIATIONS AND SPENDING
(Fiscal years, billions of dollars)

	Budget request ¹	Congressional appropriation	Budget outlays ¹	NIA purchases ²
1977	112.4	110.2	97.2	91.5
1978	121.4	117.2	104.5	97.8
1979	128.4	126.5	116.3	108.2
1980	138.2	143.9	134.0	126.2
1981	161.8	180.0	157.5	147.1
1982	226.3	216.5	185.3	173.2
1983	263.0	245.0	209.9	196.5
1984	280.5	265.2	227.4	215.4
1985	313.4	290.9	251.4	240.4
Memo: 1986*	322.2	302.4	n.a.	n.a.

1. Figures are the request in the administration's budget published the January before the fiscal year began. For 1982, the Reagan proposal is shown. The Carter budget request was \$200.3 billion.

2. The difference in level between NIA purchases and budget outlays reflects primarily the treatment of military retirement contributions and payments. The outlay figures include the retirement contributions, while the NIA data do not. After the revision of NIA data later this month, defense purchases will include military retirement contributions. As a result, the difference in levels between budget outlays and purchases will narrow. Other differences in the budget and NIA concepts result from the treatment of the timing of certain payments; however, timing differences tend to be more important for interpreting quarterly data.
n.a.—Not available.

*As estimated in the Congressional Budget Resolution passed August 1, 1985. Final action on FY1986 appropriations has not been completed.

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

	1985				
	Q3	Q4e	Oct.	Nov.P	Dec.e
<u>Treasury financing</u>					
Combined surplus/deficit(-)	-49.9	-77.8	-27.1	-31.6	-19.1
Means of financing deficit:					
Net cash borrowing from the public	46.1	80.2	11.3	45.4	23.5
Marketable borrowings/ repayments(-)	37.3	62.6	6.6	39.4	16.6
Bills	2.4	16.0	5.5	8.1	2.4
Coupons	34.9	46.6	1.1	31.3	14.2
Nonmarketable	8.8	17.6	4.7	6.0	6.9
Decrease in the cash balance	6.9	2.0	15.3	-8.3	-4.9
Memo: Cash balance at end of period	17.1	15.1	1.8	10.1	15.0
Other ²	-3.1	-4.4	.5	-5.5	.6
<u>Federally sponsored credit agencies, net cash borrowing³</u>	3.5	6.3	3.5	2.4	.4
FHLBs	2.5	2.0	.9	.5	.6
FNMA	2.2	2.5	.9	.8	.8
Farm Credit Banks	-1.8	.3	1.0	.6	-1.3
FHLMC	*	.5	.1	.2	.2
SLMA	.6	1.0	.6	.3	.1

p--preliminary. e--staff estimate.

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.