

August 16, 1989

SUMMARY AND OUTLOOK

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

slowing expansion abroad. Indeed, real net exports of goods and services are projected to decline, on balance, between now and next spring.

SELECTED COMPONENTS OF REAL GNP
(Percent change from previous period; compound annual rate)

	1989				1990			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- - - - - projection - - - -								
Real GNP	3.7 ¹	1.7	2.2	2.1	1.8	1.7	1.7	1.8
Gross domestic purchases	1.8	1.4	2.6	1.8	2.7	1.7	1.4	1.3
Exports of goods & services	14.0	11.3	4.5	8.9 ²	.0	5.6	6.4	7.5
Imports of goods & services	-.4	8.7	7.1	6.3	5.8	5.4	4.5	3.7

1. On a drought-adjusted basis, 1.5 percent.

2. Includes sizable shipments of aircraft currently planned by domestic manufacturers.

As 1990 progresses, the stimulative effects of earlier declines in interest rates are projected to wane. Most notably, real residential investment is projected to flatten out. Growth in capital spending is expected to taper off, as weakness in profits provides impetus to corporate efforts to hold capacity expansion in line with sustainable sales trends. But, by midyear, the depreciation of the dollar is projected to contribute to a pickup in export growth; this, combined with the damping effects of slower growth in domestic demand on imports, yields a pickup in real net exports.

Given the pace of economic activity projected for the near term--just under its longer-run potential rate--the civilian unemployment rate is expected to remain near 5-1/4 percent through the end of 1989. In that environment, pressures by workers to catch up with the 5-1/4 percent rise in

the cost-of-living over the past year are projected to be accommodated, although not completely or evenly across industries. The twelve-month change in the employment cost index measure of compensation is projected to creep up to 4-3/4 percent by December. However, consumer price inflation is expected to fall to 3 percent in the current quarter and 3-1/2 percent next quarter, owing to sizable declines in gasoline prices and a slower rise in food prices. Favorable trends in prices of non-oil imports in the near term should help to hold down increases in prices of other goods. Excluding food and energy, the CPI is projected to rise at a 4-1/2 percent rate in the second half of 1989--the same as the average pace in the first half and slightly below the previous forecast.

PRICE AND COMPENSATION PROJECTION
(Percent change from previous period; compound annual rate)

	1989				1990			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
- - - - - projection - - - - -								
Consumer price index	5.4	6.4	3.0	3.6	4.2	4.5	4.7	4.7
Excluding food and energy	5.2	4.1	4.2	4.7	4.8	4.9	5.0	5.0
Employment cost index	4.3	4.7	4.8	4.9	6.4	5.0	5.0	4.9

In 1990, the projected output path implies that resource utilization will ease somewhat, with the civilian unemployment rate reaching 5-3/4 percent by year-end and capacity utilization dropping further. Although the underlying trend in wages is projected to rise only a little next year, a rise in employer contributions for social security and, to a lesser extent, an assumed hike in the minimum wage combine to boost labor costs noticeably. As a result, consumer prices, excluding food and energy,

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CONFIDENTIAL - FR
CLASS II FOMC

STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)			
	6/28/89	8/16/89	6/28/89	8/16/89	6/28/89	8/16/89	6/28/89	8/16/89	6/28/89	8/16/89		
Annual changes:												
1987	<1>	6.8	6.9	3.4	3.7	3.6	3.6	3.3	3.2	6.2	6.2	
1988	<1>	7.5	7.9	3.9	4.4	4.2	4.2	3.4	3.3	5.5	5.5	
1989		7.2	7.2	2.6	2.8	4.7	4.6	4.5	4.2	5.4	5.3	
1990		5.7	6.0	1.4	1.9	4.4	4.3	4.2	4.1	5.9	5.6	
Quarterly changes:												
1988	Q1	<1>	5.4	6.5	3.4	4.0	3.5	3.8	1.7	2.0	5.7	5.7
	Q2	<1>	8.7	8.6	3.0	3.7	5.0	4.8	5.5	4.8	5.5	5.5
	Q3	<1>	7.3	7.5	2.5	3.2	5.3	5.2	4.7	4.4	5.5	5.5
	Q4	<1>	7.6	7.5	2.4	2.7	4.2	4.3	5.3	4.7	5.3	5.3
1989	Q1	<1>	8.2	7.9	4.4	3.7	4.6	4.8	3.6	4.0	5.2	5.2
	Q2	<1>	7.4	6.6	1.7	1.7	5.6	5.2	5.4	4.9	5.3	5.3
	Q3		5.1	5.8	1.5	2.2	3.8	3.5	3.5	3.4	5.4	5.3
	Q4		5.1	5.9	1.3	2.1	3.9	3.8	3.8	3.7	5.6	5.3
1990	Q1		5.8	6.5	1.2	1.8	4.8	4.7	4.6	4.6	5.8	5.4
	Q2		5.7	5.9	1.4	1.7	4.4	4.3	4.3	4.2	5.9	5.5
	Q3		6.0	5.8	1.7	1.7	4.3	4.3	4.2	4.1	6.0	5.6
	Q4		6.3	5.8	2.0	1.8	4.1	4.3	4.2	3.9	6.1	5.7
Two-quarter changes: <2>												
1988	Q2	<1>	7.0	7.5	3.2	3.9	4.2	4.2	3.6	3.4	-.4	-.4
	Q4	<1>	7.4	7.5	2.4	2.9	4.8	4.8	5.0	4.5	-.2	-.2
1989	Q2	<1>	7.8	7.2	3.1	2.7	5.1	5.0	4.5	4.4	.0	.0
	Q4		5.1	5.8	1.4	2.1	3.9	3.6	3.6	3.5	.3	.0
1990	Q2		5.8	6.2	1.3	1.7	4.6	4.5	4.4	4.4	.3	.2
	Q4		6.1	5.8	1.9	1.7	4.2	4.3	4.2	4.0	.2	.2
Four-quarter changes: <3>												
1987	Q4	<1>	8.3	8.6	5.0	5.4	4.0	4.0	3.1	3.0	-.9	-.9
1988	Q4	<1>	7.2	7.5	2.8	3.4	4.5	4.5	4.3	4.0	-.6	-.6
1989	Q4		6.4	6.5	2.2	2.6	4.5	4.3	4.1	4.0	.3	.0
1990	Q4		6.0	6.0	1.6	1.7	4.4	4.4	4.3	4.2	.5	.4

<1> Actual.

<2> Percent change from two quarters earlier.

<3> 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									
		1982	1983	1984	1985	1986	1987	1988	1989	1990	
EXPENDITURES											
Nominal GNP	Billions of \$	3166.0	3405.7	3772.2	4014.9	4231.6	4524.3	4880.6	5229.9	5546.4	
Real GNP	Billions of 82\$	3166.0	3279.1	3501.4	3618.7	3717.1	3853.7	4024.4	4136.3	4213.1	
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	1.9	5.4	3.4	2.4	1.7	
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.4	3.4	2.4	1.8	
Gross domestic purchases		-.8	8.4	6.4	4.3	2.1	4.6	2.4	1.9	1.8	
Final sales		.3	3.7	4.7	4.6	2.7	3.3	4.4	2.5	1.5	
Private dom. final purchases		.8	7.7	5.6	4.6	2.9	2.7	3.8	2.5	1.8	
Personal consumption expend.		2.9	5.4	4.1	4.6	3.8	2.2	3.8	2.2	1.9	
Durables		9.0	14.7	10.8	7.0	11.5	-2.0	8.0	1.5	.5	
Nondurables		1.8	4.4	2.3	3.3	2.9	1.1	2.1	.7	1.4	
Services		2.3	3.9	3.5	5.0	2.1	4.4	3.6	3.4	2.5	
Business fixed investment		-11.3	10.8	13.8	3.7	-5.5	8.5	4.2	5.7	1.9	
Producers' durable equipment		-12.5	20.9	14.9	4.6	.4	11.1	7.0	8.4	3.2	
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.7	1.9	-3.4	-2.4	-2.5	
Residential structures		4.9	38.1	6.1	5.8	11.6	-4.2	3.2	-2.2	.2	
Exports		-13.8	5.8	5.9	-2.4	10.6	19.1	13.9	9.6	4.8	
Imports		-5.9	23.8	17.4	4.5	10.0	9.6	5.3	5.4	4.8	
Government purchases		3.8	-2.7	7.9	8.6	3.1	2.1	1.8	-.1	.8	
Federal		8.2	-8.1	13.0	13.3	.5	.7	-.3	-2.6	-.9	
Defense		8.8	5.1	6.5	7.1	6.0	4.3	-1.9	-4.9	-2.9	
State and local		.6	1.5	4.4	4.9	5.2	3.1	3.4	1.8	2.0	
Change in business inventories	Billions of 82\$	-24.5	-6.4	62.3	9.1	5.6	23.7	27.9	20.1	23.8	
Nonfarm	Billions of 82\$	-23.1	-.1	57.8	13.4	8.0	25.8	30.7	14.9	20.3	
Net exports	Billions of 82\$	26.3	-19.9	-84.0	-104.3	-129.7	-115.7	-74.9	-54.8	-62.1	
Nominal GNP	Percent change*	3.1	10.4	8.6	6.6	4.6	8.6	7.5	6.5	6.0	
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.2	105.6	108.5	110.0	
Unemployment rate	Percent	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.6	
Industrial production index	Percent change*	-7.7	14.3	6.6	1.7	1.0	5.8	5.0	2.4	1.8	
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.1	83.5	84.1	83.1	
Housing Starts	Millions	1.06	1.70	1.75	1.74	1.81	1.62	1.49	1.43	1.42	
Auto sales	Millions	8.01	9.23	10.38	11.06	11.47	10.26	10.69	10.08	9.64	
Domestic	Millions	5.78	6.82	7.92	8.22	8.22	7.06	7.55	7.18	6.90	
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.90	2.74	
INCOME AND SAVING											
Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.8	8.6	7.1	8.3	6.3	
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.3	3.0	4.0	3.2	1.5	
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.1	3.2	4.2	5.5	5.5	
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	-5.6	12.0	10.4	-11.9	-6.1	
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	6.7	6.6	6.7	5.9	5.1	
Federal govt. surplus/deficit	Billions of \$	-145.9	-176.0	-169.6	-196.9	-206.9	-161.4	-145.8	-148.2	-125.6	
State and local govt. surplus		35.1	47.5	64.6	65.1	62.8	51.3	49.7	49.7	54.3	
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.6	-12.4	-21.4	-28.4	-29.9	
PRICES AND COSTS											
GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.6	3.0	4.0	4.0	4.2	
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.6	4.0	4.5	4.3	4.4	
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.2	4.5	4.5	
CPI		4.4	3.2	4.2	3.5	1.3	4.4	4.3	4.6	4.5	
Exc. food and energy		5.2	4.2	5.0	4.3	3.9	4.2	4.6	4.5	4.9	
Nonfarm business sector		.5	3.4	1.5	1.6	1.3	2.5	1.7	-.1	1.1	
Output per hour		6.8	3.1	4.2	4.6	5.0	4.0	4.9	5.3	5.8	
Compensation per hour		6.2	-.4	2.6	3.0	3.6	1.5	3.1	5.3	4.7	
Unit labor costs											

* Percent changes are from fourth quarter to fourth quarter.

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

August 16, 1989

	Units	Projection									
		1988				1989				1990	
		Q3		Q4		Q1		Q2		Q3	
EXPENDITURES											
Nominal GNP	Billions of \$	4926.9	5017.3	5113.1	5194.9	5268.2	5343.6	5428.6	5506.8	5585.5	5664.5
Real GNP	Billions of 82\$	4042.7	4069.4	4106.8	4123.9	4146.6	4167.9	4186.8	4204.1	4221.5	4240.1
Nominal GNP	Percent change	7.5	7.5	7.9	6.6	5.8	5.9	6.5	5.9	5.8	5.8
Real GNP		3.2	2.7	3.7	1.7	2.2	2.1	1.8	1.7	1.7	1.8
Gross domestic product		3.1	2.5	3.8	1.6	2.3	2.1	2.0	1.7	1.7	1.8
Gross domestic purchases		3.4	2.5	1.8	1.4	2.6	1.8	2.7	1.7	1.4	1.3
Final sales		1.6	4.7	3.1	1.9	2.7	2.2	1.4	1.4	1.3	1.9
Private dom. final purchases		3.1	1.7	2.3	1.1	3.9	2.5	2.5	1.6	1.4	1.5
Personal consumption expend.		3.3	3.0	2.0	1.1	3.8	1.9	2.6	1.5	1.6	1.7
Durables		-3.9	9.9	-1.1	4.4	6.6	-3.3	2.6	-0.9	-0.6	1.0
Nondurables		5.0	.7	1.3	-4.0	3.3	2.5	2.2	1.3	1.2	1.1
Services		4.5	2.6	3.6	3.7	3.3	3.2	2.8	2.5	2.5	2.4
Business fixed investment		2.6	-6.5	6.9	7.6	4.9	3.7	3.3	2.1	1.1	1.0
Producers' durable equipment		2.9	-6.9	9.6	13.6	5.6	5.0	5.0	3.5	2.2	2.0
Nonresidential structures		1.6	-5.1	-1.0	-9.9	2.6	-.8	-2.3	-2.4	-2.8	-2.6
Residential structures		1.9	6.3	-5.0	-13.6	2.6	8.6	.2	.1	.1	.2
Exports		9.7	15.5	14.0	11.3	4.5	8.9	.0	5.6	6.4	7.5
Imports		10.2	12.6	-.4	8.7	7.1	6.3	5.8	5.4	4.5	3.7
Government purchases		-3.6	16.7	-3.3	4.0	-.3	-.5	1.4	1.2	-.4	.8
Federal		-9.5	33.7	-9.4	7.1	-3.4	-3.9	.7	-.2	-3.7	-.8
Defense		-5.5	4.4	-10.6	2.7	-5.5	-5.6	-2.7	-2.7	-3.7	-2.4
State and local		.9	5.7	1.5	1.8	2.0	2.0	1.9	2.0	2.0	2.0
Change in business inventories	Billions of 82\$	37.5	18.3	24.5	22.0	17.7	16.3	20.3	22.7	26.8	25.4
Nonfarm	Billions of 82\$	37.2	31.9	16.9	19.6	12.3	10.9	16.4	19.0	23.4	22.5
Net exports	Billions of 82\$	-74.9	-73.8	-55.0	-52.6	-57.2	-54.6	-13.8	-64.5	-62.5	-57.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	106.0	106.8	107.7	108.3	108.9	109.2	109.6	110.1	110.1	110.3
Unemployment rate	Percent*	5.5	5.3	5.2	5.3	5.3	5.3	5.4	5.5	5.6	5.7
Industrial production index	Percent change	7.1	4.6	2.1	2.6	2.0	2.8	1.9	1.5	2.0	1.9
Capacity utilization rate-mfg.	Percent*	84.0	84.4	84.4	84.2	84.0	83.8	83.6	83.2	83.0	82.7
Housing Starts	Millions	1.47	1.56	1.52	1.35	1.43	1.43	1.42	1.41	1.42	1.42
Auto sales	Millions	10.32	11.00	9.72	10.31	10.48	9.82	9.90	9.70	9.50	9.45
Domestic	Millions	7.20	7.89	6.89	7.30	7.60	6.93	7.00	6.90	6.85	6.85
Foreign	Millions	3.12	3.11	2.82	3.01	2.88	2.88	2.90	2.80	2.65	2.60
INCOME AND SAVING											
Nominal personal income	Percent change	7.2	8.8	13.3	7.5	6.9	5.7	7.6	6.6	4.8	6.3
Real disposable income	Percent change	4.9	4.3	6.6	.4	4.4	1.4	3.8	1.2	-.3	1.2
Personal saving rate	Percent*	4.3	4.6	5.6	5.4	5.6	5.5	5.8	5.7	5.3	5.2
Corp. profits with IVA & CCAdj	Percent change	7.1	11.7	-25.3	-7.4	-13.9	1.1	-18.5	-8.4	13.6	-8.3
Profit share of GNP	Percent*	6.7	6.8	6.2	6.0	5.7	5.6	5.2	5.1	5.1	5.0
Federal govt. surplus/deficit	Billions of \$	-122.5	-167.6	-147.5	-146.7	-154.2	-144.3	-138.2	-133.2	-117.2	-113.8
State and local govt. surplus		49.8	45.7	48.8	47.9	50.8	51.2	50.8	54.0	55.7	56.8
Exc. social insurance funds		-22.3	-28.1	-26.6	-29.3	-28.2	-29.3	-31.2	-29.5	-29.3	-29.7
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.4	4.7	4.0	4.9	3.4	3.7	4.6	4.2	4.1	3.9
GNP fixed-weight price index		5.2	4.3	4.8	5.2	3.5	3.8	4.7	4.3	4.3	4.3
GDP & fixed invest. prices		4.4	4.7	4.8	6.0	3.5	3.8	4.2	4.5	4.6	4.6
I		4.5	4.4	5.4	6.4	3.0	3.6	4.2	4.5	4.7	4.7
Exc. food and energy		4.0	4.9	5.2	4.1	4.2	4.7	4.8	4.9	5.0	5.0
Nonfarm business sector		3.4	1.9	-1.3	.2	.1	.8	1.0	1.0	1.2	1.2
Output per hour		5.5	5.9	4.8	5.5	5.4	5.5	7.0	5.5	5.5	5.4
Compensation per hour		2.0	3.9	6.2	5.2	5.3	4.7	5.9	4.5	4.2	4.2
Unit labor costs											

* Not at an annual rate.

CONFIDENTIAL - FR
CLASS II FOMC

August 16, 1989

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

	Projection										Projection			
	1988		1989		1990		1987		1988		1989		1990	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	32.0	26.7	37.4	17.1	22.7	21.3	18.9	17.3	17.4	18.6	202.0	133.8	98.5	72.2
Gross domestic product	30.5	25.2	37.7	16.6	23.4	21.0	20.1	17.9	17.5	18.4	200.6	132.5	98.7	73.8
Gross domestic purchases	34.3	25.6	18.6	14.7	27.3	18.6	28.2	18.0	15.4	13.5	176.4	97.8	79.3	75.0
Final sales	16.0	45.8	31.3	19.6	27.0	22.7	14.9	14.9	13.3	20.0	124.6	172.0	100.6	63.1
Private dom. final purchases	25.4	14.2	19.2	9.3	32.2	21.2	21.4	13.2	12.0	13.2	82.9	121.7	81.9	59.8
Personal consumption expend.	21.3	19.6	13.3	7.2	24.8	12.5	17.1	10.3	10.6	11.8	54.5	95.4	57.9	49.7
Durables	-4.1	9.8	-1.2	4.5	6.8	-3.6	2.8	-1.0	-.6	1.1	-8.1	31.1	6.5	2.2
Nondurables	11.1	1.7	3.0	-9.2	7.4	5.7	5.0	3.0	2.8	2.5	9.4	19.1	6.8	13.3
Services	14.2	8.2	11.5	11.8	10.7	10.5	9.3	8.4	8.4	8.1	53.2	45.2	44.6	34.2
Business fixed investment	3.2	-8.3	8.3	9.2	6.1	4.7	4.2	2.8	1.4	1.3	37.0	20.0	28.3	9.8
Producers' durable equipment	2.7	-6.7	8.6	12.3	5.4	4.9	4.9	3.5	2.2	2.1	34.7	24.3	31.2	12.7
Nonresidential structures	.5	-1.6	-.3	-3.1	.8	-.2	-.7	-.7	-.8	-.8	2.3	-4.3	-2.9	-3.0
Residential structures	.9	3.0	-2.5	-7.0	1.2	4.0	.1	.0	.0	.1	-8.4	6.2	-4.3	.3
Change in business inventories	16.0	-19.2	6.2	-2.5	-4.3	-1.4	4.0	2.4	4.1	-1.4	77.4	-38.3	-2.0	9.1
Nonfarm	11.8	-5.3	-15.0	2.7	-7.3	-1.4	5.5	2.6	4.4	-.9	66.5	-23.7	-21.0	11.6
Farm	4.3	-13.9	21.2	-5.2	3.0	.0	-1.5	-.2	-.3	-.5	10.9	-14.6	19.0	-2.5
Net exports	-2.3	1.1	18.8	2.4	-4.6	2.6	-9.3	-.7	2.0	5.1	25.6	36.0	19.2	-2.8
Exports	12.2	19.5	18.3	15.4	6.4	12.7	.0	8.2	9.5	11.4	77.6	67.3	52.8	29.1
Imports	14.6	18.3	-.6	13.1	11.0	10.0	9.3	8.9	7.5	6.2	52.0	31.3	33.6	31.9
Government purchases	-7.1	30.5	-6.7	7.9	-.7	-1.1	2.8	2.4	-.7	1.7	16.1	14.3	-.5	6.2
Federal	-8.1	24.1	-8.4	5.8	-3.0	-3.4	.6	.1	-3.1	-.7	2.5	-1.0	-8.9	-3.1
Defense	-3.7	2.8	-7.2	1.7	-3.6	-3.6	-1.7	-1.7	-2.3	-1.5	10.9	-5.1	-12.7	-7.2
Nondefense	-4.4	21.3	-1.2	4.0	.7	.2	2.3	1.8	-.8	.8	-8.4	4.1	3.8	4.1
State and local	1.0	6.4	1.7	2.1	2.3	2.3	2.2	2.3	2.4	2.4	13.6	15.3	8.4	9.3

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August 16, 1989

FEDERAL SECT¹
COUNTS
(Billions of Dollars)

	Fiscal Year 1988a	FY1989p			FY1990p			FRB Staff Projection								
		Admin ¹	CBO ²	FRB Staff	Admin ¹	CBO ²	FRB Staff	1988 IVa	1989 Ia	IIa	III	IV	I	II	1990 III	IV
BUDGET															Not seasonally adjusted	
Budget receipts ³	909	996	983	993	1080	1069	1069	222	220	308	244	228	248	329	265	249
Budget outlays ³	1064	1144	1142	1162	1179	1215	1179	289	280	285	306	295	297	298	290	314
Surplus/deficit (-) to be financed ³	-155	-148	-159	-168	-99	-146	-110	-68	-61	23	-63	-66	-49	31	-25	-64
(On-budget)	-194	-202	-215	-221	-164	-214	-176	-73	-77	0	-70	-76	-69	8	-40	-74
(Off-budget)	39	53	56	53	65	68	66	6	16	23	8	9	19	23	15	10
Means of financing:																
Borrowing	162	n.a.	n.a.	143	n.a.	n.a.	107	54	38	10	41	67	27	-1	15	62
Cash decrease	-8	n.a.	n.a.	13	n.a.	n.a.	-3	11	19	-29	12	4	12	-25	5	10
Other ⁴	1	n.a.	n.a.	13	n.a.	n.a.	6	3	4	-4	9	-5	10	-5	6	-8
Cash operating balance, end of period	44	n.a.	n.a.	32	n.a.	n.a.	35	34	15	44	32	27	15	40	35	25
NIPA FEDERAL SECTOR															Seasonally adjusted annual rates	
Receipts	958	n.a.	1037	1034	n.a.	1133	1112	995	1036	1051	1055	1072	1107	1124	1145	1162
Expenditures	1103	n.a.	1177	1188	n.a.	1255	1245	1162	1184	1198	1209	1216	1245	1257	1262	1276
Purchases	377	n.a.	395	404	n.a.	416	413	406	399	404	407	405	415	418	416	417
Defense	297	n.a.	302	300	n.a.	311	300	301	299	302	300	297	301	301	300	299
Nondefense	80	n.a.	93	104	n.a.	105	114	106	100	102	107	108	113	117	116	117
Other expend.	726	n.a.	782	784	n.a.	839	831	756	785	794	802	811	830	839	846	859
Surplus/deficit	-145	n.a.	-140	-154	n.a.	-122	-133	-168	-148	-147	-154	-144	-138	-133	-117	-114
FISCAL INDICATOR⁵																
Fiscal impetus measure (FI), percent	.2 *	n.a.	n.a.	-4.1 *	n.a.	n.a.	-7.3 *	1	-2.7	-.1	-.7	-3.1	-3.7	-.1	-1	-2

a--actual

p--projection

*--calendar year

n.a.--not available

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

1. The Administration figures are from the Mid-Session Review of the Budget (July 18, 1989), which incorporates the Bipartisan Budget Agreement but does not include on-budget RTC spending in FY1989.
2. The CBO figures are baseline budget estimates from An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990 (February 1989). New CBO estimates will be released August 17, 1989.
3. Budget receipts, outlays, and surplus/deficit include 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. Other means of financing are checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For FI, (-) indicates restraint. Quarterly figures are not at annual rates.

August 16, 1989

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

	ANNUAL			1988		1989				1990			
	1988	1989-P	1990-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	-73.7	-53.8	-63.5	-66.2	-70.8	-54.0	-52.4	-56.5	-52.1	-62.5	-64.8	-64.8	-62.1
Exports of G+S	547.7	626.7	669.7	556.8	579.7	605.6	625.2	630.7	645.4	648.1	661.3	676.1	693.2
Imports of G+S	621.3	680.4	733.1	623.0	650.5	659.6	677.5	687.1	697.4	710.5	725.9	740.8	755.3
Constant 82 \$, Net	-74.9	-54.8	-62.1	-74.9	-73.8	-55.0	-52.6	-57.2	-54.6	-63.8	-64.5	-62.5	-57.4
Exports of G+S	530.1	587.6	618.0	531.9	551.4	569.7	585.1	591.5	604.2	604.2	612.4	622.0	633.3
Imports of G+S	605.0	642.5	680.1	606.9	625.2	624.6	637.7	648.7	658.8	668.1	677.0	684.5	690.7
2. Merchandise Trade Balance 2/	-127.2	-112.0	-125.1	-121.4	-128.1	-110.5	-110.7	-114.8	-111.8	-121.9	-125.4	-126.9	-126.1
Exports	319.3	364.7	386.1	322.4	334.9	354.0	364.6	365.1	375.2	373.9	380.9	389.5	400.2
Agricultural	38.1	41.5	40.7	39.7	39.2	43.5	43.8	39.7	39.1	39.7	40.5	41.0	41.7
Non-Agricultural	281.1	323.2	345.4	282.7	295.8	310.5	320.8	325.4	336.1	334.2	340.4	348.5	358.5
Imports	446.5	476.7	511.2	443.8	463.0	464.5	475.3	479.9	487.0	495.8	506.4	516.4	526.4
Petroleum and Products	39.3	50.6	52.6	39.1	36.9	43.3	54.4	52.9	51.8	52.0	52.5	52.8	53.1
Non-Petroleum	407.2	426.1	458.6	404.7	426.1	421.2	420.9	427.0	435.2	443.8	453.9	463.6	473.2
3. Other Current Account Transactions													
Capital Gains and Losses 3/	-1.0	-5.2	1.6	-11.4	15.8	-14.6	-6.9	0.0	0.8	1.6	1.6	1.6	1.6
Other D.I. Income, Net	32.5	33.4	34.7	33.6	34.3	34.1	31.6	32.9	34.8	34.1	34.0	34.7	35.8
Portfolio Income, Net	-29.3	-36.6	-46.5	-32.6	-32.2	-33.5	-34.3	-37.8	-40.9	-43.3	-45.4	-47.5	-49.6
Other Current Account, Net	-1.6	1.8	5.9	2.4	-4.6	1.8	2.1	2.8	0.4	4.4	6.1	7.4	5.5
4. U.S. Current Account Balance													
Including Capital G/L	-126.5	-118.6	-129.5	-129.4	-114.7	-122.7	-118.2	-116.9	-116.7	-125.1	-129.1	-130.8	-132.8
Excluding Capital G/L	-125.5	-113.4	-131.0	-118.0	-130.6	-108.1	-111.2	-116.9	-117.5	-126.7	-130.7	-132.4	-134.4
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.8	3.3	2.6	3.8	3.1	5.9	1.8	2.3	2.6	3.0	2.7	2.6	2.6
Real GNP--NonOPEC LDC 6/	3.6	2.9	3.5	3.2	2.8	2.6	2.8	3.2	3.5	3.7	3.7	3.6	3.5
Consumer Prices--Ten Ind. 5/	2.6	4.0	3.5	2.6	3.8	4.2	6.4	2.6	3.2	3.4	4.5	2.3	2.8

1/ National Income and Product Account data.

2/ International accounts basis.

3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.

4/ Percent change, annual rates.

5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.

6/ Weighted by share in NonOPEC LDC GNP.

P/ Projected

August 16, 1989

RECENT DEVELOPMENTS

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

VALUE OF THE OUTPUT OF SELECTED FARM CROPS
(Billions of 1982 dollars)

	1986	1987	1988	1989 ¹
Wheat	7.4	7.4	6.4	7.2
Soybeans	11.2	11.1	8.9	11.0
Corn	19.6	16.8	11.7	17.4
Other feed grains ²	4.3	3.6	2.4	3.1
Cotton	2.6	3.9	4.1	3.1
Total for these crops	45.1	42.8	33.5	41.8

1. Derived from the USDA's August 10 projection of crop production.
 2. Barley, oats, and sorghum.

INDEXES OF CROP CONDITIONS¹
(Range: 100=excellent; 0=very poor)

	Week ended				
	July 2	July 16	July 30	Aug. 6	Aug. 13
Corn (Previous year)	70.3 (47.5)	64.3 (38.0)	69.8 (39.8)	70.0 (38.0)	65.3 (38.3)
Spring wheat (Previous year)	67.8 (26.3)	50.0 (22.0)	48.5 (25.0)	48.5 (25.0)	51.0 (25.0)
Soybeans (Previous year)	65.3 (45.3)	61.5 (46.5)	65.8 (49.0)	65.8 (46.8)	61.0 (46.5)
Cotton (Previous year)	56.8 (59.3)	57.3 (66.5)	56.3 (68.8)	58.3 (68.5)	58.8 (68.8)

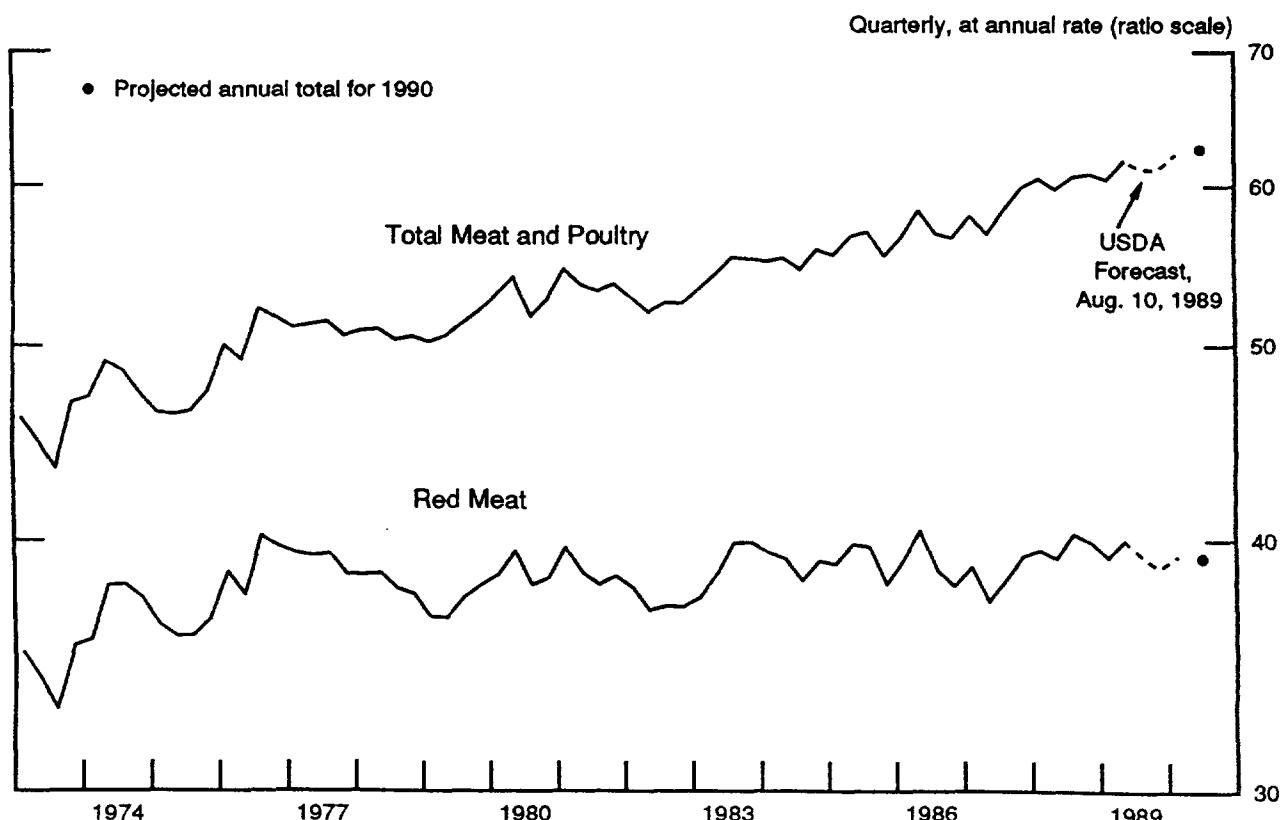
1. Indexes are constructed by the staff of the Federal Reserve, using data from the Weekly Weather and Crop Bulletin. The data in that report show the proportion of respondents who characterize crop conditions as excellent, good, fair, poor, or very poor. In constructing the indexes these proportions have been weighted as follows: excellent=1.0; good=.75; fair=.5; poor=.25; very poor=.0. A crop that is viewed as excellent by all respondents in all locations would thus have an index value of 100.0.

MEAT AND POULTRY PRODUCTION
 (Millions of pounds)

	1988	USDA Projection		
		for 1989		for 1990 as of Aug. 10
		as of July 12	as of Aug. 10	
1.	Total red meat and poultry	60350	61138	61125
2.	Red meat ¹	39763	39383	39313
3.	Beef	23424	22779	22706
4.	Pork	15623	15912	15915
5.	Poultry	20587	21755	21812

1. Includes veal and lamb, in addition to beef and pork.

Meat and Poultry Production
 (Billions of pounds, seasonally adjusted)*



* USDA data, seasonally adjusted by the staff of the Federal Reserve Board.

ADMINISTRATION FEDERAL BUDGET FOR FY1990, MIDSESSION REVIEW
(Billions of dollars)

	Fiscal years					
	1989	1990	1991	1992	1993	1994
Outlays	1144	1179	1237	1288	1329	1381
Receipts	996	1080	1152	1221	1298	1356
Deficit (-)	-148	-99	-85	-67	-30	-25

Source: OMB, Mid-Session Review of the Budget, July 18, 1989.

ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1989	1990	1991	1992	1993	1994
-----Percent change, Q4 to Q4-----						
Nominal GNP	7.1	6.8	7.2	6.8	6.4	6.0
Real GNP	2.7	2.6	3.3	3.2	3.1	3.0
GNP deflator	4.2	4.1	3.8	3.5	3.2	2.9
-----Percent, annual average-----						
Civilian unemployment rate	5.3	5.5	5.4	5.3	5.2	5.1
Interest rate						
(3-month Treasury Bills)	8.0	6.7	5.3	5.0	4.7	4.4
(10-year Treasury Notes)	8.5	7.7	6.8	6.0	5.7	5.4

Source: OMB, Mid-Session Review of the Budget, July 18, 1989.

Note: The President's budget for FY1990 incorporates the Bipartisan Budget Agreement of this spring and the Administration's Financial Institutions Reform Legislation. The budget totals for years beyond 1990 reflect the following:

- (a) a rise, beginning in FY1991, to the President's February proposed levels for defense (military) budget authority and outlays;
- (b) higher spending for defense atomic-waste cleanup, beginning in FY1991, than proposed in February;
- (c) February proposals for savings in entitlements; those savings that were not incorporated in FY1990 are assumed to begin in FY1991;
- (d) a gradual return of budget authority and resulting outlays for discretionary programs to the lower path proposed in February;
- (e) the year-to-year pattern of receipts gains determined by the President's specific February receipts proposals, including the lowering of tax rates for capital gains.

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

	1989				
	Q2	Q3 ^P	Jul. ^e	Aug. ^P	Sept. ^P
<u>Treasury financing</u>					
Total surplus/deficit (-)	22.9	-62.8	-22.5	-27.2	-13.0
Means of financing deficit:					
Net cash borrowing from the public	10.1	41.0	-4.1	34.3	10.9
Marketable borrowings/ repayments (-)	5.4	38.4	-4.4	32.8	10.0
Bills	-20.0	14.5	-5.8	18.8	1.5
Coupons	25.3	23.9	1.4	13.9	8.5
Nonmarketable	3.3	2.7	.2	1.5	.9
Other borrowing ²	1.4	.0	.0	.0	.0
Decrease in the cash balance	-29.1	12.3	21.6	-3.7	-5.7
Memo: Cash balance at end of period	43.7	31.5	22.1	25.8	31.5
Other ³	-3.9	9.5	5.0	-3.3	7.8
<u>Federally sponsored credit agencies, net cash borrowing⁴</u>					
	5.9 ^e	-	-	-	-
FHLBs	3.9	-	-	-	-
FNMA	1.6	-	-	-	-
Farm Credit Banks	.3	-	-	-	-
FAC	.2	-	-	-	-
FHLMC	-1.7 ^e	-	-	-	-
FICO	1.1	-	-	-	-
SLMA	.5	-	-	-	-

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.
e--staff estimate.

p--projected.

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

CONFIDENTIAL (FR)
CLASS III - FOMC

August 18, 1989

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

CORRECTED

CONFIDENTIAL

CLASS II

August 17, 1989

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

	Fiscal Year 1988a	FY1989p				FY1990p				1988 IVa	1989 Ia	IIa	FRB Staff Projection					
		Admin ¹	CBO ²	FRB Staff		Admin ¹	CBO ²	FRB Staff					III	IV	I	II	III	IV
BUDGET																<i>Not seasonally adjusted</i>		
Budget receipts ³	909	996	983	993	1080	1069	1069			222	220	308	244	228	248	329	265	249
Budget outlays ³	1064	1144	1142	1162	1179	1215	1179			289	280	285	306	295	297	298	290	314
Surplus/deficit (-) to be financed ³	-155	-148	-159	-168	-99	-146	-110			-68	-61	23	-63	-66	-49	31	-25	-64
(On-budget)	-194	-202	-215	-221	-164	-214	-176			-73	-77	0	-70	-76	-69	8	-40	-74
(Off-budget)	39	53	56	53	65	68	66			6	16	23	8	9	19	23	15	10
Means of financing:																		
Borrowing	162	n.a.	n.a.	143	n.a.	n.a.	107			54	38	10	41	67	27	-1	15	62
Cash decrease	-8	n.a.	n.a.	13	n.a.	n.a.	-3			11	19	-29	12	4	12	-25	5	10
Other ⁴	1	n.a.	n.a.	13	n.a.	n.a.	6			3	4	-4	9	-5	10	-5	6	-8
Cash operating balance, end of period	44	n.a.	n.a.	32	n.a.	n.a.	35			34	15	44	32	27	15	40	35	25
NIPA FEDERAL SECTOR																<i>Seasonally adjusted annual rates</i>		
Receipts	958	n.a.	1037	1034	n.a.	1133	1112			995	1036	1051	1055	1072	1107	1124	1145	1162
Expenditures	1103	n.a.	1177	1188	n.a.	1255	1245			1162	1184	1198	1209	1216	1245	1257	1262	1276
Purchases	377	n.a.	395	404	n.a.	416	413			406	399	404	407	405	415	418	416	417
Defense	297	n.a.	302	300	n.a.	311	300			301	299	302	300	297	301	301	300	299
Nondefense	80	n.a.	93	104	n.a.	105	114			106	100	102	107	108	113	117	116	117
Other expend.	726	n.a.	782	784	n.a.	839	831			756	785	794	802	811	830	839	846	859
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FISCAL INDICATORS⁵																		
High-employment (HEB) surplus/deficit (-)	-155	n.a.	n.a.	-175	n.a.	n.a.	-144			-186	-172	-168	-173	-161	-152	-142	-122	-114
Change in HEB, percent of potential GNP	.3	n.a.	n.a.	.4	n.a.	n.a.	-.6			1	-.3	-.1	.1	-.2	-.2	-.2	-.4	-.1
Fiscal impetus measure (FI), percent	.2 *	n.a.	n.a.	-4.1 *	n.a.	n.a.	-7.3 *			1	-2.7	-.1	-.7	-3.1	-3.7	-.1	-1	-2

a--actual

p--projection

*--calendar year

n.a.--not available

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

1. The Administration figures are from the Mid-Session Review of the Budget (July 18, 1989), which incorporates the Bipartisan Budget Agreement but does not include on-budget RTC spending in FY1989.
2. The CBO figures are baseline budget estimates from An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990 (February 1989). New CBO estimates will be released August 17, 1989.
3. Budget receipts, outlays, and surplus/deficit include 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. Other means of financing are 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.