

September 14, 1988

## **SUMMARY AND OUTLOOK**

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

quarters of 1988. As in the previous projection, the drought-related output losses in GNP show up primarily as a drawdown in farm inventories and CCC stocks. Farm production is projected to rebound sharply in 1989, in part reflecting more expansive agricultural policies. This adds almost 2-1/2 percentage points to growth in the first quarter and 1 percentage point for the year as a whole.

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

	1988			1989		
	Q2	Q3	Q4	Q1	Q2	H2
Real GNP	3.3	2.5	1.6	4.4	2.7	2.4
Real GNP excluding effects of drought	4.3	3.3	2.9	2.0	1.9	2.0

In the current quarter, the staff projection of real GNP growth excluding the effects of the drought remains relatively robust--3-1/4 percent. This is a little lower than in the August Greenbook, reflecting the weaker than anticipated August labor market report. Growth in consumer spending is expected to remain around 3 percent, about in line with the recent trend in real disposable income. Spending on business equipment and exports should continue to be the most important sources of impetus to aggregate demand this quarter.

The assumed monetary and fiscal restraints exert a broad effect on economic growth in coming quarters. The influence of higher interest rates is most obvious in the projection of homebuilding: housing starts are projected to fall from their current level of close to 1.5 million

Staff Price Projection  
(Percent change, annual rate)

	1988		1989			
	Q3	Q4	Q1	Q2	Q3	Q4
GNP fixed-weight price index	5.2	4.4	5.0	4.4	4.3	4.3
Consumer price index	4.8	4.7	5.0	4.8	4.7	4.8

fractionally reduced the inflation projection. As has been the case for some time, the federal pay adjustment assumed to occur on January 1, 1989, accounts for an uptick in the GNP fixed-weight price measure in the first quarter. The CPI, which is not affected by the pay adjustment, shows a more stable inflation rate of around 5 percent for the year.

The details of the staff forecast are provided in the tables that follow.

September 14, 1988

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## STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weighted price index		GNP deflator		Unemployment rate (percent)			
	8/10/88	9/14/88	8/10/88	9/14/88	8/10/88	9/14/88	8/10/88	9/14/88	8/10/88	9/14/88		
<b>Annual changes:</b>												
1986	<1>	5.6	5.6	2.8	2.8	2.8	2.8	2.7	2.7	7.0	7.0	
1987	<1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2	
1988		7.1	7.2	3.9	3.9	4.0	4.1	3.0	3.2	5.5	5.5	
1989		6.7	7.0	2.7	2.9	4.7	4.6	3.9	4.0	5.6	5.6	
<b>Quarterly changes:</b>												
1987	Q1	<1>	8.4	8.4	4.6	4.6	4.2	4.2	3.5	3.5	6.6	6.6
	Q2	<1>	8.7	8.7	5.0	5.0	4.2	4.2	3.5	3.5	6.3	6.3
	Q3	<1>	7.7	7.7	4.5	4.5	3.7	3.7	3.1	3.1	6.0	6.0
	Q4	<1>	8.6	8.6	6.1	6.1	3.8	3.8	2.4	2.4	5.9	5.9
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>	7.2	8.3	3.1	3.3	4.7	4.7	4.1	5.1	5.5	5.5
	Q3		7.3	6.5	3.1	2.5	4.6	5.2	4.0	3.8	5.4	5.5
	Q4		6.1	6.1	1.8	1.6	4.6	4.4	4.2	4.4	5.4	5.5
	Q1		7.7	8.5	3.6	4.4	5.1	5.0	4.0	3.9	5.4	5.5
	Q2		6.4	6.6	2.5	2.7	4.6	4.4	3.8	3.8	5.5	5.6
	Q3		5.8	6.2	2.0	2.4	4.4	4.3	3.7	3.6	5.6	5.7
	Q4		5.8	5.9	2.0	2.4	4.3	4.3	3.6	3.4	5.7	5.7
<b>Two-quarter changes: &lt;2&gt;</b>												
1987	Q2	<1>	8.5	8.5	4.8	4.8	4.2	4.2	3.5	3.5	-.5	-.5
	Q4	<1>	8.1	8.1	5.3	5.3	3.7	3.7	2.7	2.7	-.4	-.4
1988	Q2	<1>	6.3	6.8	3.3	3.3	4.0	4.0	2.9	3.4	-.4	-.4
	Q4		6.7	6.3	2.4	2.0	4.6	4.8	4.1	4.1	-.1	.0
1989	Q2		7.1	7.5	3.0	3.5	4.9	4.7	3.9	3.9	.1	.1
	Q4		5.8	6.0	2.0	2.4	4.4	4.3	3.7	3.5	.2	.1
<b>Four-quarter changes: &lt;3&gt;</b>												
1986	Q4	<1>	4.8	4.8	2.0	2.0	2.7	2.7	2.8	2.8	-.3	-.3
1987	Q4	<1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988	Q4		6.5	6.6	2.8	2.7	4.3	4.4	3.5	3.8	-.5	-.4
1989	Q4		6.4	6.8	2.5	3.0	4.6	4.5	3.8	3.7	.3	.2

&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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September 14, 1988

GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

	Units	Projection									
		1987		1988		1989					
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	4568.0	4662.8	4724.5	4819.7	4896.6	4970.1	5072.6	5154.1	5231.8	5307.1
Real GNP	Billions of 82\$	3865.3	3923.0	3956.1	3988.1	4012.5	4028.8	4072.4	4099.4	4124.1	4148.3
Nominal GNP	Percent change	7.7	8.6	5.4	8.3	6.5	6.1	8.5	6.6	6.2	5.9
Real GNP		4.5	6.1	3.4	3.3	2.5	1.6	4.4	2.7	2.4	2.4
Gross domestic product		4.7	5.8	4.2	3.1	2.6	1.8	4.4	2.8	2.4	2.3
Gross domestic purchases		4.8	5.4	1.6	1.3	2.0	1.2	3.8	1.9	1.5	1.1
Final sales		6.1	.4	3.6	6.5	2.9	2.9	2.6	2.4	2.6	3.1
Private dom. final purchases		6.6	-1.3	4.3	4.6	3.0	2.8	2.1	1.6	1.5	1.4
Personal consumption expend.		4.6	-2.1	4.5	2.7	3.1	2.5	1.7	1.3	1.3	1.3
Durables		16.5	-17.3	14.7	8.4	7.3	2.9	-.3	-.9	.7	.8
Nondurables		.9	-.6	1.0	.0	-.1	2.4	1.6	.8	.2	.2
Services		3.7	2.2	4.0	3.0	4.1	2.4	2.5	2.3	2.3	2.3
Business fixed investment		28.4	1.7	7.6	16.3	6.1	5.4	5.6	5.4	3.9	2.6
Producers' durable equipment		29.4	-2.4	21.6	17.9	10.2	8.0	7.0	6.5	5.5	4.5
Nonresidential structures		25.6	13.4	-22.4	12.1	-5.3	-1.9	1.3	1.8	-1.0	-3.2
Residential structures		-10.7	1.3	-6.5	1.1	-5.3	-.1	-2.2	-3.9	-3.3	-.7
Exports		25.7	17.7	25.7	11.6	14.0	13.0	14.5	13.3	12.9	13.5
Imports		23.4	9.9	6.9	-3.6	9.1	8.5	8.9	6.9	5.0	3.6
Government purchases		5.7	5.0	-7.9	3.6	-.1	1.4	1.9	2.1	2.3	3.0
Federal		12.6	6.7	-21.0	4.0	-3.7	-.5	1.8	2.3	2.7	4.3
Defense		7.3	-1.9	-5.3	-2.1	-7.8	-5.2	-2.0	-.3	-.9	-.6
State and local		.6	3.8	3.5	3.2	2.7	2.0	2.0	2.0	2.1	2.2
Change in business inventories	Billions of 82\$	13.0	67.1	66.0	36.0	32.4	19.7	37.4	40.1	38.5	31.7
Nonfarm	Billions of 82\$	18.3	68.2	51.9	31.1	34.7	37.7	35.8	35.9	33.0	27.7
Net exports	Billions of 82\$	-130.7	-126.0	-109.0	-90.1	-86.3	-82.7	-77.7	-70.8	-61.1	-48.1
<b>MENT AND PRODUCTION</b>											
Non payroll employment	Millions	102.7	103.7	104.7	105.6	106.5	107.0	107.5	107.8	108.2	108.5
Unemployment rate	Percent*	6.0	5.9	5.7	5.5	5.5	5.5	5.5	5.6	5.7	5.7
Industrial production index	Percent change	8.8	7.0	3.9	4.6	6.7	4.1	3.1	2.8	2.5	2.2
Capacity utilization rate-mfg.	Percent*	81.4	82.3	82.7	83.2	83.9	84.1	84.0	83.9	83.8	83.5
Housing Starts	Millions	1.62	1.53	1.48	1.48	1.47	1.44	1.42	1.40	1.38	1.37
Auto sales	Millions	11.42	10.02	10.79	10.76	10.63	10.80	10.52	10.27	10.29	10.27
Domestic	Millions	7.84	6.63	7.64	7.57	7.59	7.62	7.42	7.22	7.27	7.27
Foreign	Millions	3.58	3.38	3.15	3.19	3.04	3.18	3.10	3.05	3.02	3.00
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change	7.1	11.6	4.6	7.3	6.6	8.0	9.3	6.4	5.8	6.7
Real disposable income	Percent change	4.8	6.9	5.0	.3	3.0	2.7	4.3	.8	.9	1.4
Personal saving rate	Percent*	2.3	4.3	4.4	3.9	3.9	3.9	4.5	4.4	4.2	4.2
Corp. profits with IVA & CCAdj	Percent change	23.9	-7.1	.1	21.5	-4.0	-8.8	8.4	6.9	-2.1	-2.1
Profit share of GNP	Percent*	7.0	6.8	6.7	6.9	6.7	6.5	6.5	6.5	6.3	6.2
Federal govt. surplus/deficit	Billions of \$	-138.3	-160.4	-155.1	-130.9	-132.6	-141.0	-143.5	-137.8	-132.0	-136.3
State and local govt. surplus		52.9	49.7	55.8	56.2	59.4	62.9	67.2	69.5	70.6	71.7
Exc. social insurance funds		-10.1	-14.8	-10.3	-11.6	-9.5	-7.2	-4.1	-3.0	-3.1	-3.2
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change	3.1	2.4	1.7	5.1	3.8	4.4	3.9	3.8	3.6	3.4
GNP fixed-weight price index		3.7	3.8	3.5	4.7	5.2	4.4	5.0	4.4	4.3	4.3
Cons. & fixed invest. prices		3.9	4.3	2.5	4.7	4.7	4.6	4.7	4.7	4.6	4.6
CPI		3.6	3.9	3.2	4.9	4.8	4.7	5.0	4.8	4.7	4.8
Exc. food and energy		3.6	4.2	4.4	5.0	4.4	5.3	5.1	5.1	5.2	5.3
Nonfarm business sector		3.7	.9	3.4	-1.4	1.5	.9	.4	.7	.7	.8
Output per hour		4.5	6.4	3.5	4.2	4.5	4.7	5.1	4.9	5.1	5.2
Compensation per hour		.7	5.4	.1	5.7	3.0	3.8	4.7	4.2	4.4	4.4
Unit labor costs											

at an annual rate.

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September 14, 1988

GROSS NATIONAL PRODUCT AND RELATED ITEMS  
(Seasonally adjusted; annual rate)

	Units	Projection									
		1981	1982	1983	1984	1985	1986	1987	1988	1989	
<b>EXPENDITURES</b>											
Nominal GNP	Billions of \$	3052.6	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4852.7	5191.4	
Real GNP	Billions of 82\$	3248.8	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3996.4	4111.1	
Real GNP	Percent change*	.6	-1.9	6.5	5.1	3.6	2.0	5.0	2.7	3.0	
Gross domestic product		.3	+1.6	6.6	5.3	3.8	2.3	5.1	2.9	3.0	
Gross domestic purchases		.8	-.8	8.4	6.4	4.3	2.4	4.4	1.5	2.1	
Final sales		.1	.3	3.7	4.7	4.6	2.5	3.0	4.0	2.7	
Private dom. final purchases		-.3	.8	7.7	5.6	4.6	2.8	2.4	3.7	1.6	
Personal consumption expend.		.2	2.9	5.4	4.1	4.6	4.2	1.8	3.2	1.4	
Durables		-3.3	9.0	14.7	10.8	7.0	11.5	-2.4	8.2	.1	
Nondurables		.5	1.8	4.4	2.3	3.3	3.1	.6	.8	.7	
Services		.9	2.3	3.9	3.5	5.0	2.7	4.2	3.4	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	14.3	5.9	
Nonresidential structures		11.7	-9.1	-4.8	11.8	1.9	-17.4	6.7	-5.2	-.3	
Residential structures		-22.4	4.9	38.1	6.1	5.8	11.3	-3.5	-2.7	-2.5	
Exports		2.4	-13.8	5.8	5.9	-2.4	5.6	18.4	15.9	13.6	
Imports		4.9	-5.9	23.8	17.4	4.5	7.6	10.4	5.1	6.1	
Government purchases		2.9	3.8	-2.7	7.9	8.6	2.9	2.3	-.8	2.4	
Federal		9.5	8.2	-8.1	13.0	13.3	.0	2.1	-5.6	2.8	
Defense		7.6	8.8	5.1	6.5	7.1	4.8	6.0	-5.1	-1.0	
State and local		-1.3	.6	1.5	4.4	4.9	5.3	2.5	2.9	2.1	
Change in business inventories	Billions of 82\$	23.9	-24.5	-6.4	62.3	9.1	15.4	34.4	38.5	36.9	
Nonfarm	Billions of 82\$	19.0	-23.1	-.1	57.8	13.4	17.9	36.9	38.9	33.1	
Net exports	Billions of 82\$	49.4	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-92.0	-64.4	
Nominal GNP	Percent change*	9.3	3.1	10.4	8.6	6.6	4.8	8.3	6.6	6.8	
<b>EMPLOYMENT AND PRODUCTION</b>											
Nonfarm payroll employment	Millions	91.2	89.6	90.2	94.5	97.5	99.5	102.3	105.9	108.0	
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	2.6	
Capacity utilization rate-mfg.	Percent	78.2	70.3	73.9	80.5	80.1	79.7	81.0	83.5	83.8	
Housing Starts	Millions	1.10	1.06	1.71	1.77	1.74	1.81	1.63	1.47	1.39	
Auto sales	Millions	8.56	8.00	9.18	10.43	11.09	11.52	10.34	10.75	10.34	
Domestic	Millions	6.24	5.77	6.77	7.97	8.24	8.28	7.14	7.60	7.30	
Foreign	Millions	2.32	2.23	2.41	2.46	2.84	3.25	3.21	3.14	3.04	
<b>INCOME AND SAVING</b>											
Nominal personal income	Percent change*	9.2	5.3	7.8	8.4	6.6	5.9	8.5	6.6	7.0	
Real disposable income	Percent change*	.7	1.0	5.1	4.3	2.7	3.4	3.0	2.8	1.8	
Personal saving rate	Percent	7.5	6.8	5.4	6.1	4.4	4.0	3.2	4.0	4.3	
Corp. profits with IVA & CCAdj	Percent change*	2.3	-19.1	70.1	7.4	9.2	.9	7.6	1.6	2.7	
Profit share of GNP	Percent	6.2	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.4	
Federal govt. surplus/deficit	Billions of \$	-63.8	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-139.9	-137.4	
State and local govt. surplus		34.1	35.1	47.5	64.6	65.1	61.2	52.9	58.6	69.8	
Exc. social insurance funds		4.1	-1.7	4.4	19.8	13.8	5.0	-9.2	-9.7	-3.3	
<b>PRICES AND COSTS</b>											
GNP implicit deflator	Percent change*	8.7	5.2	3.6	3.4	2.9	2.8	3.1	3.8	3.7	
GNP fixed-weight price index		8.5	5.0	3.9	3.7	3.3	2.7	4.0	4.4	4.5	
Cons. & fixed invest. prices		8.2	4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.7	
CPI		9.6	4.4	3.2	4.1	3.5	1.3	4.4	4.4	4.8	
Exc. food and energy		10.2	5.2	4.2	4.8	4.3	3.9	4.3	4.8	5.2	
Nonfarm business sector		-.6	1.0	3.6	1.5	1.5	1.2	1.9	1.1	.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	3.1	4.4	
Unit labor costs											

'ercent changes are from fourth quarter to fourth quarter.

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

September 14, 1988

	Projection										Projection			
	1987		1988				1989				1986	1987	1988	1989
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	42.3	57.7	33.1	32.0	24.4	16.2	43.7	26.9	24.8	24.1	72.3	188.3	105.8	119.5
Gross domestic product	43.6	54.3	40.3	30.2	25.3	18.1	43.8	27.8	24.5	23.5	83.3	188.3	113.9	119.6
Gross domestic purchases	47.0	53.0	16.1	13.1	20.7	12.6	38.6	20.1	15.1	11.1	89.4	171.9	62.5	84.9
Final sales	57.0	3.7	34.2	62.0	28.0	28.9	26.0	24.2	26.4	30.9	90.5	110.7	153.2	107.5
Private dom. final purchases	51.0	-10.7	33.4	36.2	24.4	22.6	17.2	13.2	12.1	11.9	85.8	76.2	116.6	54.3
Personal consumption expend.	28.6	-13.5	28.1	17.4	19.8	16.0	11.3	8.3	8.6	8.8	99.3	45.5	81.3	37.0
Durables	15.2	-18.9	13.5	8.2	7.3	3.0	-.4	-.9	.7	.8	40.9	-9.7	32.0	.2
Nondurables	2.1	-1.4	2.2	.0	-.2	5.3	3.6	1.8	.5	.5	27.0	5.2	7.3	6.3
Services	11.3	6.8	12.3	9.3	12.7	7.7	8.0	7.4	7.5	7.5	31.4	50.0	42.0	30.4
Business fixed investment	28.0	2.0	8.6	18.2	7.3	6.6	6.9	6.7	5.0	3.4	-33.6	37.5	40.7	22.0
Producers' durable equipment	20.9	-2.0	16.7	14.7	8.9	7.2	6.5	6.2	5.3	4.4	-7.6	29.2	47.5	22.4
Nonresidential structures	7.1	4.1	-8.1	3.6	-1.7	-.6	.4	.6	-.3	-1.0	-26.1	8.3	-6.8	-.4
Residential structures	-5.5	.6	-3.2	.5	-2.5	.0	-1.1	-1.8	-1.5	-.3	20.3	-7.0	-5.3	-4.7
Change in business inventories	-14.8	54.1	-1.1	-30.0	-3.6	-12.7	17.7	2.7	-1.6	-6.8	-18.2	77.6	-47.4	12.0
Nonfarm	-6.7	49.9	-16.3	-20.8	3.6	3.0	-1.9	.1	-2.9	-5.3	-22.0	67.0	-30.5	-10.0
Farm	-8.0	4.2	15.2	-9.1	-7.3	-15.7	19.6	2.6	1.3	-1.5	3.8	10.6	-16.9	22.0
Net exports	-4.7	4.7	17.0	18.9	3.8	3.6	5.1	6.9	9.6	13.1	-17.1	16.4	43.3	34.7
Exports	24.5	18.3	27.0	13.5	16.6	16.1	18.4	17.4	17.5	18.9	20.4	71.4	73.2	72.3
Imports	29.3	13.6	9.9	-5.4	13.0	12.4	13.3	10.6	7.9	5.8	37.6	55.0	29.9	37.6
Government purchases	10.7	9.7	-16.2	6.9	-.1	2.7	3.7	4.2	4.6	6.0	21.8	18.1	~ 7	18.6
Federal	10.0	5.6	-19.9	3.2	-3.1	.4	1.4	1.9	2.2	3.5	-.1	7.2	-19.4	9.1
Defense	4.7	-1.3	-3.6	-1.4	-5.3	-3.4	-1.3	-.2	-.6	-.4	11.7	15.1	-13.7	-2.5
Nondefense	5.3	6.9	-16.3	4.6	2.2	3.8	2.7	2.1	2.8	3.9	-11.8	-7.9	-5.7	11.6
State and local	.7	4.1	3.8	3.6	3.0	2.3	2.3	2.3	2.4	2.5	21.9	10.9	12.7	9.5

**FEDERAL SECTOR ACCOUNTS**  
(Billions of dollars)

	Fiscal Year 1987a	FY1988p			FY1989p			1987 IVa	19 Ia	19 IIa	FRB Staff Projection				
		Admin <sup>1</sup>	CBO <sup>2</sup>	FRB Staff	Admin <sup>1</sup>	CBO <sup>2</sup>	FRB Staff				88 III	IV	I		
<b>BUDGET</b>															
Budget receipts <sup>3</sup>	854	913	908	905	974	980	975	205	208	268	224	212	229	285	249
Budget outlays	1005	1066	1063	1063	1097	1127	1133	287	245	268	263	283	283	281	286
Surplus/deficit(-) to be financed (On-budget)	-150	-152	-155	-158	-123	-148	-158	-82	-37	1	-39	-71	-53	4	-37
(Off-budget)	-170	-192	-194	-197	-174	-199	-205	-68	-64	-18	-48	-78	-67	-14	-46
	20	40	39	39	51	52	47	-14	27	18	9	6	14	18	9
Means of financing:															
Borrowing from public	152	133	n.a.	164	118	n.a.	153	61	43	19	42	50	49	19	35
Cash balance decrease	-5	16	n.a.	-3	0	n.a.	-6	14	0	-17	0	26	-7	-15	-10
Other <sup>4</sup>	4	3	n.a.	-3	5	n.a.	11	7	-5	-3	-3	-5	11	-7	12
Cash operating balance, end of period	36	20	n.a.	40	20	n.a.	46	23	23	40	40	14	21	36	46
<b>NIPA FEDERAL SECTOR</b>															
Receipts	895	973	966	966	1042	1037	1037	944	951	984	985	1002	1030	1052	1066
Expenditures	1058	1102	1103	1111	1147	1171	1176	1105	1106	1115	1118	1143	1173	1190	1199
Purchases	376	375	381	382	396	396	394	391	378	382	379	383	393	398	402
Defense	290	289	298	298	295	306	297	299	298	298	295	293	297	299	300
Nondefense	86	86	83	85	101	91	97	92	79	83	85	91	96	99	102
All other expend.	682	727	722	728	751	775	782	714	728	733	739	760	781	792	797
Surplus/deficit(-)	-164	-129	-137	-145	-105	-134	-139	-160	-155	-131	-133	-141	-143	-138	-132
<b>FISCAL INDICATORS<sup>5</sup></b>															
High-employment surplus/ deficit(-), (HEB)	-140	n.a.	n.a.	-153	n.a.	n.a.	-154	-163	-162	-143	-145	-151	-160	-155	-148
Change in HEB, percent of potential GNP	-1.1	n.a.	n.a.	.3	n.a.	n.a.	0	.8	0	-.4	0	.1	.2	-.1	-.1
Fiscal impetus measure, (FI), percent	4.5 *	n.a.	n.a.	-.3 *	n.a.	n.a.	-3.6 *	-.5	.1	-.2	-1.4	-1.5	-1.4	-.2	-.3
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).

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.

**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-	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
<b>1. GNP Exports and Imports 1/</b>													
Current \$, Net	-123.1	-90.2	-67.0	-125.2	-125.7	-112.1	-88.6	-80.7	-79.6	-76.6	-72.5	-64.3	-54.6
Exports of G+S	428.1	518.8	607.5	440.4	459.7	487.8	508.0	530.0	549.5	573.9	596.1	618.5	641.3
Imports of G+S	551.1	609.1	674.5	565.6	585.4	599.9	596.6	610.7	629.1	650.5	668.6	682.8	695.9
Constant 82 \$, Net	-128.9	-92.1	-64.5	-130.7	-126.0	-109.0	-90.1	-86.4	-82.8	-77.8	-70.9	-61.2	-48.2
Exports of G+S	427.8	508.6	577.3	440.9	459.2	486.2	499.7	516.3	532.4	550.8	568.2	585.7	604.6
Imports of G+S	556.7	600.6	641.7	571.6	585.2	595.1	589.7	602.7	615.1	628.4	639.0	646.9	652.7
<b>2. U.S. Merchandise Trade Balance 2/</b>	<b>-160.3</b>	<b>-121.5</b>	<b>-101.0</b>	<b>-158.7</b>	<b>-164.8</b>	<b>-140.7</b>	<b>-119.7</b>	<b>-114.0</b>	<b>-111.4</b>	<b>-109.2</b>	<b>-105.3</b>	<b>-98.5</b>	<b>-91.0</b>
Exports	249.6	322.2	375.7	259.6	272.1	301.2	318.7	328.1	340.8	355.2	368.3	382.1	397.4
Agricultural	29.5	38.5	46.3	33.1	30.5	36.1	38.8	38.5	40.7	43.6	44.7	46.6	50.1
Non-Agricultural	220.1	283.6	329.5	226.5	241.6	265.1	279.9	289.6	300.0	311.6	323.6	335.5	347.3
Imports	409.9	493.6	476.8	418.3	436.8	441.9	438.4	442.1	452.2	464.4	473.6	480.6	488.4
Petroleum and Products	42.9	39.3	44.1	51.0	45.2	39.8	40.9	38.0	38.5	42.2	43.8	44.1	46.2
Non-Petroleum	367.0	404.3	432.7	367.2	391.7	402.1	397.5	404.0	413.6	422.2	428.8	436.5	442.2
<b>3. U.S. Current Account Balance</b>	<b>-154.0</b>	<b>-135.5</b>	<b>-114.2</b>	<b>-167.9</b>	<b>-134.1</b>	<b>-147.8</b>	<b>-133.3</b>	<b>-136.0</b>	<b>-124.7</b>	<b>-121.2</b>	<b>-118.5</b>	<b>-112.2</b>	<b>-104.8</b>
Of Which: Net Investment Income	20.4	-5.3	-5.7	4.3	50.2	4.6	-7.0	-15.4	-3.4	-2.9	-5.3	-6.7	-8.0
<b>4. Foreign Outlook 3/</b>													
Real GNP--Ten Industrial 4/	2.9	3.2	2.1	5.2	3.5	4.6	1.2	2.2	2.1	2.2	2.2	2.2	2.1
Real GNP--NonOPEC LDC 5/	4.2	3.4	3.7	3.6	3.3	3.1	3.3	3.5	3.8	3.9	3.8	3.7	3.5
Consumer Prices--Ten Ind. 4/	2.1	2.5	3.0	1.7	2.4	1.5	4.0	2.7	3.1	2.5	3.4	2.6	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

September 14, 1988

## **RECENT DEVELOPMENTS**

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

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

	Revenues		Outlays		Deficit	
	1987	1988	1987	1988	1987	1988
October-December	190.0	204.9	254.8	287.1	64.7	82.2
January-March	193.7	207.9	252.2	245.3	58.5	37.4
April	122.9	109.3	84.0	95.6	38.9	-13.8
May	47.7	59.7	83.3	82.3	35.6	22.6
June	82.9	99.2	83.6	89.9	.6	-9.3
July	64.2	60.7	86.6	83.6	22.3	22.9
Total, fiscal year to date	701.5	741.7	844.4	883.7	142.9	142.0

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

	1988		1988		
	Q2	Q3 <sup>e</sup>	Jul.	Aug. <sup>p</sup>	Sep. <sup>e</sup>
<b>Treasury financing</b>					
Total surplus/deficit (-)	.5	-38.9	-22.9	-22.7	6.7
<b>Means of financing deficit:</b>					
Net cash borrowing from the public	18.7	42.1	3.7	22.8	15.6
Marketable borrowings/ repayments (-)	11.3	32.8	3.6	17.1	12.1
Bills	-10.4	16.5	.4	10.7	5.4
Coupons	21.6	16.3	3.2	6.4	6.7
Nonmarketable	6.4	3.5	.7	2.3	.5
Other borrowing <sup>2</sup>	1.1	5.9	-.6	3.5	3.0
Decrease in the cash balance	-16.6	-.2	15.6	11.0	-26.8
Memo: Cash balance at end of period	39.6	39.8	23.9	13.0	39.8
Other <sup>3</sup>	-2.7	-3.1	3.7	-11.2	4.5
<b>Federally sponsored credit agencies, net cash borrowing<sup>4</sup></b>					
FHLBs	-.5	--	1.6	2.3	--
FNMA	4.9	--	.0	--	--
Farm Credit Banks	-.4	--	-1.2	-.5	--
FAC <sup>5</sup>	--	--	.5	--	--
FHLMC	-2.5	--	.4p	--	--
FICO	1.1	--	.0	.9	--
SLMA	1.0	--	2.0p	--	--

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.

CONFIDENTIAL (FR)  
CLASS III - FOMC

September 16, 1988

SUPPLEMENT

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the  
Federal Open Market Committee

By the Staff  
Board of Governors  
of the Federal Reserve System

Erratum

The sentence in Part 1 describing the staff CPI projection for 1989 (page I-9, lines 4 to 6) should read: The CPI, which is not affected by the pay adjustment, shows a more stable rate of inflation of around **4-3/4** percent for the year.