

November 8, 1989

SUMMARY AND OUTLOOK

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

THE IMPACT OF NATURAL DISASTERS AND STRIKES ON REAL GNP GROWTH
(Billions of 1982 dollars)

	1989		1990
	Q3	Q4	Q1
TOTAL	-1.0	-2.5	6.5
Natural disasters			
Direct output loss	-1.0	-1.5	2.5
Rebuilding effect		5.0	-2.0
Boeing strike		-6.0	6.0

Note: \$1 billion is equivalent to 0.1 percentage point (at an annual rate) on real GNP growth.

calculation of this type, but we have assumed that the combined effect of these special factors is to lower real GNP growth by about 0.3 percentage point in the fourth quarter and to boost it by almost 0.7 percentage point in the first quarter of 1990. As shown in the above table, the direct output loss associated with the natural disasters is expected to be small and quickly reversed. In addition, rebuilding activity began almost immediately and is expected to be a net plus to GNP growth in the current quarter; as the initial wave of activity subsides, this effect has a negative influence on growth in the first quarter of 1990. The strike at Boeing is assumed to last through November and to lower real GNP growth by more than 1/2 percentage point.¹ Although the level of output snaps back in the first quarter of 1990, the forecast assumes that, because of capacity constraints, Boeing will not be able to "make up" any of the lost output.

1. The negative effect of the Boeing strike on the fourth-quarter projection of industrial production is 1-1/2 percentage points at an annual rate.

November 8, 1989

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STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP	Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)		
	9/27/89	11/8/89	9/27/89	11/8/89	9/27/89	11/8/89	9/27/89	11/8/89	9/27/89	11/8/89
Annual changes:										
1987	<2>	6.9	6.9	3.7	3.7	3.6	3.6	3.7	3.7	6.2
1988	<2>	7.9	7.9	4.4	4.4	4.2	4.2	4.1	4.1	5.5
1989	7.3	7.2	3.0	3.0	4.5	4.5	4.8	4.8	5.2	5.2
1990	5.8	5.7	1.9	1.8	4.0	4.0	3.9	3.8	5.6	5.6
1991	5.6	5.7	1.7	1.8	4.2	4.2	4.3	4.4	6.1	6.1
Quarterly changes:										
1988	Q1	<2>	6.5	6.5	4.0	4.0	3.8	3.8	3.9	3.9
	Q2	<2>	8.6	8.6	3.7	3.7	4.8	4.8	4.5	4.5
	Q3	<2>	7.5	7.5	3.2	3.2	5.2	5.2	4.5	4.5
	Q4	<2>	7.5	7.5	2.7	2.7	4.3	4.3	4.4	4.4
1989	Q1	<2>	7.9	7.9	3.7	3.7	4.8	4.8	5.4	5.4
	Q2	<2>	7.1	7.1	2.5	2.5	5.0	5.0	6.4	6.4
	Q3	<2>	6.1	5.6	2.5	2.5	3.3	2.9	2.6	2.6
	Q4	<2>	5.3	4.9	2.1	1.7	3.6	3.6	3.3	3.3
1990	Q1		6.4	6.4	1.8	2.2	4.4	4.4	3.9	3.7
	Q2		5.7	5.4	1.5	1.3	4.1	4.1	4.2	4.1
	Q3		5.2	5.4	1.3	1.5	4.1	4.1	4.2	4.2
	Q4		5.3	5.2	1.5	1.5	4.1	4.1	4.3	4.3
1991	Q1		5.8	6.2	1.6	1.7	4.6	4.7	4.5	4.6
	Q2		5.7	5.8	2.1	2.1	4.0	4.1	4.3	4.4
	Q3		6.0	5.9	2.2	2.2	4.0	4.0	4.3	4.4
	Q4		5.8	5.9	2.2	2.3	4.0	4.0	4.3	4.4
Two-quarter changes: <3>										
1988	Q2	<2>	7.5	7.5	3.9	3.9	4.2	4.2	4.1	4.1
	Q4	<2>	7.5	7.5	2.9	2.9	4.8	4.8	4.6	4.6
1989	Q2	<2>	7.5	7.5	3.1	3.1	5.0	5.0	5.9	5.9
	Q4	<2>	5.7	5.3	2.3	2.1	3.4	3.2	2.9	2.8
1990	Q2		6.0	5.9	1.7	1.7	4.3	4.3	4.0	3.9
	Q4		5.3	5.3	1.4	1.5	4.1	4.1	4.2	4.3
1991	Q2		5.8	6.0	1.8	1.9	4.3	4.4	4.4	4.5
	Q4		5.9	5.9	2.2	2.2	4.0	4.0	4.3	4.4
Four-quarter changes: <4>										
1987	Q4	<2>	8.6	8.6	5.4	5.4	4.0	4.0	4.4	4.4
1988	Q4	<2>	7.5	7.5	3.4	3.4	4.5	4.5	4.3	4.3
1989	Q4		6.6	6.4	2.7	2.6	4.2	4.1	4.4	4.4
1990	Q4		5.6	5.6	1.5	1.6	4.2	4.2	4.1	4.1
1	Q4		5.8	6.0	2.0	2.0	4.2	4.2	4.4	4.4

For all urban consumers.

Actual.

<3> Percent change from two quarters earlier.

<4> Percent change from four quarters earlier.

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November 8, 1989

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

	Units	1983	1984	1985	1986	1987	1988	Projection		
								1989	1990	1991
EXPENDITURES										
Nominal GNP	Billions of \$	3405.7	3772.2	4014.9	4231.6	4524.3	4880.6	5231.1	5528.2	5845.5
Real GNP	Billions of 82\$	3279.1	3501.4	3618.7	3717.9	3853.7	4024.4	4143.3	4219.6	4293.6
Real GNP	Percent change*	6.5	5.1	3.6	1.9	5.4	3.4	2.6	1.6	2.0
Gross domestic purchases		8.4	6.4	4.3	2.1	4.6	2.4	2.5	1.5	1.3
Final sales		3.7	4.7	4.6	2.7	3.3	4.4	2.5	1.8	2.1
Private dom. final purchases		7.7	5.6	4.6	2.9	2.7	3.8	2.8	2.0	1.4
Personal consumption expend.		5.4	4.1	4.6	3.8	2.2	3.8	2.9	1.9	1.3
Durables		14.7	10.8	7.0	11.5	-2.0	8.0	2.7	1.5	1.3
Nondurables		4.4	2.3	3.3	2.9	1.1	2.1	1.5	1.1	.7
Services		3.9	3.5	5.0	2.1	4.4	3.6	3.9	2.6	1.7
Business fixed investment		10.8	13.8	3.7	-5.5	8.5	4.2	5.4	2.9	2.8
Producers' durable equipment		20.9	14.9	4.6	.4	11.1	7.0	7.5	4.0	3.6
Nonresidential structures		-4.8	11.8	1.9	-17.7	1.9	-3.4	-1.0	-1.1	-.2
Residential structures		38.1	6.1	5.8	11.6	-4.2	3.2	-4.1	1.3	-1.7
Exports		5.8	5.9	-2.4	10.6	19.1	13.9	7.6	7.0	10.2
Imports		23.8	17.4	4.5	10.0	9.6	5.3	6.2	6.0	4.6
Government purchases		-2.7	7.9	8.6	3.1	2.1	1.8	.5	.7	.9
Federal		-8.1	13.0	13.3	.5	.7	-.3	-2.0	-.9	-.4
Defense		5.1	6.5	7.1	6.0	4.3	-1.9	-3.5	-3.3	-1.5
State and local		1.5	4.4	4.9	5.2	3.1	3.4	2.4	1.8	1.8
Change in business inventories	Billions of 82\$	-6.4	62.3	9.1	5.6	23.7	27.9	24.1	11.4	12.4
Nonfarm	Billions of 82\$	-.1	57.8	13.4	8.0	25.8	30.7	21.4	13.8	18.2
Net exports	Billions of 82\$	-19.9	-84.0	-104.3	-129.7	-115.7	-74.9	-62.7	-69.6	-50.8
Nominal GNP	Percent change*	10.4	8.6	6.6	4.6	8.6	7.5	6.4	5.6	6.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	90.1	94.5	97.5	99.5	102.2	105.6	108.6	110.4	111.4
Unemployment rate	Percent	9.6	7.5	7.2	7.0	6.2	5.5	5.2	5.6	6.1
Industrial production index	Percent change*	14.3	6.6	1.7	1.0	5.8	5.0	1.2	1.7	2.8
Capacity utilization rate-mfg.	Percent	73.9	80.5	80.1	79.7	81.1	83.5	83.9	82.1	81.4
Housing starts	Millions	1.70	1.75	1.74	1.81	1.62	1.49	1.40	1.38	1.35
Auto sales	Millions	9.23	10.38	11.06	11.47	10.26	10.69	10.04	9.64	9.50
Domestic	Millions	6.82	7.92	8.22	8.22	7.06	7.55	7.16	6.91	6.90
Foreign	Millions	2.41	2.46	2.84	3.25	3.21	3.14	2.88	2.73	2.60
INCOME AND SAVING										
Nominal personal income	Percent change*	7.8	8.4	6.6	5.8	8.6	7.1	7.9	6.1	5.8
Real disposable income	Percent change*	5.1	4.3	2.7	3.3	3.0	4.0	3.4	1.7	1.1
Personal saving rate	Percent	5.4	6.1	4.4	4.1	3.2	4.2	5.3	5.2	5.0
Corp. profits with IVA & CCAdj	Percent change*	70.1	7.4	9.2	-5.6	12.0	10.4	-18.2	.7	1.6
Profit share of GNP	Percent	6.3	7.1	7.0	6.7	6.6	6.7	5.7	5.1	4.8
Federal govt. surplus/deficit	Billions of \$	-176.0	-169.6	-196.9	-206.9	-161.4	-145.8	-152.0	-134.6	-115.6
State and local govt. surplus		47.5	64.6	65.1	62.8	51.3	49.7	46.2	51.2	62.0
Exc. social insurance funds		4.4	19.8	13.8	5.6	-12.4	-21.4	-31.8	-33.2	-28.4
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.6	3.4	2.9	2.6	3.0	4.0	3.6	4.0	3.8
GNP fixed-weight price index		3.9	3.7	3.3	2.6	4.0	4.5	4.1	4.2	4.2
Cons. & fixed invest. prices		3.3	3.3	3.4	2.5	4.7	4.2	4.2	4.0	4.3
CPI		3.2	4.2	3.5	1.3	4.4	4.3	4.4	4.1	4.4
Exc. food and energy		4.2	5.0	4.3	3.9	4.2	4.6	4.2	4.4	4.6
ECI hourly compensation		5.7	4.9	3.9	3.2	3.3	4.9	4.7	5.1	4.5
Nonfarm business sector		3.4	1.5	1.6	1.3	2.5	1.6	.5	.9	1.3
Output per hour		3.1	4.2	4.6	5.0	4.0	4.8	5.3	5.8	5.2
Compensation per hour		-.4	2.6	3.0	3.6	1.5	3.1	4.8	4.8	3.8
Unit labor costs										

* Percent changes are from fourth quarter to fourth quarter.

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

	Units	1987				1988				1989	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
		Billions of \$									
EXPENDITURES											
Nominal GNP	Billions of \$	4388.8	4475.9	4566.6	4665.8	4739.8	4838.5	4926.9	5017.3	5113.1	5201.7
Real GNP	Billions of \$	3783.0	3823.5	3872.8	3935.6	3974.8	4010.7	4042.7	4069.4	4106.8	4132.5
Real GNP		5.4	4.4	5.3	6.6	4.0	3.7	3.2	2.7	3.7	2.5
Gross domestic purchases		3.4	4.0	5.4	5.5	.7	3.0	3.4	2.5	1.8	2.1
Final sales		1.1	4.9	6.0	1.4	6.5	5.0	1.6	4.7	3.1	3.1
Private dom. final purchases		-.9	5.9	6.5	-.6	6.0	4.4	3.1	1.7	2.3	2.0
Personal consumption expend.		.1	4.8	4.7	-.7	6.2	2.5	3.3	3.0	2.0	1.9
Durables		-19.9	14.8	15.8	-13.5	21.0	6.4	-3.9	9.9	-1.1	5.5
Nondurables		1.9	.6	1.3	.5	1.7	1.2	5.0	.7	1.3	-2.3
Services		6.0	5.0	3.8	3.0	5.2	2.2	4.5	2.6	3.6	3.8
Business fixed investment		-4.3	14.4	26.7	-.1	9.5	12.3	2.6	-6.5	6.9	8.6
Producers' durable equipment		-2.0	24.1	25.9	-.3	18.2	15.8	2.9	-6.9	9.6	14.8
Nonresidential structures		-10.3	-7.8	29.3	.6	-11.8	2.3	1.6	-5.1	-1.0	-9.5
Residential structures		-5.9	1.0	-11.0	-.4	-5.7	11.2	1.9	6.3	-5.0	-12.3
Exports		12.6	21.4	21.4	21.3	30.5	1.8	9.7	15.5	14.0	13.1
Imports		-3.6	14.5	19.1	9.8	1.2	-2.2	10.2	12.6	-.4	9.3
Government purchases		.3	-.9	4.5	4.5	-8.3	4.1	-3.6	16.7	-3.3	5.4
Federal		-4.9	-4.0	7.4	5.0	-22.3	5.2	-9.5	33.7	-9.4	10.0
Defense		5.1	8.9	9.4	-5.6	-5.4	-.8	-5.5	4.4	-10.6	2.2
State and local		4.6	1.5	2.5	4.0	3.7	3.4	.9	5.7	1.5	2.2
Change in business inventories	Billions of \$	18.1	13.3	6.8	56.6	34.3	21.5	37.5	18.3	24.5	19.1
Nonfarm	Billions of \$	20.3	14.5	12.9	55.6	28.3	25.4	37.2	31.9	16.9	19.5
Net exports	Billions of \$	-118.2	-115.9	-118.9	-109.8	-78.2	-72.6	-74.9	-73.8	-55.0	-51.2
Final GNP	Percent change	8.8	8.2	8.4	9.0	6.5	8.6	7.5	7.5	7.9	7.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	101.0	101.8	102.5	103.5	104.4	105.2	106.0	106.8	107.7	108.3
Unemployment rate	Percent*	6.6	6.3	6.0	5.9	5.7	5.5	5.5	5.3	5.2	5.3
Industrial production index	Percent change	3.2	4.2	8.8	7.0	3.9	4.6	7.1	4.6	2.1	3.3
Capacity utilization rate-mfg.	Percent*	80.0	80.5	81.4	82.3	82.7	83.2	84.0	84.4	84.4	84.4
Housing starts	Millions	1.78	1.60	1.62	1.53	1.48	1.48	1.47	1.56	1.52	1.35
Auto sales	Millions	9.57	10.19	10.98	10.32	10.76	10.69	10.32	11.00	9.72	10.31
Domestic	Millions	6.77	7.12	7.40	6.93	7.60	7.50	7.20	7.89	6.89	7.30
Foreign	Millions	2.80	3.06	3.58	3.38	3.15	3.19	3.12	3.11	2.82	3.01
INCOME AND SAVING											
Nominal personal income	Percent change	8.7	6.6	6.9	12.5	4.1	8.1	7.2	8.8	13.3	7.9
Real disposable income	Percent change	4.0	-5.8	6.7	7.8	4.6	2.4	4.9	4.3	6.6	.8
Personal saving rate	Percent*	4.3	1.8	2.3	4.3	3.9	3.9	4.3	4.6	5.6	5.4
Corp. profits with IVA & CCAdj	Percent change	7.0	21.2	29.0	-6.0	13.5	9.4	7.1	11.7	-25.3	-10.3
Profit share of GNP	Percent*	6.4	6.6	6.9	6.6	6.7	6.7	6.7	6.8	6.2	5.9
Federal govt. surplus/deficit	Billions of \$	-199.4	-137.7	-143.9	-164.4	-151.8	-141.5	-122.5	-167.6	-147.5	-145.4
State and local govt. surplus		46.3	60.4	50.5	48.0	50.8	52.4	49.8	45.7	48.8	47.5
Exc. social insurance funds		-14.6	-2.5	-14.0	-18.4	-17.5	-17.9	-22.3	-28.1	-26.6	-29.6
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.2	3.8	2.8	2.4	2.0	4.8	4.4	4.7	4.0	4.6
GNP fixed-weight price index		4.3	4.1	3.8	3.8	3.8	4.8	5.2	4.3	4.8	5.0
Cons. & fixed invest. prices		5.5	5.1	3.9	4.3	3.1	4.7	4.4	4.7	4.8	5.9
CPI		5.2	5.1	3.6	3.5	3.9	4.5	4.5	4.4	5.4	6.4
Exc. food and energy		4.2	4.2	3.8	4.4	4.7	4.7	4.0	4.9	5.2	4.1
ECI hourly compensation**		3.3	3.0	3.6	3.5	5.7	5.1	3.7	4.9	4.5	4.8
Nonfarm business sector		.4	3.3	3.6	2.7	2.8	-1.6	3.3	1.9	-1.3	1.1
Input per hour		1.4	2.7	4.8	7.3	2.5	5.4	5.4	4.9	5.6	
Compensation per hour		1.0	-.6	1.2	4.5	-.3	7.1	2.0	3.8	6.2	4.5

* Not at an annual rate.

** Private industry workers; seasonally adjusted by Board staff.

November 8, 1989

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

	Units	Projection									
		1989				1990				1991	
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	5273.2	5336.6	5420.1	5491.8	5564.9	5636.2	5721.1	5802.9	5886.3	5971.8
Real GNP	Billions of 82\$	4158.1	4175.7	4198.1	4211.2	4226.8	4242.1	4259.5	4281.4	4304.6	4329.0
Real GNP		2.5	1.7	2.2	1.3	1.5	1.5	1.7	2.1	2.2	2.3
Gross domestic purchases		4.7	1.3	1.4	2.2	1.5	1.0	1.1	1.3	1.3	1.3
Final sales		1.4	2.5	3.8	.7	1.0	1.8	1.8	2.0	2.2	2.3
Private dom. final purchases		5.1	2.0	3.4	1.9	1.5	1.4	1.3	1.3	1.4	1.5
Personal consumption expend.		5.8	1.8	2.9	1.8	1.5	1.5	1.4	1.3	1.2	1.3
Durables		15.0	-7.2	5.3	.7	-.5	.6	1.3	1.0	1.3	1.7
Nondurables		4.0	3.3	1.2	1.3	.9	.9	.7	.7	.7	.8
Services		4.2	4.0	3.2	2.6	2.6	2.2	2.0	1.7	1.5	1.5
Business fixed investment		5.3	1.0	6.6	2.0	1.5	1.4	1.6	2.9	3.3	3.4
Producers' durable equipment		5.2	.9	8.3	3.0	2.5	2.5	2.5	4.0	4.0	4.0
Nonresidential structures		5.9	1.4	1.2	-1.4	-2.0	-2.1	-1.7	-.9	.8	1.2
Residential structures		-4.8	6.6	2.6	1.7	1.7	-.8	-2.2	-2.2	-1.5	-.9
Exports		.0	4.0	12.6	.0	6.1	9.7	9.1	10.2	11.0	10.4
Imports		15.1	1.2	6.4	6.1	5.9	5.8	5.1	4.9	4.5	4.1
Government purchases		-2.3	2.5	1.4	.9	-.7	1.1	1.1	.9	.7	.9
Federal		-8.7	1.5	.8	-.5	-4.0	.0	.1	-.3	-.9	-.3
Defense		3.8	-8.7	-4.7	-2.7	-3.8	-2.1	-1.8	-1.1	-1.8	-1.3
State and local		2.8	3.2	1.9	1.9	1.7	1.8	1.8	1.8	1.7	1.6
Change in business inventories	Billions of 82\$	30.2	22.5	5.8	11.3	15.9	12.5	11.5	12.6	12.9	12.7
Nonfarm	Billions of 82\$	24.6	24.4	8.6	13.5	17.5	15.5	15.7	18.4	19.2	19.5
Net exports	Billions of 82\$	-74.1	-70.4	-62.8	-72.9	-73.7	-69.0	-63.7	-56.2	-46.7	-36.9
Nominal GNP	Percent change	5.6	4.9	6.4	5.4	5.4	5.2	6.2	5.8	5.9	5.9
ELOMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	109.5	110.0	110.5	110.4	110.6	110.9	111.2	111.5	111.8
Unemployment rate	Percent*	5.2	5.3	5.4	5.5	5.7	5.9	6.0	6.1	6.2	6.2
Industrial production index	Percent change	1.3	-1.8	2.8	1.0	1.5	1.5	2.0	3.0	3.1	3.1
Capacity utilization rate-mfg.	Percent*	84.0	82.8	82.7	82.2	81.9	81.6	81.4	81.4	81.4	81.5
Housing starts	Millions	1.34	1.38	1.38	1.38	1.38	1.37	1.36	1.35	1.35	1.34
Auto sales	Millions	10.51	9.64	9.90	9.70	9.50	9.45	9.50	9.50	9.50	9.50
Domestic	Millions	7.62	6.83	7.05	6.90	6.85	6.85	6.90	6.90	6.90	6.90
Foreign	Millions	2.88	2.81	2.85	2.80	2.65	2.60	2.60	2.60	2.60	2.60
INCOME AND SAVING											
Nominal personal income	Percent change	5.2	5.6	8.1	5.7	5.0	5.8	6.8	5.4	5.2	5.7
Real disposable income	Percent change	4.8	1.6	4.6	1.3	.0	1.1	2.4	.2	.6	1.1
Personal saving rate	Percent*	5.1	5.1	5.5	5.4	5.0	5.0	5.2	5.0	4.9	4.8
Corp. profits with IVA & CCAdj	Percent change	-27.3	-8.2	12.2	-4.3	1.8	-5.9	-11.3	5.5	6.6	6.8
Profit share of GNP	Percent*	5.4	5.2	5.3	5.2	5.1	5.0	4.8	4.7	4.8	4.8
Federal govt. surplus/deficit	Billions of \$	-152.2	-162.9	-146.3	-140.4	-125.7	-126.0	-128.6	-121.5	-109.1	-103.4
State and local govt. surplus		45.3	43.4	48.4	48.3	53.6	54.3	57.0	63.9	63.7	63.2
Exc. social insurance funds		-33.8	-37.2	-33.7	-35.3	-31.5	-32.3	-31.1	-25.7	-27.4	-29.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.9	3.2	4.2	4.1	3.9	3.7	4.4	3.7	3.6	3.6
GNP fixed-weight price index		2.9	3.6	4.4	4.1	4.1	4.1	4.7	4.1	4.0	4.0
Cons. & fixed invest. prices		2.3	3.6	3.7	4.0	4.1	4.2	4.3	4.3	4.3	4.3
CPI		2.6	3.3	3.7	4.1	4.2	4.3	4.6	4.4	4.4	4.4
Exc. food and energy		3.5	4.0	4.2	4.3	4.4	4.5	4.8	4.5	4.5	4.5
ECI hourly compensation**		4.7	4.8	6.0	5.4	4.6	4.5	4.8	4.9	4.3	4.2
Infarm business sector		2.1	.3	.8	.6	1.0	1.2	1.2	1.3	1.4	1.5
Output per hour		5.3	5.4	6.6	6.0	5.3	5.2	5.5	5.6	5.0	4.9
Compensation per hour		3.2	5.1	5.8	5.4	4.3	4.0	4.2	4.2	3.6	3.3
Unit labor costs											

* Not at an annual rate.

** Private industry workers; seasonally adjusted by Board staff.

CONFIDENTIAL - FR
CLASS II FOMC

November 8, 1989

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

	1987										1988				1989		Projection ----- (fourth quarter to fourth quarter, net change)
	1987				1988				1989		1986	1987	1988	1989			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2							
Real GNP	49.4	40.5	49.3	62.8	39.2	35.9	32.0	26.7	37.4	25.7	71.2	202.0	133.8	106.3			
Gross domestic purchases	32.2	38.2	52.3	53.7	7.6	30.3	34.3	25.6	18.6	21.9	81.3	176.4	97.8	102.9			
Final sales	10.5	45.2	55.9	13.0	61.5	48.7	16.0	45.8	31.3	31.2	99.7	124.6	172.0	102.2			
Private dom. final purchases	-7.3	44.6	50.3	-4.7	46.9	35.2	25.4	14.2	19.2	16.8	86.5	82.9	121.7	94.5			
Personal consumption expend.	.5	29.4	28.8	-4.2	38.5	16.0	21.3	19.6	13.3	12.7	90.9	54.5	95.4	75.9			
Durables	-21.4	13.2	14.5	-14.4	19.0	6.4	-4.1	9.8	-1.2	5.6	41.1	-8.1	31.1	11.3			
Nondurables	4.2	1.3	2.8	1.1	3.7	2.6	11.1	1.7	3.0	-5.3	25.2	9.4	19.1	14.1			
Services	17.7	15.0	11.4	9.1	15.9	6.9	14.2	8.2	11.5	12.3	24.6	53.2	45.2	50.4			
Business fixed investment	-4.8	14.7	27.2	-.1	10.9	14.2	3.2	-8.3	8.3	10.4	-25.2	37.0	20.0	26.6			
Producers' durable equipment	-1.6	17.2	19.4	-.3	14.8	13.5	2.7	-6.7	8.6	13.3	1.2	34.7	24.3	27.8			
Nonresidential structures	-3.3	-2.4	7.8	.2	-3.9	.7	.5	-1.6	-3.3	-3.0	-26.5	2.3	-4.3	-1.2			
Residential structures	-3.0	.5	-5.7	-.2	-2.8	5.1	.9	3.0	-2.5	-6.3	20.9	-8.4	6.2	-8.1			
Change in business inventories	38.9	-4.8	-6.5	49.8	-22.3	-12.8	16.0	-19.2	6.2	-5.4	-28.5	77.4	-38.3	4.2	1		
Nonfarm	31.2	-5.8	-1.6	42.7	-27.3	-2.9	11.8	-5.3	-15.0	2.6	-34.1	66.5	-23.7	-7.5	4		
Farm	7.7	1.0	-4.9	7.1	4.9	-9.9	4.3	-13.9	21.2	-8.1	5.6	10.9	-14.6	11.7			
Net exports	17.2	2.3	-3.0	9.1	31.6	5.6	-2.3	1.1	18.8	3.8	-10.1	25.6	36.0	3.4			
Exports	12.2	20.8	21.8	22.8	33.3	2.3	12.2	19.5	18.3	17.8	39.1	77.6	67.3	41.9			
Imports	-5.0	18.5	24.8	13.7	1.7	-3.3	14.6	18.3	-.6	14.1	49.3	52.0	31.3	38.5			
Government purchases	.6	-1.7	8.6	8.6	-17.0	7.9	-7.1	30.5	-6.7	10.6	23.3	16.1	14.3	4.3			
Federal	-4.3	-3.4	6.0	4.2	-21.1	4.1	-8.1	24.1	-8.4	8.1	1.8	2.5	-1.0	-6.8			
Defense	3.2	5.6	6.0	-3.9	-3.7	-.5	-3.7	2.8	-7.2	1.4	14.4	10.9	-5.1	-9.2			
Nondefense	-7.5	-9.0	.0	8.1	-17.4	4.6	-4.4	21.3	-1.2	6.7	-12.6	-8.4	4.1	2.4			
State and local	4.9	1.6	2.7	4.4	4.1	3.8	1.0	6.4	1.7	2.5	21.5	13.6	15.3	11.1			

CONFIDENTIAL - FR
CLASS II FOMC

November 8, 1989

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

	Projection										Projection			
	1989		1990				1991				1988	1989	1990	1991
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	25.6	17.6	22.4	13.2	15.5	15.4	17.4	21.8	23.2	24.4	133.8	106.3	66.4	86.9
Gross domestic purchases	48.5	13.9	14.8	23.3	16.3	10.6	12.1	14.4	13.7	14.6	97.8	102.9	65.0	54.8
Final sales	14.4	25.3	39.1	7.7	10.9	18.8	18.4	20.8	22.9	24.6	172.0	102.2	76.4	86.7
Private dom. final purchases	41.9	16.6	28.6	15.9	13.1	11.8	10.8	11.4	11.9	13.1	121.7	94.5	69.4	47.3
Personal consumption expend.	37.5	12.4	19.1	12.5	10.4	10.3	9.9	8.6	8.3	8.9	95.4	75.9	52.2	35.7
Durables	15.1	-8.2	5.7	.7	-.5	.7	1.4	1.1	1.4	1.9	31.1	11.3	6.6	5.8
Nondurables	8.9	7.5	2.8	3.0	2.1	2.1	1.6	1.6	1.6	1.9	19.1	14.1	10.0	6.8
Services	13.5	13.1	10.6	8.7	8.8	7.5	6.9	5.9	5.2	5.2	45.2	50.4	35.7	23.1
Business fixed investment	6.6	1.3	8.4	2.6	1.9	1.9	2.1	3.9	4.4	4.5	20.0	26.6	14.8	14.9
Producers' durable equipment	5.0	.9	8.0	3.0	2.5	2.6	2.6	4.1	4.2	4.2	24.3	27.8	16.1	15.0
Nonresidential structures	1.7	.4	.4	-.4	-.6	-.6	-.5	-.3	.2	.3	-4.3	-1.2	-1.3	-.2
Residential structures	-2.3	3.0	1.2	.8	.8	-.4	-1.1	-1.1	-.7	-.4	6.2	-8.1	2.4	-3.3
Change in business inventories	11.1	-7.7	-16.7	5.5	4.6	-3.4	-1.0	1.0	.4	-.3	-38.3	4.2	-10.0	.1
Nonfarm	5.1	-.2	-15.8	4.9	4.0	-2.0	.2	2.6	.9	.3	-23.7	-7.5	-8.9	4.0
Farm	6.0	-7.4	-.9	.6	.6	-1.4	-1.2	-1.6	-.5	-.5	-14.6	11.7	-1.1	-3.8
Net exports	-22.9	3.7	7.6	-10.1	-.8	4.8	5.3	7.4	9.5	9.8	36.0	3.4	1.4	32.1
Exports	.0	5.8	17.9	-.1	9.1	14.6	14.0	16.0	17.5	17.1	67.3	41.9	41.4	64.7
Imports	22.9	2.1	10.3	10.1	9.9	9.8	8.7	8.6	8.0	7.3	31.3	38.5	40.0	32.6
Government purchases	-4.6	5.0	2.9	1.9	-1.4	2.2	2.3	1.9	1.4	1.8	14.3	4.3	5.6	7.3
Federal	-7.7	1.2	.7	-.4	-3.4	.0	.1	-.3	-.7	-.2	-1.0	-6.8	-3.1	-1.2
Defense	2.4	-5.8	-3.0	-1.7	-2.4	-1.3	-1.1	-.7	-1.1	-.8	-5.1	-9.2	-8.4	-3.7
Nondefense	-10.1	7.0	3.7	1.3	-1.0	1.3	1.2	.4	.4	.6	4.1	2.4	5.3	2.5
State and local	3.2	3.7	2.2	2.3	2.0	2.2	2.2	2.2	2.1	2.0	15.3	11.1	8.7	8.5

H-1
C-1
C-5

FEDERAL SEC¹
(Billions)
ACCOUNTS¹
llars)

	Fiscal years				1989				1990				1991			
	1988a	1989a	1990	1991	Ia	IIa	IIIa	IV	I	II	III	IV	I	II	III	IV
BUDGET																
Budget receipts ²	909	991	1060	1129	219	308	242	227	244	327	263	248	261	340	280	264
Budget outlays ²	1063	1143	1193	1251	280	285	288	306	298	299	291	318	308	314	310	321
Surplus/deficit (-)																
to be financed ²	-155	-152	-133	-122	-61	23	-47	-79	-54	28	-28	-70	-48	26	-30	-57
(On-budget)	-194	-205	-200	-194	-77	0	-54	-88	-73	5	-43	-80	-68	1	-46	-67
(Off-budget)	39	52	66	72	16	23	7	9	19	23	15	10	21	24	16	10
Means of financing:																
Borrowing	162	140	122	119	38	10	39	59	38	9	16	67	24	7	21	51
Cash decrease	-8	3	6	0	19	-29	3	25	5	-29	5	10	10	-25	5	10
Other ³	1	8	6	3	4	-4	5	-4	11	-8	7	-7	14	-8	4	-4
Cash operating balance, end of period	44	41	35	35	15	44	41	16	11	40	35	25	15	40	35	25
NIPA FEDERAL SECTOR																
Receipts																
Expenditures	958	1031	1101	1183	1036	1053	1039	1055	1099	1116	1134	1151	1175	1194	1214	1235
Purchases	1103	1184	1245	1305	1184	1199	1191	1218	1245	1257	1260	1277	1303	1316	1323	1338
Defense	377	404	414	428	399	406	403	408	416	418	416	418	* 429	431	433	434
Nondefense	297	302	302	307	299	301	306	301	303	303	302	302	308	309	309	310
Other expend.	80	102	112	121	100	105	97	107	112	115	114	116	122	123	124	125
Surplus/deficit	726	780	830	877	785	793	788	810	829	838	844	859	874	884	890	904
-145	-153	-144	-121	-148	-145	-152	-163	-146	-140	-126	-126	-126	-129	-122	-109	-103
FISCAL INDICATORS⁴																
High-employment (HEB) surplus/deficit (-)	-150	-169	-149	-103	-165	-162	-169	-175	-156	-144	-122	-115	-112	-100	-84	-75
Change in HEB, percent of potential GNP	.3	.4	-.4	-.9	-.3	-.1	.1	.1	-.4	-.2	-.4	-.1	-.1	-.2	-.3	-.1
Fiscal impetus measure (FI), percent	.2 *	-3.5 *	-7.0 *	-2.8 *	-2.7	-.2	.5	-3.0	-4.0	-.2	-1.2	-1.6	-1.0	.0	-.2	-.1

a--actual

**calendar year

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

1. Staff projections. The FY89 and FY90 deficits in OMB's Mid-Session Review of the Budget (July) are \$148 billion and \$99 billion, respectively. The FY89 figure omits \$19 billion of on-budget RTC spending authorized in FIRREA. The FY90 estimate incorporates the Bipartisan Budget Agreement. The FY89 and FY90 deficits in CBO's Economic and Budget Outlook: An Update (August) are \$161 billion and \$118 billion, respectively, given congressional budget resolution policies and CBO's estimate of spending under FIRREA.
2. 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.
3. Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities, including Post Office surplus/deficit in FY90 and FY91.
4. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.7% potential output growth. 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. Exports and Related Items
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1989		1990			1991				
	1989-P	1990-P	1991-P	Q3	Q4-P	Q1	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current \$, Net	-59.9	-61.6	-52.0	-68.0	-67.2	-54.1	-64.1	-65.6	-62.5	-60.0	-56.1	-49.5	-42.4
Exports of G+G	618.7	659.2	736.5	618.8	624.2	645.1	648.2	661.9	681.7	701.9	724.1	748.2	771.9
Imports of G+G	678.6	720.8	788.6	686.8	691.4	699.3	712.3	727.5	744.2	762.0	780.2	797.7	814.3
Constant 82 \$, Net	-62.7	-69.6	-50.9	-74.4	-70.4	-62.8	-73.0	-73.7	-69.0	-63.7	-56.2	-46.7	-36.9
Exports of G+G	584.5	619.3	673.8	587.7	593.3	611.2	611.1	620.2	634.7	648.8	664.8	682.3	699.4
Imports of G+G	647.3	688.9	724.7	662.1	663.7	674.0	684.1	693.9	703.7	712.4	721.0	729.0	736.3
2. Merchandise Trade Balance 2/	-114.7	-115.0	-113.6	-118.0	-116.5	-105.1	-116.4	-119.5	-119.0	-119.2	-116.7	-112.0	-106.4
Exports	363.0	391.3	436.0	364.6	372.2	386.2	384.1	391.5	403.2	414.2	427.6	443.1	458.9
Agricultural	61.4	42.2	44.9	37.7	42.0	41.6	42.2	41.6	43.2	43.6	44.5	45.2	46.2
Non-Agricultural	321.5	349.1	391.1	326.9	330.1	344.6	341.9	349.9	360.0	370.6	383.2	397.9	412.7
Imports	477.7	506.3	549.6	482.6	488.6	491.3	500.6	511.0	522.2	533.4	544.4	555.2	565.3
Petroleum and Products	50.5	52.0	55.6	52.7	52.2	51.3	51.6	52.2	52.8	53.9	55.1	56.2	57.4
Non-Petroleum	427.2	454.3	493.9	429.9	436.5	440.0	448.9	458.8	469.4	479.5	489.3	498.9	507.9
3. Other Current Account Transactions													
Capital Gains and Losses 3/	-8.0	1.4	1.3	-0.2	0.8	1.4	1.4	1.4	1.4	1.4	1.3	1.3	1.3
Other D.I. Income, Net	36.0	37.0	41.0	35.9	36.0	36.0	36.1	37.0	38.7	40.3	40.6	41.5	41.8
Portfolio Income, Net	-37.2	-45.9	-52.7	-38.2	-41.5	-43.5	-45.0	-46.7	-48.3	-49.9	-51.6	-53.7	-55.6
Other Current Account, Net	4.9	9.6	13.9	6.4	4.6	8.7	10.0	10.9	8.7	12.7	14.0	15.3	13.7
4. U.S. Current Account Balance													
Including Capital G/L	-119.0	-112.9	-110.0	-114.0	-116.6	-102.4	-113.8	-116.9	-118.5	-114.8	-112.5	-107.7	-105.2
Excluding Capital G/L	-111.0	-114.3	-111.4	-113.8	-117.4	-103.8	-115.3	-118.3	-119.9	-116.1	-113.8	-109.0	-106.6
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.4	2.8	2.8	2.8	3.4	3.1	2.9	2.7	2.8	2.6	2.7	3.4	2.8
Real GNP--LDC 6/	2.9	3.9	4.0	3.2	3.9	4.3	4.2	4.0	3.8	3.7	4.0	4.4	4.8
Consumer Prices--Ten Ind. 5/	4.0	3.6	3.4	2.3	3.6	3.2	4.5	2.9	3.3	3.6	3.9	2.7	3.2

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 LDC GNP.

P/ Projected

November 8, 1989

RECENT DEVELOPMENTS

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

CONTRIBUTIONS TO GROWTH IN
PRODUCERS' DURABLE EQUIPMENT
(Percentage points at an annual rate)

	Contribution to 1989 PDE Growth ¹		Change in the Contribution
	H1	Q3	
Producers' durable equipment	12.2	5.2	-7.0²
Information processing	9.4	.3	-9.1
Office, computing, and accounting	7.9	2.0	-5.9
Communication equipment	1.4	-1.0	-2.4
Industrial equipment	.8	2.3	1.5
Fabricated metals	.0	.3	.3
Metalworking machinery	.2	.8	.6
Special industrial machinery	.2	1.8	1.6
General industrial machinery	.4	-.1	-.5
Electric transmission and distribution	.1	-.4	-.5
Transportation	.1	.6	.5
Trucks, buses, and truck trailer	-1.1	.0	1.1
Passenger cars	.8	-.2	-1.0
Aircraft	.3	.4	.1
Other PDE	1.9	2.1	.2

1. Percentage points of growth in PDE attributable to specified component.
H1 calculated from 1988:Q4 to 1989:Q2.
2. Aggregate categories in bold type contain detail not shown separately.

SURVEYS OF PLANT AND EQUIPMENT EXPENDITURES
(Percent change from previous year, current dollars)

	Planned for 1989		Planned for 1990
	1988	Commerce (July-Aug.)	ECAP (Sept.-Oct.)
All business	10.5	10.0	3.0
Manufacturing	14.0	9.4	3.4
Durable	10.3	5.0	.4
Nondurable	17.5	13.2	5.7
Nonmanufacturing	8.5	10.3	2.8

Table 1

FEDERAL BUDGET IN FY1989
(Billions of dollars)

	<u>Actual</u>	<u>OMB projection</u> (January 1989)	<u>CBO projection</u> (February 1989)
Receipts	991	976	983
Individual income taxes	446	425	433
Social insurance	359	364	365
Corporate income	103	107	103
Other	82	79	82
Outlays	1143	1137	1143
National defense	304	298	297
Social Security & Medicare	318	319	320
Net interest	169	166	169
All other (net) ¹	353	354	356
Deficit	152	161	160

1. Includes \$20.6 billion of deposit insurance, compared with OMB and CBO projections of \$14.7 and \$17 billion, respectively. Also includes \$16.9 billion of agricultural spending, compared with projections of \$20 to \$21 billion by CBO and OMB.

Table 2

COMPOSITION OF THE FEDERAL GOVERNMENT BUDGET
(Fiscal years)

	FY1989 (\$ billions)	Memoranda (percent):			
		Annual change	Share of '89 change	Growth in '89	Avg. growth 1986-1988
Level	Level				
Total receipts	990.8	82.6	100	9.1	8.7
Individual income taxes	445.7	44.5	54	11.1	7.2
Social insurance	359.4	25.1	30	7.5	8.5
Corporate income taxes	103.3	9.1	11	9.7	22.1
Other	82.4	3.9	5	5.0	3.6
Total outlays	1142.9	79.6	100	7.5	3.6
National defense	303.6	13.2	17	4.5	3.1
Net interest	169.3	17.6	22	11.6	5.6
Social security	232.5	13.2	17	6.0	5.1
Commerce and housing credit ²	27.8	9.0	11	47.7	97.5
Priority nondefense ³	106.4	10.7	13	11.2	8.0
Medicare ⁴	85.0	6.1	8	7.7	6.0
Other	218.3	9.8	12	4.7	-2.4
Deficit	152.1	-3.1	--	--	-

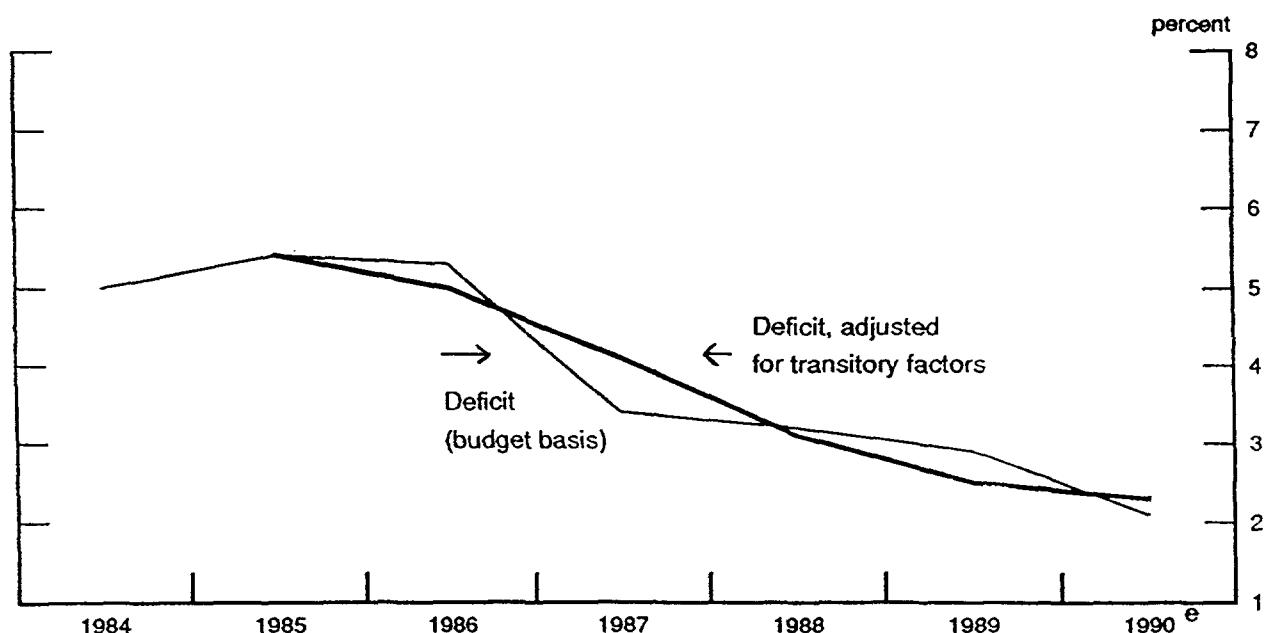
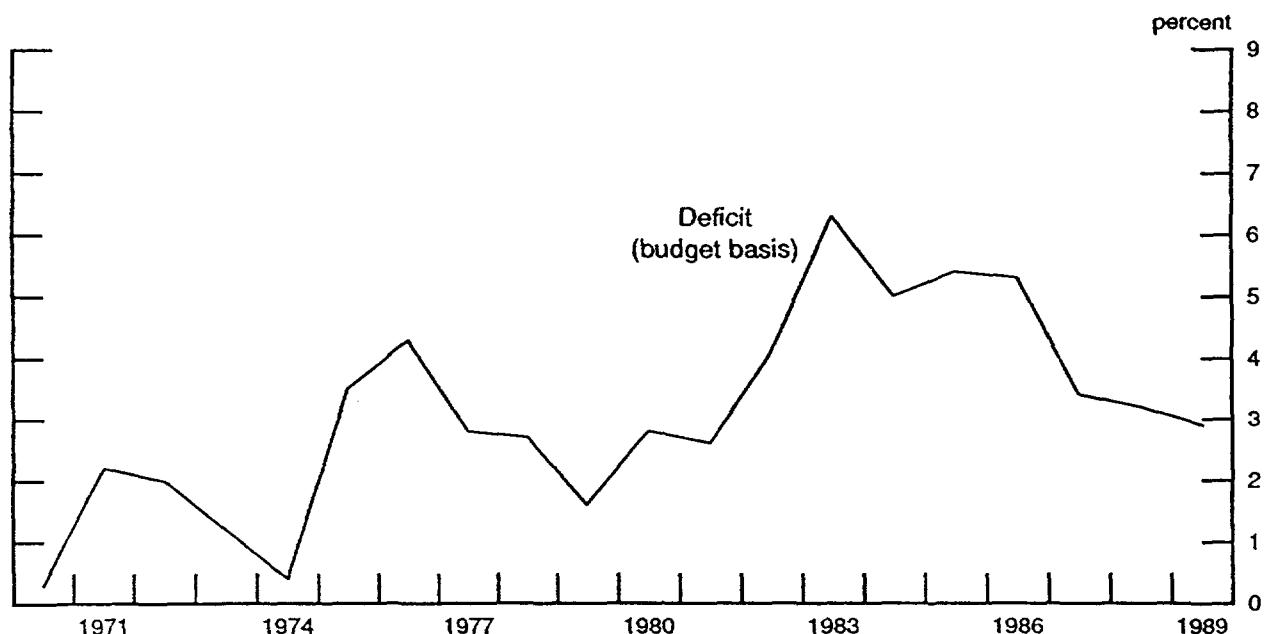
1. Consists of excise taxes, estate and gift taxes, customs duties, deposits and earnings by Federal Reserve banks, and miscellaneous receipts.

2. Commerce and housing credit includes net payments by FDIC, FSLIC, and their successors under FIRREA.

3. The sum of four functions that include areas of priority initiative spending targeted by President Bush: general science, space and technology; education, training, employment and social services; health; and administration of justice.

4. The sum of the remaining functions: international affairs; energy; natural resources and environment; agriculture; transportation; community and regional development; income security; veterans benefits and services; general government and undistributed offsetting receipts (negative).

Federal Budget Deficit As A Percent of GNP
 (fiscal years)



Note: in the adjusted deficit, the outlay effects of transitory factors, such as asset sales, shifts in timing of payments, \$10 billion of notes assumed from local governments in FY86, and \$9 billion of KTC outlays in FY89, are removed; also, receipts are lowered in 1987 and raised in 1988 and 1989 to remove the effects of the Tax Reform Act of 1986.

e--- preliminary staff estimate for FY90.

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

	1989					
	Q2	Q3 ^e	Q4 ^P	Oct. ^e	Nov. ^P	Dec. ^P
Treasury financing						
Total surplus/deficit (-)	22.9	-46.5	-79.2	-28.3	-34.5	-16.4
Means of financing deficit:						
Net cash borrowing from the public	10.1	38.6	58.6	32.1	20.1	6.4
Marketable borrowings/ repayments (-)	5.4	33.4	54.3	28.8	19.0	6.5
Bills	-20.0	9.5	25.8	21.4	6.2	-1.8
Coupons	25.3	23.9	28.5	7.4	12.8	8.3
Nonmarketable	3.3	5.6	4.3	3.3	1.1	-.1
Other borrowing ²	1.4	-.4	.0	.0	.0	.0
Decrease in the cash balance	-29.1	2.8	24.8	-2.5	25.6	1.7
Memo: Cash balance at end of period	43.7	41.0	16.2	43.5	17.9	16.2
Other ³	-3.9	5.2	-4.2	-1.3	-11.2	8.3
Federally sponsored credit agencies, net cash borrowing⁴						
	9.4	1.6	--	--	--	--
FHLBs	3.9	-10.3	--	--	--	--
FHLMC	1.9	1.5	--	--	--	--
FNMA	1.6	5.2	--	--	--	--
Farm Credit Banks	0.3	1.7	--	--	--	--
FAC	0.2	.0	--	--	--	--
SLMA	0.5	2.9	--	--	--	--
FICO	1.1	0.7	--	--	--	--
REFCORP	--	--	4.5	4.5	.0	.0

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.

p--projected.

e--staff estimate.

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