

October 28, 1987

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

October 28, 1987

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) | |
|---------------------------|--------|-------------|----------|----------|----------|-----------------------------------|----------|-----------------|----------|-----------------------------------|----------|
| | | 9/16/87 | 10/28/87 | 9/16/87 | 10/28/87 | 9/16/87 | 10/28/87 | 9/16/87 | 10/28/87 | 9/16/87 | 10/28/87 |
| Annual changes: | | | | | | | | | | | |
| 1985 | <1> | 6.3 | 6.3 | 3.0 | 3.0 | 3.6 | 3.6 | 3.2 | 3.2 | 7.2 | 7.2 |
| 1986 | <1> | 5.6 | 5.6 | 2.9 | 2.9 | 2.7 | 2.7 | 2.6 | 2.6 | 7.0 | 7.0 |
| 1987 | | 5.8 | 5.7 | 2.7 | 2.7 | 3.5 | 3.3 | 3.1 | 2.9 | 6.2 | 6.2 |
| 1988 | | 6.6 | 5.6 | 2.8 | 2.0 | 4.2 | 3.9 | 3.7 | 3.5 | 5.9 | 6.2 |
| Quarterly changes: | | | | | | | | | | | |
| 1986 | Q1 <1> | 7.0 | 7.0 | 5.4 | 5.4 | 2.2 | 2.2 | 1.8 | 1.8 | 7.1 | 7.1 |
| | Q2 <1> | 3.6 | 3.6 | .6 | .6 | 2.2 | 2.2 | 2.9 | 2.9 | 7.1 | 7.1 |
| | Q3 <1> | 5.3 | 5.3 | 1.4 | 1.4 | 2.6 | 2.6 | 3.6 | 3.6 | 6.9 | 6.9 |
| | Q4 <1> | 2.1 | 2.1 | 1.5 | 1.5 | 2.3 | 2.3 | .7 | .7 | 6.9 | 6.9 |
| 1987 | Q1 <1> | 8.6 | 8.6 | 4.4 | 4.4 | 4.5 | 4.5 | 4.2 | 4.2 | 6.7 | 6.7 |
| | Q2 <1> | 6.6 | 6.3 | 2.3 | 2.5 | 4.3 | 4.1 | 3.8 | 3.5 | 6.2 | 6.2 |
| | Q3 <1> | 6.8 | 6.2 | 3.5 | 3.8 | 3.2 | 2.7 | 3.3 | 2.4 | 6.0 | 6.0 |
| | Q4 | 5.7 | 5.0 | 3.0 | 2.2 | 3.5 | 3.3 | 2.6 | 2.6 | 6.0 | 6.1 |
| 1988 | Q1 | 6.9 | 4.8 | 2.9 | .8 | 4.6 | 4.3 | 4.0 | 4.0 | 5.9 | 6.2 |
| | Q2 | 7.0 | 5.3 | 2.6 | 1.4 | 4.4 | 4.1 | 4.2 | 3.8 | 5.9 | 6.3 |
| | Q3 | 6.7 | 6.9 | 2.4 | 2.6 | 4.5 | 4.2 | 4.2 | 4.1 | 5.9 | 6.3 |
| | Q4 | 6.8 | 7.2 | 2.3 | 2.9 | 4.6 | 4.4 | 4.4 | 4.2 | 5.9 | 6.2 |
| Two-quarter changes: <2> | | | | | | | | | | | |
| 1986 | Q2 <1> | 5.3 | 5.3 | 3.0 | 3.0 | 2.1 | 2.1 | 2.3 | 2.3 | .0 | .0 |
| | Q4 <1> | 3.7 | 3.7 | 1.5 | 1.5 | 2.5 | 2.5 | 2.1 | 2.1 | -.2 | -.2 |
| 1987 | Q2 <1> | 7.6 | 7.5 | 3.4 | 3.4 | 4.5 | 4.4 | 4.0 | 3.9 | -.7 | -.7 |
| | Q4 | 6.2 | 5.6 | 3.3 | 3.0 | 3.3 | 3.0 | 3.0 | 2.5 | -.2 | -.1 |
| 1988 | Q2 | 7.0 | 5.0 | 2.7 | 1.1 | 4.5 | 4.2 | 4.1 | 3.9 | -.1 | .2 |
| | Q4 | 6.7 | 7.0 | 2.3 | 2.8 | 4.6 | 4.3 | 4.3 | 4.1 | .0 | -.1 |
| Four-quarter changes: <3> | | | | | | | | | | | |
| 1985 | Q4 <1> | 6.6 | 6.6 | 3.3 | 3.3 | 3.6 | 3.6 | 3.1 | 3.1 | -.2 | -.2 |
| 1986 | Q4 <1> | 4.5 | 4.5 | 2.2 | 2.2 | 2.3 | 2.3 | 2.2 | 2.2 | -.2 | -.2 |
| 1987 | Q4 | 6.9 | 6.5 | 3.3 | 3.2 | 3.9 | 3.7 | 3.5 | 3.2 | -.9 | -.8 |
| 1988 | Q4 | 6.8 | 6.0 | 2.5 | 1.9 | 4.5 | 4.3 | 4.2 | 4.0 | -.1 | .1 |

<1> Actual.

<2> Percent change from two quarters earlier.

<3> Percent change from four quarters earlier.

October 28, 1987

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

| | | Projection | | | | | | | | | |
|--------------------------------|------------------|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | 1986 | | 1987 | | | | 1988 | | | |
| Units | | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| EXPENDITURES | | | | | | | | | | | |
| Nominal GNP | Billions of \$ | 4265.9 | 4288.1 | 4377.7 | 4445.1 | 4512.0 | 4567.4 | 4620.9 | 4680.5 | 4751.9 | 4841.8 |
| Real GNP | Billions of 82\$ | 3718.0 | 3731.5 | 3772.2 | 3795.3 | 3831.2 | 3852.3 | 3859.7 | 3873.3 | 3891.7 | 3926.5 |
| Nominal GNP | Percent change | 5.3 | 2.1 | 8.6 | 6.3 | 6.2 | 5.0 | 4.8 | 5.3 | 6.9 | 7.2 |
| Real GNP | | 1.4 | 1.5 | 4.4 | 2.5 | 3.8 | 2.2 | .8 | 1.4 | 2.6 | 2.9 |
| Gross domestic product | | 1.2 | 2.2 | 4.2 | 2.8 | 3.9 | 2.2 | .9 | 1.5 | 2.7 | 2.8 |
| Gross domestic purchases | | 3.0 | .4 | 2.5 | 2.1 | 4.3 | .1 | -.9 | -.1 | 1.4 | 1.5 |
| Final sales | | 3.9 | 3.7 | -2.3 | 3.5 | 6.2 | .6 | 1.8 | 2.1 | 2.6 | 2.8 |
| Private dom. final purchases | | 5.9 | 1.2 | -3.2 | 2.9 | 7.0 | -2.0 | .2 | .8 | 1.7 | 1.8 |
| Personal consumption expend. | | 7.3 | .5 | -.7 | 1.9 | 4.8 | -2.6 | .4 | .9 | 1.6 | 1.7 |
| Durables | | 44.9 | -6.3 | -21.2 | 10.5 | 19.9 | -22.9 | -1.0 | 1.4 | 3.7 | 3.2 |
| Nondurables | | -.1 | .2 | 1.3 | -1.9 | -.3 | -.5 | -.5 | .0 | .7 | .9 |
| Services | | 2.6 | 3.0 | 5.4 | 2.1 | 4.1 | 3.2 | 1.4 | 1.4 | 1.7 | 1.8 |
| Business fixed investment | | -3.0 | 5.1 | -14.6 | 11.7 | 23.7 | 3.7 | 1.9 | 1.7 | 1.6 | 1.6 |
| Producers' durable equipment | | 3.1 | 4.7 | -15.3 | 16.5 | 26.6 | 3.4 | 2.5 | 2.5 | 2.5 | 2.5 |
| Nonresidential structures | | -16.6 | 6.3 | -12.8 | .0 | 15.8 | 4.9 | .2 | -.5 | -.8 | -1.0 |
| Residential structures | | 9.7 | 2.2 | -7.7 | -2.8 | -.2 | -6.6 | -5.9 | -3.1 | 2.9 | 4.5 |
| Exports | | 10.6 | 9.5 | 10.2 | 17.9 | 16.5 | 11.9 | 10.3 | 10.3 | 11.4 | 12.9 |
| Imports | | 20.1 | -.8 | -5.2 | 11.1 | 16.5 | -5.1 | -3.6 | -2.3 | 1.1 | 1.2 |
| Government purchases | | 3.0 | 7.9 | -6.2 | 3.8 | 4.7 | 1.1 | -.4 | -.5 | .1 | -.1 |
| Federal | | 2.4 | 15.2 | -18.6 | 6.6 | 7.0 | .4 | -2.5 | -3.0 | -1.9 | -2.5 |
| Defense | | 16.4 | -10.5 | 7.6 | 9.8 | 2.1 | -6.0 | -5.6 | -4.7 | -3.1 | -3.3 |
| State and local | | 3.5 | 2.4 | 5.0 | 1.7 | 3.0 | 1.7 | 1.3 | 1.6 | 1.7 | 1.8 |
| Change in business inventories | Billions of 82\$ | 6.1 | -14.4 | 47.6 | 39.0 | 18.1 | 33.0 | 23.6 | 17.5 | 17.9 | 18.5 |
| Nonfarm | Billions of 82\$ | .1 | 2.3 | 43.9 | 22.7 | 9.2 | 30.0 | 24.1 | 18.5 | 18.9 | 19.5 |
| Net exports | Billions of 82\$ | -161.6 | -151.8 | -135.2 | -132.7 | -137.9 | -118.2 | -102.1 | -87.6 | -76.4 | -63.4 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 99.8 | 100.4 | 101.1 | 101.7 | 102.3 | 102.6 | 102.9 | 103.2 | 103.7 | 104.2 |
| Unemployment rate | Percent* | 6.9 | 6.9 | 6.7 | 6.2 | 6.0 | 6.1 | 6.2 | .3 | 6.3 | 6.2 |
| Industrial production index | Percent change | 1.3 | 3.8 | 3.2 | 4.2 | 8.8 | 3.6 | .9 | 2.2 | 4.5 | 4.2 |
| Capacity utilization rate-mfg. | Percent* | 79.5 | 79.8 | 80.0 | 80.5 | 81.5 | 81.7 | 81.4 | 81.3 | 81.6 | 81.9 |
| Housing Starts | Millions | 1.76 | 1.70 | 1.79 | 1.61 | 1.62 | 1.55 | 1.57 | 1.60 | 1.60 | 1.60 |
| Auto sales | Millions | 12.91 | 11.32 | 9.66 | 10.26 | 11.42 | 9.33 | 9.43 | 9.40 | 9.75 | 9.95 |
| Domestic | Millions | 9.43 | 7.66 | 6.86 | 7.20 | 7.84 | 6.44 | 6.57 | 6.50 | 6.80 | 7.00 |
| Foreign | Millions | 3.47 | 3.66 | 2.80 | 3.06 | 3.58 | 2.89 | 2.87 | 2.90 | 2.95 | 2.95 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal personal income | Percent change | 3.1 | 4.6 | 7.8 | 5.2 | 5.6 | 6.7 | 5.2 | 4.1 | 4.8 | 7.4 |
| Real disposable income | Percent change | -1.0 | .5 | 2.7 | -4.3 | 4.7 | 4.2 | 1.7 | -1.0 | .8 | 1.4 |
| Personal saving rate | Percent* | 3.6 | 3.6 | 4.4 | 3.0 | 3.0 | 4.6 | 4.9 | 4.4 | 4.2 | 4.2 |
| Corp. profits with IVA & CCAdj | Percent change | 5.9 | -7.2 | 19.7 | 3.9 | -2.5 | 8.9 | -17.6 | 2.7 | 17.2 | 7.8 |
| Profit share of GNP | Percent* | 6.7 | 6.6 | 6.7 | 6.7 | 6.5 | 6.6 | 6.2 | 6.2 | 6.3 | 6.3 |
| Federal govt. surplus/deficit | Billions of \$ | -203.7 | -188.7 | -170.5 | -139.2 | -149.4 | -172.1 | -182.3 | -167.4 | -157.6 | -150.1 |
| State and local govt. surplus | | 59.6 | 50.6 | 41.0 | 50.6 | 42.2 | 40.3 | 42.8 | 44.7 | 47.6 | 51.7 |
| PRICES AND COSTS | | | | | | | | | | | |
| GNP implicit deflator | Percent change | 3.6 | .7 | 4.2 | 3.5 | 2.4 | 2.6 | 4.0 | 3.8 | 4.1 | 4.2 |
| GNP fixed-weight price index | | 2.6 | 2.3 | 4.5 | 4.1 | 2.7 | 3.3 | 4.3 | 4.1 | 4.2 | 4.4 |
| Cons. & fixed invest. prices | | 3.1 | 3.0 | 5.1 | 4.7 | 2.9 | 3.2 | 4.4 | 4.4 | 4.7 | 4.9 |
| CPI | | 2.5 | 2.6 | 5.3 | 4.9 | 4.0 | 3.2 | 4.1 | 4.5 | 4.7 | 5.2 |
| Exc. food and energy | | 3.7 | 3.8 | 4.4 | 4.7 | 3.6 | 4.1 | 4.5 | 5.1 | 5.4 | 5.6 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | -.6 | .0 | .4 | 1.3 | 2.5 | .3 | -.3 | .4 | 1.0 | 1.3 |
| Compensation per hour | | 2.8 | 4.0 | 1.1 | 3.0 | 4.5 | 2.8 | 4.9 | 4.0 | 4.2 | 4.5 |
| Unit labor costs | | 3.5 | 4.0 | .8 | 1.7 | 2.0 | 2.5 | 5.2 | 3.6 | 3.2 | 3.2 |

* Not at an annual rate.

October 28, 1987

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

| | Units | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | Projection | |
|--------------------------------|------------------|--------|--------|--------|--------|--------|--------|--------|------------|--------|
| | | | | | | | | | 1987 | 1988 |
| EXPENDITURES | | | | | | | | | | |
| Nominal GNP | Billions of \$ | 2732.0 | 3052.6 | 3166.0 | 3405.7 | 3772.2 | 4010.3 | 4235.0 | 4475.6 | 4725.5 |
| Real GNP | Billions of 82\$ | 3187.1 | 3248.8 | 3166.0 | 3279.1 | 3501.4 | 3607.5 | 3713.3 | 3812.7 | 3889.5 |
| Real GNP | Percent change* | -1.1 | .6 | -1.9 | 6.5 | 5.1 | 3.3 | 2.2 | 3.2 | 1.9 |
| Gross domestic product | | .3 | .3 | -1.6 | 6.6 | 5.3 | 3.5 | 2.6 | 3.3 | 1.9 |
| Gross domestic purchases | | -1.1 | .8 | -.8 | 8.4 | 6.4 | 4.1 | 2.7 | 2.2 | .5 |
| Final sales | | -.2 | .1 | .3 | 3.7 | 4.7 | 4.6 | 2.6 | 2.0 | 2.3 |
| Private dom. final purchases | | -1.7 | -.3 | .8 | 7.7 | 5.6 | 4.6 | 3.2 | 1.1 | 1.1 |
| Personal consumption expend. | | -.1 | .2 | 2.9 | 5.4 | 4.1 | 4.5 | 4.1 | .8 | 1.1 |
| Durables | | -5.6 | -3.3 | 9.0 | 14.7 | 10.8 | 6.6 | 12.4 | -5.3 | 1.8 |
| Nondurables | | -1.4 | .5 | 1.8 | 4.4 | 2.3 | 2.9 | 2.9 | -.3 | .3 |
| Services | | 2.4 | .9 | 2.3 | 3.9 | 3.5 | 5.0 | 2.4 | 3.7 | 1.6 |
| Business fixed investment | | -4.8 | 5.6 | -11.3 | 10.8 | 13.8 | 4.7 | -4.7 | 5.1 | 1.7 |
| Producers' durable equipment | | -6.5 | 2.2 | -12.5 | 20.9 | 14.9 | 7.0 | .2 | 6.6 | 2.5 |
| Nonresidential structures | | -1.8 | 11.7 | -9.1 | -4.8 | 11.8 | .1 | -15.4 | 1.4 | -.5 |
| Residential structures | | -14.2 | -22.4 | 4.9 | 38.1 | 6.1 | 6.0 | 12.5 | -4.4 | -.5 |
| Exports | | .5 | 2.4 | -13.8 | 5.8 | 5.9 | -2.7 | 5.9 | 14.0 | 11.2 |
| Imports | | -8.8 | 4.9 | -5.9 | 23.8 | 17.4 | 5.2 | 8.9 | 3.9 | -.9 |
| Government purchases | | 1.0 | 2.9 | 3.8 | -2.7 | 7.9 | 8.7 | 2.4 | .8 | -.2 |
| Federal | | 3.1 | 9.5 | 8.2 | -8.1 | 13.0 | 14.9 | -.2 | -1.7 | -2.5 |
| Defense | | 3.1 | 7.6 | 8.8 | 5.1 | 6.5 | 7.0 | 4.8 | 3.2 | -4.2 |
| State and local | | -.3 | -1.3 | .6 | 1.5 | 4.4 | 4.0 | 4.6 | 2.8 | 1.6 |
| Change in business inventories | Billions of 82\$ | -6.9 | 23.9 | -24.5 | -6.4 | 62.3 | 7.4 | 13.8 | 34.4 | 19.4 |
| Nonfarm | Billions of 82\$ | -2.3 | 19.0 | -23.1 | -.1 | 57.8 | 12.0 | 15.4 | 26.5 | 20.3 |
| Net exports | Billions of 82\$ | 57.0 | 49.4 | 26.3 | -19.9 | -84.0 | -108.2 | -145.8 | -131.0 | -82.4 |
| Nominal GNP | Percent change* | 9.9 | 9.3 | 3.1 | 10.4 | 8.6 | 6.6 | 4.5 | 6.5 | 6.8 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | |
| Nonfarm payroll employment | Millions | 90.4 | 91.2 | 89.6 | 90.2 | 94.5 | 97.5 | 99.6 | 101.9 | 103.5 |
| Unemployment rate | Percent | 7.1 | 7.6 | 9.7 | 9.6 | 7.5 | 7.2 | 7.0 | 6.2 | 6.2 |
| Industrial production index | Percent change* | -.8 | -1.0 | -7.7 | 14.3 | 6.6 | 1.7 | 1.0 | 4.9 | 2.9 |
| Capacity utilization rate-mfg. | Percent | 79.3 | 78.2 | 70.3 | 73.9 | 80.5 | 80.1 | 79.7 | 80.9 | 81.5 |
| Housing Starts | Millions | 1.30 | 1.10 | 1.06 | 1.71 | 1.77 | 1.74 | 1.82 | 1.64 | 1.59 |
| Auto sales | Millions | 9.04 | 8.56 | 8.00 | 9.18 | 10.43 | 11.09 | 11.52 | 10.17 | 9.63 |
| Domestic | Millions | 6.62 | 6.24 | 5.77 | 6.77 | 7.97 | 8.24 | 8.28 | 7.09 | 6.72 |
| Foreign | Millions | 2.42 | 2.32 | 2.23 | 2.41 | 2.46 | 2.84 | 3.25 | 3.08 | 2.92 |
| INCOME AND SAVING | | | | | | | | | | |
| Nominal personal income | Percent change* | 12.0 | 9.2 | 5.3 | 7.8 | 8.4 | 6.8 | 5.5 | 6.3 | 5.4 |
| Real disposable income | Percent change* | 1.1 | .7 | 1.0 | 5.1 | 4.3 | 2.8 | 3.6 | 1.8 | .7 |
| Personal saving rate | Percent | 7.1 | 7.5 | 6.8 | 5.4 | 6.1 | 4.5 | 4.3 | 3.7 | 4.4 |
| Corp. profits with IVA & CCAdj | Percent change* | -6.8 | 2.3 | -19.1 | 70.1 | 7.4 | 4.1 | 1.2 | 7.2 | 1.7 |
| Profit share of GNP | Percent | 6.5 | 6.2 | 4.7 | 6.3 | 7.1 | 6.9 | 6.7 | 6.6 | 6.3 |
| Federal govt. surplus/deficit | Billions of \$ | -61.3 | -63.8 | -145.9 | -176.0 | -169.6 | -196.0 | -204.7 | -157.8 | -164.4 |
| State and local govt. surplus | | 26.8 | 34.1 | 35.1 | 47.5 | 64.6 | 63.1 | 56.8 | 43.5 | 46.7 |
| PRICES AND COSTS | | | | | | | | | | |
| GNP implicit deflator | Percent change* | 9.9 | 8.7 | 5.2 | 3.6 | 3.4 | 3.1 | 2.2 | 3.2 | 4.0 |
| GNP fixed-weight price index | | 9.8 | 8.5 | 5.0 | 3.9 | 3.7 | 3.6 | 2.3 | 3.7 | 4.3 |
| Cons. & fixed invest. prices | | 10.1 | 8.2 | 4.4 | 3.3 | 3.3 | 3.5 | 2.0 | 4.0 | 4.6 |
| CPI | | 12.5 | 9.6 | 4.5 | 3.2 | 4.1 | 3.5 | 1.3 | 4.3 | 4.6 |
| Exc. food and energy | | 12.2 | 10.2 | 5.2 | 4.2 | 4.7 | 4.3 | 3.9 | 4.2 | 5.2 |
| Nonfarm business sector | | | | | | | | | | |
| Output per hour | | 1.0 | -.6 | 1.0 | 3.6 | 1.5 | 1.0 | 1.5 | 1.1 | .6 |
| Compensation per hour | | 10.9 | 8.3 | 7.3 | 3.3 | 4.2 | 4.8 | 3.4 | 2.8 | 4.4 |
| Unit labor costs | | 9.8 | 9.0 | 6.2 | -.3 | 2.6 | 3.7 | 1.9 | 1.7 | 3.8 |

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

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

October 28, 1987

| | Projection | | | | | | | | | | Projection | | | |
|--------------------------------|------------|-------|-------|-------|-------|-------|------|------|------|------|---|-------|-------|-------|
| | 1986 | | 1987 | | | | 1988 | | | | 1985 | 1986 | 1987 | 1988 |
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | (fourth quarter to fourth quarter, net change) | | | |
| Real GNP | 13.3 | 13.5 | 40.7 | 23.1 | 35.9 | 21.1 | 7.4 | 13.6 | 25.4 | 27.8 | 115.7 | 80.6 | 120.8 | 74.2 |
| Gross domestic product | 10.6 | 20.4 | 38.3 | 25.8 | 36.1 | 20.8 | 8.5 | 13.9 | 25.4 | 26.7 | 121.5 | 92.7 | 121.0 | 74.5 |
| Gross domestic purchases | 28.1 | 3.7 | 24.1 | 20.6 | 41.1 | 1.4 | -8.7 | -9 | 14.2 | 14.8 | 150.2 | 103.1 | 87.2 | 19.4 |
| Final sales | 35.2 | 33.9 | -21.3 | 31.8 | 56.8 | 6.1 | 16.8 | 19.7 | 25.0 | 27.3 | 159.0 | 93.3 | 73.4 | 88.8 |
| Private dom. final purchases | 44.4 | 9.5 | -25.7 | 22.2 | 53.2 | -15.8 | 1.5 | 6.1 | 13.5 | 14.4 | 133.0 | 97.7 | 33.9 | 35.5 |
| Personal consumption expend. | 43.2 | 3.0 | -4.6 | 11.6 | 29.5 | -16.6 | 2.2 | 5.6 | 10.3 | 10.5 | 102.1 | 97.3 | 19.9 | 28.6 |
| Durables | 35.9 | -6.5 | -23.1 | 9.5 | 17.9 | -25.4 | -9 | 1.3 | 3.5 | 3.0 | 22.0 | 43.9 | -21.1 | 6.9 |
| Nondurables | -2 | .5 | 2.9 | -4.2 | -6 | -1.0 | -1.0 | .0 | 1.5 | 2.0 | 24.5 | 24.6 | -2.9 | 2.4 |
| Services | 7.5 | 8.9 | 15.8 | 6.2 | 12.3 | 9.7 | 4.2 | 4.3 | 5.3 | 5.5 | 55.7 | 28.6 | 44.0 | 19.3 |
| Business fixed investment | -3.3 | 5.5 | -17.2 | 11.9 | 23.9 | 4.2 | 2.2 | 2.0 | 1.9 | 1.8 | 20.8 | -22.0 | 22.8 | 7.8 |
| Producers' durable equipment | 2.4 | 3.6 | -13.0 | 11.9 | 19.3 | 2.8 | 2.1 | 2.1 | 2.1 | 2.1 | 20.7 | .6 | 21.0 | 8.5 |
| Nonresidential structures | -5.7 | 1.9 | -4.2 | .0 | 4.5 | 1.5 | .1 | -1 | -3 | -3 | .1 | -22.6 | 1.8 | -7 |
| Residential structures | 4.6 | 1.1 | -4.0 | -1.4 | -1 | -3.4 | -2.9 | -1.5 | 1.4 | 2.1 | 10.1 | 22.5 | -8.9 | -9 |
| Change in business inventories | -22.0 | -20.5 | 62.0 | -8.6 | -20.9 | 14.9 | -9.4 | -6.1 | .4 | .5 | -43.3 | -12.8 | 47.4 | -14.6 |
| Nonfarm | -23.8 | 2.2 | 41.6 | -21.2 | -13.5 | 20.8 | -5.9 | -5.6 | .4 | .5 | -22.0 | -14.4 | 27.7 | -10.6 |
| Farm | 1.8 | -22.6 | 20.3 | 12.6 | -7.4 | -5.9 | -3.5 | -5 | .0 | .0 | -21.2 | 1.6 | 19.6 | -4.0 |
| Net exports | -14.8 | 9.8 | 16.6 | 2.5 | -5.2 | 19.7 | 16.1 | 14.5 | 11.2 | 13.0 | -34.5 | -22.5 | 33.6 | 54.8 |
| Exports | 9.4 | 8.7 | 9.5 | 16.7 | 16.1 | 12.2 | 11.0 | 11.3 | 12.7 | 14.7 | -10.1 | 21.8 | 54.5 | 49.7 |
| Imports | 24.2 | -1.1 | -7.1 | 14.2 | 21.3 | -7.5 | -5.1 | -3.2 | 1.5 | 1.7 | 24.4 | 44.3 | 20.9 | -5.2 |
| Government purchases | 5.6 | 14.6 | -12.2 | 7.1 | 8.8 | 2.2 | -8 | -9 | .3 | -1 | 60.5 | 18.1 | 5.9 | -1.5 |
| Federal | 2.0 | 12.0 | -17.3 | 5.3 | 5.7 | .3 | -2.2 | -2.6 | -1.6 | -2.1 | 44.8 | -.7 | -6.0 | -8.5 |
| Defense | 9.7 | -7.1 | 4.7 | 6.1 | 1.4 | -4.1 | -3.7 | -3.1 | -2.0 | -2.1 | 15.8 | 11.6 | 8.1 | -10.9 |
| Nondefense | -7.6 | 19.1 | -22.0 | -.8 | 4.3 | 4.4 | 1.5 | .5 | .4 | .0 | 29.0 | -12.3 | -14.1 | 2.4 |
| State and local | 3.6 | 2.5 | 5.2 | 1.8 | 3.2 | 1.8 | 1.4 | 1.7 | 1.9 | 2.0 | 15.7 | 18.7 | 12.0 | 7.0 |

FEDERAL SECTOR ACCOUNTS
(Billions of dollars)

| | Fiscal Year 1986* | Fiscal Year 1987 ¹ | FY1988e | | CY 1986* | CY1987e FRB Staff | FRB Staff Estimates | | | | | | | |
|--|-------------------------|-------------------------------------|--------------------|--------------|-------------|-------------------------|----------------------------------|------|------|------------------|------|------|------|------|
| | | | Admin ² | FRB Staff | | | 1986 IV* | I* | 1987 | | IV | I | 1988 | |
| | | | | | | | | | II* | III ¹ | | | | |
| Not seasonally adjusted | | | | | | | | | | | | | | |
| Budget receipts ³ | 769 | 854 | 909 | 895 | 782 | 870 | 190 | 194 | 254 | 217 | 206 | 204 | 261 | 225 |
| Budget outlays | 990 | 1002 | 1032 | 1059 | 991 | 1033 | 253 | 252 | 251 | 245 | 284 | 244 | 261 | 270 |
| Surplus/deficit(-) to be financed | -221 | -148 | -123 | -164 | -209 | -163 | -63 | -59 | 2 | -29 | -78 | -40 | -1 | -45 |
| Means of financing: | | | | | | | | | | | | | | |
| Borrowing from public | 236 | 151 | 107 | 153 | 215 | 142 | 69 | 28 | 32 | 22 | 60 | 38 | 15 | 39 |
| Cash balance decrease | -14 | -5 | 0 | 11 | 0 | 12 | 0 | 22 | -31 | 4 | 18 | 1 | -10 | 3 |
| Other ⁴ | -1 | 3 | 1 | 0 | -6 | 9 | -6 | 9 | -3 | 3 | 0 | 1 | -4 | 3 |
| Cash operating balance, end of period | 31 | 36 | 20 | 25 | 31 | 19 | 31 | 9 | 40 | 36 | 19 | 18 | 28 | 25 |
| Memo: Sponsored agency borrowing ⁵ | 14 | 16 | n.a. | 27 | 14 | 17 | 5r | -4 | 7 | 8 | 6 | 4 | 9 | 8 |
| NIPA Federal Sector | | | | | | | Seasonally adjusted annual rates | | | | | | | |
| Receipts | 816 | 892 | 968 | 936 | 827 | 909 | 853 | 879 | 923 | 914 | 919 | 931 | 944 | 950 |
| Expenditures | 1027 | 1054 | 1089 | 1106 | 1032 | 1067 | 1041 | 1050 | 1062 | 1064 | 1091 | 1114 | 1111 | 1108 |
| Purchases | 369 | 375 | 395 | 389 | 366 | 379 | 369 | 367 | 380 | 385 | 385 | 390 | 390 | 391 |
| Defense | 275 | 289 | 301 | 295 | 278 | 293 | 279 | 288 | 295 | 296 | 294 | 296 | 295 | 295 |
| Nondefense | 93 | 86 | 94 | 94 | 88 | 86 | 90 | 79 | 85 | 89 | 91 | 94 | 95 | 96 |
| All other expend. | 658 | 679 | 694 | 717 | 666 | 688 | 673 | 683 | 683 | 679 | 706 | 724 | 721 | 717 |
| Surplus/deficit(-) | -211 | -162 | -121 | -170 | -205 | -158 | -189 | -171 | -139 | -149 | -172 | -182 | -167 | -158 |
| High-employment surplus/ deficit(-) evaluated at 6 percent unemp. | -190 | -144 | n.a. | -154 | -183 | -144 | -163 | -151 | -123 | -140 | -162 | -166 | -147 | -139 |
| *--actual e--estimated n.a.--not available r--revised | | | | | | | | | | | | | | |

I-12

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

1. Partially estimated.
2. Mid-session Review of the 1988 Budget (August 1987). The Congressional Budget Office baseline estimates released August 19 indicated receipts of \$897 billion, outlays of \$1080 billion, and the deficit of \$183 billion in FY1988. The CBO estimate of the FY1988 deficit with the policies of the Congressional Budget Resolution is \$146 billion.
3. Includes social security receipts and outlays, which are classified as off-budget under current law.
4. Checks issued less checks paid, accrued items, and other transactions.
5. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation (excluding participation certificates), the Federal National Mortgage Association (excluding mortgage-backed securities), Farm Credit Banks, the Student Loan Marketing Association, and the Financing Corporation. The Administration's definition of borrowing by these agencies is somewhat broader.

October 28, 1987

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

| | ANNUAL | | | 1986 | | 1987 | | | | 1988 | | | |
|---|--------|--------|--------|--------|--------|--------|--------|---------------------|--------|--------|--------|--------|--------|
| | 1986- | 1987-P | 1988-P | Q3- | Q4- | Q1- | Q2- | Q3- | Q4-P | Q1-P | Q2-P | Q3-P | Q4-P |
| 1. <u>GNP Exports and Imports 1/</u> | | | | | | | | | | | | | |
| Current \$, Net | -105.5 | -115.6 | -91.7 | -110.5 | -116.9 | -112.2 | -118.4 | -121.7 | -110.3 | -102.4 | -94.2 | -88.2 | -81.9 |
| Exports of G+S | 376.2 | 424.6 | 495.1 | 376.6 | 383.3 | 397.3 | 416.5 | 433.4 | 451.1 | 467.4 | 484.3 | 503.4 | 525.2 |
| Imports of G+S | 481.7 | 540.2 | 586.8 | 487.1 | 500.2 | 509.5 | 534.8 | 555.1 | 561.4 | 569.8 | 578.5 | 591.7 | 607.1 |
| Constant 82 \$, Net | -145.8 | -131.0 | -82.4 | -161.6 | -151.8 | -135.2 | -132.7 | -137.9 | -118.2 | -102.1 | -87.6 | -76.4 | -63.4 |
| Exports of G+S | 377.4 | 421.4 | 472.3 | 379.6 | 388.3 | 397.8 | 414.5 | 430.6 | 442.8 | 453.9 | 465.1 | 477.8 | 492.5 |
| Imports of G+S | 523.2 | 552.4 | 554.7 | 541.2 | 540.1 | 533.0 | 547.2 | 568.5 | 561.0 | 556.0 | 552.7 | 554.2 | 555.9 |
| 2. <u>U.S. Merchandise Trade Balance 2/</u> | -144.3 | -158.5 | -140.8 | -148.5 | -154.4 | -155.0 | -158.1 | -165.5 ^f | -155.6 | -149.0 | -142.3 | -137.7 | -134.2 |
| Exports | 224.4 | 248.6 | 305.0 | 226.1 | 228.1 | 228.0 | 239.9 | 257.0 ^f | 269.4 | 284.3 | 298.4 | 312.1 | 325.4 |
| Agricultural | 27.0 | 28.6 | 32.3 | 26.6 | 28.1 | 26.1 | 28.6 | 30.5 ^f | 29.2 | 30.5 | 31.9 | 33.0 | 33.9 |
| Non-Agricultural | 197.3 | 220.0 | 272.7 | 199.6 | 200.0 | 201.9 | 211.3 | 226.5 ^f | 240.2 | 253.7 | 266.5 | 279.1 | 291.5 |
| Imports | 368.7 | 407.1 | 445.8 | 374.6 | 382.5 | 383.0 | 398.0 | 422.5 ^f | 425.0 | 433.3 | 440.6 | 449.9 | 459.6 |
| Petroleum and Products | 33.8 | 42.3 | 44.0 | 31.6 | 32.0 | 34.8 | 40.0 | 51.0 ^f | 43.4 | 42.4 | 43.2 | 45.2 | 45.3 |
| Non-Petroleum | 334.9 | 364.8 | 401.8 | 343.0 | 350.4 | 348.2 | 358.0 | 371.5 ^f | 381.5 | 390.9 | 397.4 | 404.7 | 414.2 |
| 3. <u>U.S. Current Account Balance</u> | -141.4 | -161.8 | -140.7 | -146.3 | -151.9 | -147.1 | -164.4 | -175.4 ^f | -160.4 | -150.6 | -142.4 | -136.8 | -133.1 |
| Of Which: Net Investment Income | 20.8 | 10.9 | 9.9 | 21.4 | 18.0 | 22.0 | 6.4 | 4.1 ^f | 11.0 | 9.8 | 9.7 | 9.6 | 10.6 |
| 4. <u>Foreign Outlook 3/</u> | | | | | | | | | | | | | |
| Real GNP--Ten Industrial 4/ | 2.5 | 2.1 | 1.8 | 2.2 | 1.6 | 1.5 | 2.9 | 2.0 | 1.7 | 1.5 | 1.9 | 1.9 | 1.9 |
| Real GNP--NonOPEC LDC 5/ | 4.6 | 4.4 | 4.3 | 4.6 | 4.4 | 4.3 | 4.2 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Consumer Prices--Ten Ind. 4/ | 2.0 | 2.2 | 2.6 | 0.1 | 2.1 | 2.4 | 3.4 | 2.1 | 2.4 | 2.7 | 2.7 | 2.5 | 3.2 |

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.

f/ Projected

October 28, 1987

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

Total Federal Government Receipts and Outlays
(Budget basis, billions of dollars)

| Fiscal year | | | | Memo: |
|----------------|----------|---------|---------|--------------------------------|
| | Receipts | Outlays | Deficit | Deficit as a percent of GNP |
| 1978 | 399.6 | 458.7 | 59.2 | 2.7 |
| 1979 | 463.3 | 503.5 | 40.2 | 1.6 |
| 1980 | 517.1 | 590.9 | 73.8 | 2.8 |
| 1981 | 559.3 | 678.2 | 78.9 | 2.6 |
| 1982 | 617.8 | 745.7 | 127.9 | 4.1 |
| 1983 | 600.6 | 809.5 | 208.9 | 6.3 |
| 1984 | 666.5 | 851.8 | 185.3 | 5.0 |
| 1985 | 734.1 | 946.3 | 212.3 | 5.4 |
| 1986 | 769.1 | 989.8 | 220.7 | 5.3 |
| 1987 | 854.1 | 1002.1 | 148.0 | 3.4 |

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

| | 1987 | | | | |
|--|-----------------|-----------------|-------------------|-------------------|-------------------|
| | Q3 ^p | Q4 ^e | Oct. ^e | Nov. ^e | Dec. ^e |
| <u>Treasury financing</u> | | | | | |
| Total surplus/deficit(-) | -28.6 | -78.3 | -25.4 | -24.7 | -28.2 |
| Means of financing deficit: | | | | | |
| Net cash borrowing from the public | 22.0 | 60.4 | 26.8 | 20.6 | 13.0 |
| Marketable borrowings/repayments | 16.9 | 51.7 | 26.4 | 13.9 | 11.4 |
| Bills | -12.9 | 8.3 | 11.6 | -1.9 | -1.4 |
| Coupons | 29.8 | 43.4 | 14.9 | 15.8 | 12.7 |
| Nonmarketable | 5.1 | 8.7 | .3 | 6.7 | 1.6 |
| Decrease in the cash balance | 3.7 | 17.6 | -2.8 | 16.0 | 4.4 |
| Memo: Cash balance at end of period | 36.4 | 18.8 | 39.2 | 23.2 | 18.8 |
| Other ² | 2.9 | .3 | 1.4 | -11.9 | 10.8 |
| <u>Federally sponsored credit agencies, net cash borrowing</u> | | | | | |
| FHLBs | 4.7 | 4.1 | 2.1 | 1.2 | .8 |
| FNMA | 1.6 | .9 | .6 | .1 | .2 |
| FCBs | -1.3 | -1.4 | -1.1 | -.1 | -.2 |
| FHLMC | .6 | .5 | .2 | .2 | .1 |
| FICO | .0 | 1.1 | .6 | .0 | .5 |
| SLMA | 2.0 | 1.1 | .2 | .8 | .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.

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

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

| | 1985 | 1986 | 1987 | | | 1987 | | |
|-------------------------|-------|-------|-------|------|-----------------|------|--------------------|-------------------|
| | Year | Year | Q1 | Q2 | Q3 ^p | Aug. | Sept. ^p | Oct. ^f |
| Total tax-exempt | 19.81 | 14.04 | 10.86 | 9.62 | 8.02 | 8.89 | 5.74 | 7.20 |
| Short-term ¹ | 1.96 | 1.79 | .56 | 1.80 | 1.82 | 2.39 | .62 | 1.20 |
| Long-term | 17.85 | 12.25 | 10.30 | 7.82 | 6.20 | 6.50 | 5.12 | 6.00 |
| Refundings ² | 4.85 | 5.29 | 7.24 | 2.98 | 1.63 | 1.42 | .98 | n.a. |
| New capital | 13.00 | 6.96 | 3.06 | 4.84 | 4.57 | 5.08 | 4.14 | n.a. |
| Total taxable | .03 | .38 | .27 | .29 | .15 | .03 | .22 | n.a. |

1. Does not include tax-exempt commercial paper.

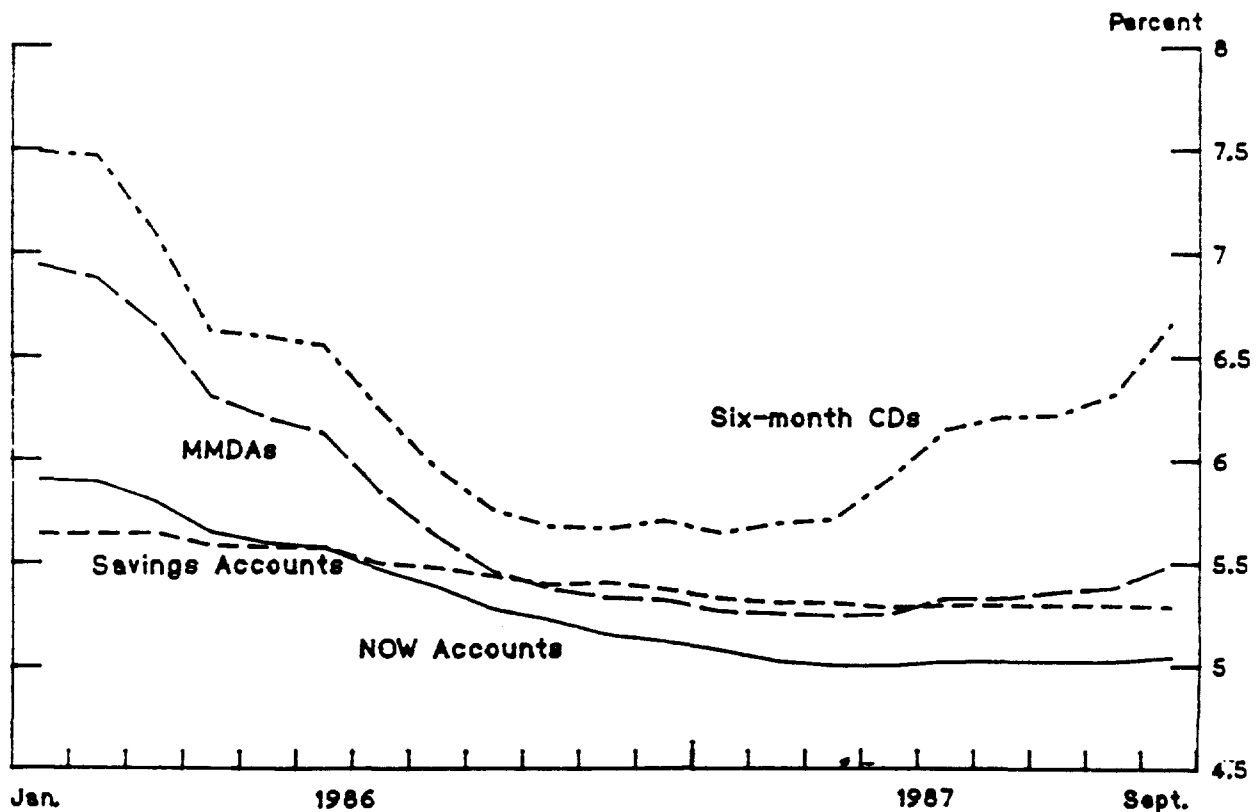
2. Includes all refunding bonds, not just advance refundings.

f--staff forecast.

n.a.--not available.

p--preliminary.

Rates Paid on Selected Retail Accounts at Commercial Banks
(Effective Annual Yield)



CONFIDENTIAL (FR)
CLASS III - FOMC

October 30, 1987

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the staff
Board of Governors
of the Federal Reserve System

Errata

Shown on the next three pages are tables that were omitted from the Appendix to Part II of the Greenbook. These tables should follow page II-A-5 of the Greenbook.

Table 1

Deficit Targets in the Gramm-Rudman-Hollings Balanced Budget Act
(Fiscal years, billions of dollars)

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 |
|------------------------------|------------------|------|------|------|------|------|------|------|
| Original law ¹ | 172 | 144 | 108 | 72 | 36 | 0 | n.a. | n.a |
| Amended law ² | n.a | n.a | 144 | 136 | 100 | 64 | 28 | 0 |
| Memo: | | | | | | | | |
| CBO baseline deficit | 221 ^a | 157 | 183 | 192 | 176 | 165 | 151 | n.a |
| OMB current services deficit | 221 ^a | 159 | 161 | 166 | 147 | 123 | 105 | n.a. |

a--actual

1. The original non-automatic spending cut mechanism was supposed to go into effect if the projected "snapshot" deficit exceeded the target by more than \$10 billion for 1986 through 1990. This "margin for error" was not allowed for the final year (1991).

2. The restored automatic spending cut mechanism would be triggered if the "snapshot" deficit projection exceeds the target by more than \$10 billion for 1988 through 1992. This "margin for error" is not allowed for the final year (1993).

Table 2
Timetable for Sequestration Procedures¹

| Action | Fiscal year | |
|---|---|--|
| | 1988 | 1989-1993 |
| Earliest enactment date for deficit reduction actions. | January 1, 1987 | Jan.1 (before fiscal year begins. |
| President submits the Mid-session Review of the budget (establishing the economic and technical assumptions). | Not applicable | July 15 |
| Initial OMB/CBO "snapshot." | October 10 | August 15 |
| CBO issues initial report to OMB and Congress. | October 15 | August 20 |
| OMB issues initial report to the President and Congress. | October 20 | August 25 |
| President issues initial order. | October 20 | August 25 |
| Fiscal year begins and initial order becomes effective. | October 1 (order becomes effective on Oct. 20, when issued) | October 1 |
| CBO issues revised report to OMB and Congress. | November 15 | October 10 |
| OMB issues revised report to the President and Congress. | November 20 | October 15 |
| President issues final order, which becomes effective immediately. | November 20 | October 15 |
| House and Senate majority leaders may introduce a joint resolution modifying the final order. | Within 10 session-days of revised OMB report | Within 10 session-days of revised OMB report |
| Comptroller General issues compliance order. | December 15 | November 15 |

1. The amended Act also includes a procedure, not summarized on this table, that allows the President to modify, with congressional approval, the impact of a sequester order on various defense accounts.

Table 3
Regular Budget Process

| Budget action | Deadline |
|--|------------------------------|
| President submits budget request. | First Monday after January 3 |
| CBO reports to budget committees on fiscal policy and budget priorities. | February 15 |
| Senate budget committee reports budget resolution to floor. | April 1 |
| Congress completes action on budget resolution. | April 15 |
| House appropriations committee reports last annual appropriations bill. | June 10 |
| Congress completes action on reconciliation legislation. | June 15 |
| House completes action on appropriation bills. | June 30 |