

February 4, 1987

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

February 4, 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)	
		12/10/86	2/4/87	12/10/86	2/4/87	12/10/86	2/4/87	12/10/86	2/4/87	12/10/86	2/4/87
Annual changes:											
1985	<1>	6.2	6.2	2.7	2.7	3.7	3.7	3.3	3.3	7.2	7.2
1986	<1>	5.4	5.3	2.6	2.5	2.6	2.8	2.6	2.7	7.0	7.0
1987		5.1	4.9	2.6	2.4	2.7	2.8	2.4	2.5	6.8	6.7
1988			6.2		2.8		3.5		3.3		6.5
Quarterly changes:											
1986	Q1 <1>	6.2	6.2	3.8	3.8	2.5	2.5	2.5	2.5	7.1	7.1
	Q2 <1>	2.6	2.6	.6	.6	1.7	1.7	1.8	1.8	7.2	7.1
	Q3 <1>	6.4	6.4	2.9	2.8	2.4	2.6	3.6	3.6	6.9	6.9
	Q4 <1>	3.9	2.6	3.1	1.7	2.1	2.6	.8	1.0	7.0	6.9
1987	Q1	5.2	5.0	2.4	2.2	3.0	2.9	2.8	2.6	6.9	6.7
	Q2	5.5	5.9	2.7	2.8	3.0	3.1	2.7	3.0	6.9	6.7
	Q3	5.6	6.1	2.9	2.9	2.8	3.1	2.6	3.0	6.8	6.6
	Q4	5.7	6.1	3.0	3.0	2.8	3.1	2.6	3.0	6.7	6.6
1988	Q1		6.4		2.7		4.0		3.5		6.6
	Q2		6.2		2.6		3.7		3.4		6.6
	Q3		6.0		2.6		3.7		3.3		6.5
	Q4		6.2		2.7		3.7		3.5		6.5
Two-quarter changes: <2>											
1986	Q2 <1>	4.3	4.3	2.2	2.2	2.1	2.1	2.1	2.1	.2	.0
	Q4 <1>	5.2	4.5	3.0	2.3	2.3	2.6	2.2	2.3	-.2	-.2
1987	Q2	5.4	5.4	2.5	2.5	3.0	3.0	2.8	2.8	-.1	-.2
	Q4	5.7	6.1	3.0	3.0	2.8	3.1	2.6	3.0	-.2	-.1
1988	Q2		6.3		2.7		3.9		3.5		.0
	Q4		6.1		2.6		3.7		3.4		-.1
Four-quarter changes: <3>											
1985	Q4 <1>	6.3	6.3	2.9	2.9	3.6	3.6	3.3	3.3	-.2	-.2
1986	Q4 <1>	4.8	4.4	2.6	2.2	2.2	2.4	2.2	2.2	.0	-.2
1987	Q4	5.5	5.8	2.8	2.8	2.9	3.1	2.7	2.9	-.3	-.3
1988	Q4		6.2		2.7		3.8		3.4		-.1

<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									
		1986		1987				1988			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	4240.7	4268.4	4320.3	4383.0	4448.1	4514.1	4584.1	4653.4	4721.9	4794.0
Real GNP	Billions of 82\$	3686.4	3702.4	3722.9	3749.0	3776.3	3804.5	3830.3	3855.4	3880.6	3906.1
Nominal GNP	Percent change	6.4	2.6	5.0	5.9	6.1	6.1	6.4	6.2	6.0	6.2
Real GNP		2.8	1.7	2.2	2.8	2.9	3.0	2.7	2.6	2.6	2.7
Gross domestic product		2.6	2.1	2.5	3.0	3.0	3.1	2.8	2.7	2.5	2.7
Gross domestic purchases		3.7	.9	1.0	1.6	1.7	1.7	1.5	1.3	1.4	1.7
Final sales		4.5	3.0	-.1	2.6	2.7	3.0	2.7	2.6	2.8	2.6
Private dom. final purchases		5.6	-.5	-.8	2.1	2.1	2.0	1.7	1.3	1.6	1.7
Personal consumption expend.		6.7	-.5	-.3	2.4	2.1	1.9	1.7	1.2	1.3	1.4
Durables		44.6	-10.1	-10.6	3.4	3.7	2.8	2.7	.0	.0	.2
Nondurables		-.9	.4	2.0	1.9	1.1	1.4	1.6	1.2	1.5	1.6
Services		2.4	2.3	1.6	2.4	2.4	2.0	1.6	1.6	1.6	1.6
Business fixed investment		-2.1	-3.0	-2.5	3.1	2.2	2.1	2.2	2.1	2.2	2.2
Producers' durable equipment		1.2	-2.8	-2.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nonresidential structures		-9.8	-3.4	-3.5	.8	-2.3	-2.5	-2.5	-2.7	-2.7	-2.7
Residential structures		9.7	4.3	-3.6	-3.8	1.9	3.0	.6	1.1	3.7	5.4
Exports		13.3	16.1	9.0	8.3	11.0	12.7	11.3	12.4	13.3	10.7
Imports		17.3	4.8	-1.5	-2.1	-.2	.9	-.1	.6	1.9	2.4
Government purchases		4.5	13.2	-2.7	-1.3	-.9	.4	.3	1.0	1.4	1.5
Federal		2.5	30.2	-7.8	-5.5	-4.7	-2.2	-2.4	-1.3	-.3	-.1
Defense		17.2	-4.4	3.0	.0	-2.8	-3.2	-3.4	-2.0	-1.3	-.3
State and local		6.1	1.1	1.8	2.2	2.3	2.6	2.4	2.8	2.8	2.8
Change in business inventories	Billions of 82\$	-.3	-11.5	9.8	11.9	13.9	14.5	14.6	15.2	13.5	13.7
Nonfarm	Billions of 82\$	-8.6	4.2	13.8	14.9	14.9	15.5	15.6	16.2	14.5	14.7
Net exports	Billions of 82\$	-163.3	-155.6	-145.0	-134.3	-123.5	-112.2	-100.5	-88.3	-76.6	-67.9
EMPLOYMENT AND PRODUCTION											
Farm payroll employment	Millions	100.3	101.1	101.5	102.0	102.5	103.0	103.5	103.9	104.4	104.8
Unemployment rate	Percent*	6.9	6.9	6.7	6.7	6.6	6.6	6.6	6.6	6.5	6.5
Industrial production index	Percent change	1.9	3.3	4.9	3.2	3.4	3.4	3.4	3.4	3.5	3.4
Capacity utilization rate-mfg.	Percent*	79.7	79.9	80.4	80.6	80.8	81.0	81.2	81.3	81.4	81.5
Housing Starts	Millions	1.75	1.67	1.65	1.66	1.70	1.72	1.73	1.74	1.74	1.74
Auto sales	Millions	12.91	11.32	10.23	10.70	10.90	10.95	11.00	11.00	11.00	11.00
Domestic	Millions	9.43	7.66	7.29	7.50	7.60	7.65	7.70	7.70	7.70	7.70
Foreign	Millions	3.47	3.66	2.94	3.20	3.30	3.30	3.30	3.30	3.30	3.30
INCOME AND SAVING											
Nominal personal income	Percent change	1.8	4.0	6.9	4.0	5.2	6.6	6.6	5.1	5.6	6.1
Real disposable income	Percent change	-3.1	-.5	6.9	-2.4	2.5	2.4	2.4	-.1	1.8	1.1
Personal saving rate	Percent*	2.8	2.7	4.4	3.2	3.3	3.4	3.5	3.2	3.3	3.3
Corp. profits with IVA & CCAdj	Percent change	12.7	7.3	-6.4	-3.7	15.3	15.4	-6.4	9.6	7.1	13.1
Profit share of GNP	Percent*	7.1	7.2	7.0	6.8	7.0	7.1	6.9	7.0	7.0	7.1
Federal govt. surplus/deficit	Billions of \$	-197.4	-191.4	-224.2	-173.4	-173.3	-175.6	-174.0	-154.4	-151.7	-146.8
State and local govt. surplus		64.0	50.4	56.1	55.3	58.4	60.9	63.3	63.6	65.0	66.8
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.6	1.0	2.6	3.0	3.0	3.0	3.5	3.4	3.3	3.5
GNP fixed-weight price index		2.6	2.6	2.9	3.1	3.1	3.1	4.0	3.7	3.7	3.7
Cons. & fixed invest. prices		3.0	3.2	3.8	3.5	3.4	3.5	4.1	4.2	4.1	4.2
CPI		2.6	2.8	4.6	3.5	3.6	3.7	4.2	4.1	4.3	4.4
Exc. food and energy		3.6	4.1	3.3	3.6	4.1	4.1	4.7	4.6	4.8	4.9
Nonfarm business sector											
Output per hour		-.3	-1.7	2.0	1.0	1.1	1.3	1.1	1.0	.9	1.0
Compensation per hour		2.3	3.1	3.0	3.1	3.2	3.3	4.9	3.6	3.9	4.2
Unit labor costs		2.6	4.9	1.0	2.1	2.1	2.0	3.8	2.6	3.0	3.2

* at an annual rate.

February 4, 1987

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

		Projection								
	Units	1980	1981	1982	1983	1984	1985	1986	1987	1988
EXPENDITURES										
Nominal GNP	Billions of \$	2732.0	3052.6	3166.0	3405.7	3765.0	3998.1	4208.5	4416.4	4688.4
Real GNP	Billions of 82\$	3187.1	3248.8	3166.0	3279.1	3489.9	3585.2	3676.5	3763.2	3868.1
Real GNP	Percent change*	-1.1	.6	-1.9	6.5	4.6	2.9	2.2	2.8	2.7
Gross domestic product		.3	.3	-1.6	6.6	4.9	3.1	2.5	2.9	2.7
Gross domestic purchases		-1.1	.8	-.8	8.4	5.9	3.9	2.8	1.5	1.5
Final sales		-.2	.1	.3	3.7	4.4	4.0	2.4	2.0	2.7
Private dom. final purchases		-1.7	-.3	.8	7.7	5.3	4.2	2.8	1.3	1.6
Personal consumption expend.		-.1	.2	2.9	5.4	3.6	3.5	4.0	1.5	1.4
Durables		-5.6	-3.3	9.0	14.7	8.8	6.2	9.9	-.4	.7
Nondurables		-1.4	.5	1.8	4.4	2.2	2.0	3.4	1.6	1.5
Services		2.4	.9	2.3	3.9	3.3	3.9	2.6	2.1	1.6
Business fixed investment		-4.8	5.6	-11.3	10.8	14.7	6.5	-5.4	1.2	2.2
Producers' durable equipment		-6.5	2.2	-12.5	20.9	16.0	8.1	-.6	2.5	4.0
Nonresidential structures		-1.8	11.7	-9.1	-4.8	12.1	3.3	-15.7	-1.9	-2.6
Residential structures		-14.2	-22.4	4.9	38.1	5.3	7.8	9.8	-.7	2.7
Exports		.5	2.4	-13.8	5.8	5.5	-3.2	6.2	10.2	11.9
Imports		-8.8	4.9	-5.9	23.8	16.5	5.8	9.3	-.7	1.2
Government purchases		1.0	2.9	3.8	-2.7	7.7	8.4	3.3	-1.1	1.1
Federal		3.1	9.5	8.2	-8.1	14.2	14.3	1.8	-5.1	-1.0
Defense		3.1	7.6	8.8	5.1	6.8	5.9	7.2	-.8	-1.8
State and local		-.3	-1.3	.6	1.5	3.1	3.7	4.6	2.2	2.7
Change in business inventories	Billions of 82\$	-6.9	23.9	-24.5	-6.4	59.2	9.0	10.8	12.5	14.3
Nonfarm	Billions of 82\$	-2.3	19.0	-23.1	-.1	54.3	10.9	10.9	14.8	15.3
Net exports	Billions of 82\$	57.0	49.4	26.3	-19.9	-83.6	-108.2	-149.7	-128.8	-83.3
Nominal GNP	Percent change*	9.9	9.3	3.1	10.4	8.5	6.3	4.4	5.8	6.2
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	90.4	91.2	89.6	90.2	94.5	97.6	100.2	102.2	104.2
Unemployment rate	Percent	7.1	7.6	9.7	9.6	7.5	7.2	7.0	6.7	6.5
Industrial production index	Percent change*	-.8	-1.0	-7.7	14.3	6.6	1.7	1.1	3.7	3.5
Capacity utilization rate-mfg.	Percent	79.3	78.3	70.3	74.0	80.5	80.1	79.8	80.7	81.3
Housing Starts	Millions	1.30	1.10	1.06	1.71	1.76	1.74	1.83	1.68	1.74
Auto sales	Millions	9.04	8.56	8.00	9.18	10.43	11.09	11.52	10.69	11.00
Domestic	Millions	6.62	6.24	5.77	6.77	7.97	8.24	8.28	7.51	7.70
Foreign	Millions	2.42	2.32	2.23	2.41	2.46	2.84	3.25	3.18	3.30
INCOME AND SAVING										
Nominal personal income	Percent change*	12.0	9.2	5.3	7.8	8.4	6.1	4.4	5.7	5.9
Real disposable income	Percent change*	1.1	.7	1.0	5.1	4.2	1.9	2.4	2.3	1.3
Personal saving rate	Percent	7.1	7.5	6.8	5.4	6.3	5.1	3.9	3.6	3.3
Corp. profits with IVA & CCAdj	Percent change*	-6.8	2.3	-19.1	70.1	6.6	7.8	7.6	4.6	5.6
Profit share of GNP	Percent	6.5	6.2	4.7	6.3	7.0	7.0	7.1	7.0	7.0
Federal govt. surplus/deficit	Billions of \$	-61.3	-63.8	-145.9	-176.0	-170.0	-198.0	-204.0	-186.6	-156.7
State and local govt. surplus		26.8	34.1	35.1	47.5	68.5	61.7	60.8	57.7	64.7
PRICES AND COSTS										
GNP implicit deflator	Percent change*	9.9	8.7	5.2	3.6	3.6	3.3	2.2	2.9	3.4
GNP fixed-weight price index		9.8	8.5	5.0	3.9	3.9	3.6	2.4	3.1	3.8
Cons. & fixed invest. prices		10.1	8.2	4.4	3.3	3.6	3.4	2.0	3.6	4.2
CPI		12.5	9.6	4.5	3.3	4.1	3.5	1.3	3.8	4.2
Exc. food and energy		12.2	10.2	5.2	4.3	4.8	4.3	3.8	3.8	4.8
Nonfarm business sector										
Output per hour		1.0	-.6	1.0	3.6	1.0	.2	.7	1.4	1.0
Compensation per hour		10.9	8.3	7.3	3.3	4.3	3.9	2.7	3.1	4.1
Unit labor costs		9.8	9.0	6.2	-.3	3.2	3.7	2.0	1.8	3.1

* 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)

February 4, 1987

	Projection										Projection			
	1986		1987				1988				1985	1986	1987	1988
											(fourth quarter to fourth quarter, net change)			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	25.0	16.0	20.5	26.1	27.3	28.2	25.9	25.1	25.1	25.5	101.9	80.1	102.1	101.6
Gross domestic product	23.2	19.3	23.0	27.0	27.3	28.7	25.8	25.1	24.1	25.5	107.6	87.9	106.0	100.6
Gross domestic purchases	34.4	8.3	10.0	15.4	16.5	16.8	14.2	13.0	13.4	16.8	141.2	103.7	58.6	57.3
Final sales	40.4	27.2	- .8	24.0	25.3	27.6	25.8	24.5	26.8	25.3	141.1	86.4	76.1	102.4
Private dom. final purchases	41.6	-4.2	-6.2	15.9	16.2	15.4	13.5	10.4	12.4	13.6	122.5	85.3	41.3	49.9
Personal consumption expend.	39.6	-2.9	-1.5	14.4	12.8	11.6	10.7	7.5	8.1	8.5	80.0	93.4	37.2	34.7
Durables	34.5	-10.3	-10.5	3.1	3.4	2.6	2.5	.0	.0	.2	20.2	34.3	-1.4	2.7
Nondurables	-1.9	.8	4.3	4.1	2.4	3.0	3.5	2.6	3.4	3.5	16.7	29.0	13.7	12.9
Services	7.0	6.6	4.7	7.2	7.0	6.0	4.8	4.9	4.7	4.7	43.1	30.1	24.9	19.1
Business fixed investment	-2.4	-3.4	-2.8	3.4	2.5	2.4	2.5	2.4	2.5	2.5	29.3	-25.9	5.5	9.9
Producers' durable equipment	1.0	-2.3	-1.7	3.2	3.2	3.2	3.3	3.3	3.3	3.4	24.4	-1.9	7.9	13.2
Nonresidential structures	-3.4	-1.1	-1.1	.2	-.7	-.8	-.8	-.9	-.8	-.8	4.9	-24.0	-2.4	-3.3
Residential structures	4.5	2.1	-1.8	-1.9	.9	1.4	.3	.5	1.8	2.7	13.2	17.8	-1.4	5.3
Change in business inventories	-15.4	-11.2	21.3	2.1	2.0	.6	.1	.6	-1.7	.2	-39.1	-6.3	26.0	-.8
Nonfarm	-19.6	12.8	9.6	1.1	.0	.6	.1	.6	-1.7	.2	-17.8	-11.9	11.3	-.8
Farm	4.2	-24.0	11.7	1.0	2.0	.0	.0	.0	.0	.0	-21.3	5.6	14.7	.0
Net exports	-9.4	7.7	10.6	10.7	10.8	11.3	11.7	12.1	11.7	8.8	-39.3	-23.6	43.4	44.3
Exports	11.4	14.1	8.4	7.9	10.6	12.5	11.5	12.9	14.3	12.0	-12.1	22.4	39.4	50.7
Imports	20.9	6.3	-2.1	-2.8	-.3	1.2	-.1	.8	2.6	3.2	27.1	46.0	-4.0	6.5
Government purchases	8.2	23.7	-5.2	-2.6	-1.7	.8	.6	1.9	2.7	2.9	57.9	24.7	-8.7	8.2
Federal	2.0	22.6	-7.1	-4.9	-4.1	-1.9	-2.0	-1.1	-.3	-.1	43.4	6.3	-18.0	-3.4
Defense	10.1	-2.9	1.9	.0	-1.8	-2.1	-2.2	-1.3	-.8	-.2	13.4	17.2	-2.0	-4.5
Nondefense	-8.0	25.5	-9.0	-4.9	-2.3	.2	.2	.2	.5	.1	30.0	-10.9	-16.0	1.1
State and local	6.2	1.1	1.9	2.3	2.4	2.7	2.6	3.0	3.0	3.0	14.5	18.4	9.3	11.6

	Fiscal Year 1986*	FY1987e Admin ¹	FRB Staff	FY1988e Admin ¹	FRB Staff	CY 1986*	CY1987e FRB Staff	1986 IV*	FRB Staff Estimates						
									I	II	1987 III	IV	I	1988 II	III
Not seasonally adjusted															
Budget receipts ²	769	842	828	917	898	782	836	190	197	236	206	198	208	266	226
Budget outlays ²	990	1016	1009	1024	1046	992	1014	254	250	250	255	259	261	258	268
Surplus/deficit(-) to be financed ²	-221	-173	-181	-108	-148	-210	-177	-64	-53	-14	-49	-61	-54	9	-42
Means of financing:															
Borrowing from public	236	162	177	107	144	215	153	69	31	26	51	45	56	-1	44
Cash balance decrease	-14	11	6	0	0	0	16	1	19	-8	-5	10	0	-5	-5
Other ³	-1	0	-3	1	4	-5	9	-5	3	-3	3	6	-2	-3	3
Cash operating balance, end of period	31	20	25	20	25	31	15	31	12	20	25	15	15	20	25
Memo: Sponsored agency borrowing ⁴	14	n.a.	15	n.a.	20	14	15	5	1	4	5	5	5	5	5
Seasonally adjusted annual rates															
NIPA Federal Sector															
Receipts	815	875	862	968	926	826	873	852	842	874	879	896	920	940	949
Expenditures	1025	1061	1052	1089	1090	1030	1059	1043	1066	1048	1053	1071	1094	1094	1100
Purchases	368	385	381	395	387	367	382	376	381	383	382	383	387	388	390
Defense	275	291	288	301	293	278	290	282	289	291	291	291	293	293	294
Nondefense	94	94	93	94	94	89	92	94	93	92	91	92	94	95	95
All other expend.	657	676	672	694	703	663	677	667	685	665	670	689	707	706	711
Surplus/deficit(-)	-211	-186	-191	-121	-164	-204	-187	-191	-224	-173	-173	-176	-174	-154	-152
High-employment surplus/ deficit(-) evaluated at 6 percent unemp.	-173	n.a.	-151	n.a.	-129	-166	-148	-151	-184	-133	-135	-139	-139	-120	-118
*--actual e--estimated n.a.--not available															

Note: Details may not add to totals due to rounding

1. Budget of the United States Government, Fiscal Year 1988 (January 1987). The Congressional Budget Office baseline estimates published in January indicated receipts of \$834 and \$900 billion, outlays of \$1008 and \$1069 billion, and deficits of \$174 and \$169 billion in FY1987 and FY1988, respectively.
2. Includes outlays formerly classified as off-budget (e.g. Federal Financing Bank and Strategic Petroleum Reserve) and social security receipts and outlays classified as off-budget under current law.
3. Checks issued less checks paid, accrued items, and other transactions.
4. Sponsored agency borrowing includes net debt issuance by Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (excluding participation certificates), Federal National Mortgage Association (excluding mortgage-backed securities), Farm Credit Banks, and Student Loan Marketing Association marketable debt. The Administration's definition of borrowing by these agencies is somewhat broader.

February 3, 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-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. GNP Exports and Imports 1/													
Current \$, Net	-105.7	-115.9	-89.9	-108.9	-115.6	-125.9	-118.6	-112.1	-106.9	-101.5	-93.1	-85.3	-79.8
Exports of G+S	373.0	415.2	487.7	370.8	383.4	393.2	405.6	422.0	440.1	457.4	476.8	498.4	518.0
Imports of G+S	478.7	531.1	577.6	479.7	499.0	519.1	524.1	534.1	547.1	559.0	569.9	583.7	597.9
Constant 82 \$, Net	-149.7	-129.0	-83.6	-163.3	-155.6	-145.3	-134.6	-123.3	-112.4	-100.8	-88.6	-76.9	-68.2
Exports of G+S	371.4	408.0	456.0	371.2	385.3	393.7	401.5	412.1	424.7	436.2	449.1	463.4	475.4
Imports of G+S	521.0	536.9	539.6	534.5	540.8	538.9	536.1	535.8	537.0	536.9	537.7	540.2	543.5
2. U.S. Merchandise Trade Balance 2/	-149.0	-152.1	-130.4	-150.7	-156.7	-162.4	-154.2	-148.5	-143.5	-139.5	-132.3	-127.0	-122.8
Exports	221.6	255.6	310.5	221.3	230.0	237.3	249.1	261.5	274.5	288.9	303.6	318.2	331.4
Agricultural	27.0	26.9	29.1	25.9	29.0	27.1	27.1	26.7	26.8	27.9	28.8	29.8	30.1
Non-Agricultural	194.6	228.7	281.4	195.4	201.0	210.2	222.0	234.8	247.7	261.0	274.9	288.4	301.3
Imports	370.6	407.7	440.9	371.9	386.7	399.7	403.3	410.0	418.1	428.4	435.9	445.2	454.2
Petroleum and Products	34.0	40.2	44.4	32.0	32.7	41.3	38.8	39.3	41.3	42.9	43.4	45.3	45.8
Non-Petroleum	336.6	367.6	396.6	340.0	354.0	358.4	364.5	370.7	376.7	385.5	392.5	399.9	408.4
3. U.S. Current Account Balance	-142.8	-150.8	-127.6	-145.1	-152.5	-158.7	-153.1	-147.1	-144.3	-137.5	-129.9	-122.8	-120.1
Of Which: Net Investment Income	21.9	13.0	11.2	22.0	18.2	14.8	12.8	12.6	11.7	11.4	10.9	11.6	11.0
4. Foreign Outlook 3/													
Real GNP--Ten Industrial 4/	2.3	2.2	2.1	1.7	1.9	1.7	2.5	2.1	2.0	1.7	2.4	2.3	2.2
Real GNP--NonOPEC LDC 5/	4.1	3.9	4.1	4.1	3.9	3.8	3.8	3.9	3.9	4.0	4.3	4.6	5.0
Consumer Prices--Ten Ind. 4/	2.0	2.2	2.9	0.1	2.0	2.8	2.9	2.5	2.8	2.9	3.2	3.0	3.2

1/ Economic activity and product account data.

2/ International accounts basis.

3/ Percent change, annual rates.

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

5/ Weighted by share in NonOPEC LDC GNP.

Projected

February 4, 1987

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee

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

Table 1

ADMINISTRATION CURRENT SERVICES BUDGET ESTIMATES
(Fiscal years, billions of dollars)

	1986a	1987	1988	1989	1990	1991	1992
Receipts							
Individual income taxes	349	364	392	416	450	488	522
Corporate income taxes	63	105	116	127	138	148	159
Social insurance taxes	284	301	331	354	381	406	428
Other ¹	73	72	72	71	72	73	74
Total	769	842	910	968	1,040	1,114	1,182
Outlays							
National defense	273	282	298	312	330	350	371
Social security	199	208	220	233	247	261	275
Agriculture	31	31	27	27	26	23	22
Net interest	136	137	139	143	143	142	134
Other ²	351	359	377	400	419	440	459
Total	990	1,017	1,061	1,115	1,165	1,216	1,261
Surplus/Deficit(-)	-221	-175	-150	-147	-126	-101	-78

a--actual.

Source: OMB, The Budget of the United States Government, Fiscal Year 1988, January 1987.

1. Includes excise taxes, estate and gift taxes, customs duties, and other miscellaneous receipts.

2. Includes, among other items, spending for international affairs, medicare and medicaid, income security, transportation, general science, space and technology, and veterans' benefits and services.

Table 2

ADMINISTRATION'S FY1988 PROPOSALS FOR DEFICIT REDUCTION
(Fiscal years, billions of dollars)

	1988	1989	1990	1991	1992
Outlay reductions:					
Mandatory spending programs: ¹					
Major medical:					
Medicare benefits	4.6	4.0	5.1	5.6	6.3
Medicare premiums ²	.6	1.8	3.1	4.4	5.8
Other medical	2.1	3.7	4.9	6.2	7.6
Other mandatory	3.4	8.2	11.4	13.1	13.9
Subtotal, mandatory spending	<u>10.7</u>	<u>17.7</u>	<u>24.5</u>	<u>29.3</u>	<u>33.6</u>
Nondefense discretionary: ¹					
Expenditures on:					
Economic subsidies and development	4.6	10.7	11.9	15.0	16.2
Social programs	4.5	7.5	10.0	11.3	12.5
General government	-5	-3.2	-2.5	-2.1	-1.5
Offsets to outlays from:					
Credit reform	1.3	.6	-.9	-2.2	-3.6
Other loan asset sales	4.2	1.7	.8	.3	
Privitization	5.4	3.7	3.8	6.5	5.3
User fees	3.2	3.5	3.6	3.7	3.8
Other offsetting receipts	<u>1.6</u>	<u>.8</u>	<u>.5</u>	<u>-.1</u>	<u>.9</u>
Subtotal, discretionary spending	24.3	25.3	27.2	32.4	33.6
Net interest	<u>1.3</u>	<u>3.2</u>	<u>6.0</u>	<u>9.3</u>	<u>14.3</u>
Subtotal, outlay changes	36.3	46.2	57.7	71.0	81.5
Receipts increases	<u>6.1</u>	<u>8.0</u>	<u>8.6</u>	<u>8.8</u>	<u>8.9</u>
Total deficit reduction	42.4	54.2	66.2	79.9	90.6

Note: Details may not sum to totals because of rounding.

Source: OMB, The Budget of the United States Government, Fiscal Year 1988, January 5, 1987.

1. "Mandatory spending" includes entitlements and other nearly automatic spending, such as farm price supports; discretionary spending is controlled through the annual appropriations process.

2. Scored as an offset to outlays in the budget accounts.

Table 3

ADMINISTRATION AND CBO ECONOMIC ASSUMPTIONS
(Percent)

	Near-term projections		Long-run assumptions			
	1987	1988	1989	1990	1991	1992
Real GNP growth (year over year):						
Administration	3.1	3.5	3.6	3.6	3.5	3.4
CBO	2.8	3.0	3.0	3.1	2.7	2.5
GNP deflator increase (year over year):						
Administration	3.3	3.5	3.5	3.2	2.8	2.3
CBO	3.2	3.8	4.1	4.2	4.2	4.2
Consumer price index increase (year over year):						
Administration	3.0	3.6	3.6	3.2	2.8	2.2
CBO	3.5	4.3	4.3	4.3	4.3	4.3
Civilian unemployment rate (annual average):						
Administration	6.8	6.4	6.1	5.9	5.7	5.6
CBO	6.7	6.5	6.3	6.1	6.0	6.0
Treasury bill rate (annual average):						
Administration	5.4	5.6	5.3	4.7	4.2	3.6
CBO	5.6	5.7	5.6	5.5	5.3	5.2
Treasury 10-year note rate (annual average):						
Administration	6.7	6.6	6.1	5.5	5.0	4.5
CBO	7.2	7.2	6.6	6.2	5.9	5.6

Sources: OMB, The Budget of the United States Government, January 1987, and CBO, The Economic and Budget Outlook: Fiscal Years 1988-1992, January 1987.

Table 4

CBO BASELINE BUDGET ESTIMATES
(Fiscal years, billions of dollars)

	1986a	1987	1988	1989	1990	1991	1992
Receipts							
Individual income taxes	349	361	381	412	458	502	546
Corporate income taxes*	63	101	119	126	138	151	162
Social insurance taxes	284	301	329	353	383	411	436
Other ¹	73	71	71	70	71	74	76
Total	769	834	900	962	1,050	1,138	1,220
Outlays							
National defense	273	280	290	303	317	332	346
Social security	199	208	221	236	252	270	288
Agriculture	31	30	30	29	26	23	22
Net interest	136	135	141	147	152	155	154
Other ²	351	355	387	409	437	467	495
Total	990	1,008	1,069	1,124	1,184	1,247	1,305
Surplus/Deficit(-)	-221	-174	-169	-162	-134	-109	-85

a--actual.

Source: CBO, The Economic and Budget Outlook: Fiscal Years 1988-1992, January 1987.

1. Includes excise taxes, estate and gift taxes, customs duties, and other miscellaneous receipts.

2. Includes, among other items, spending for international affairs, medicare and medicaid, income security, transportation, general science, space and technology, and veterans' benefits and services.

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

	86 Q4	87 Q1 ^e	1986 Dec.	1987 Jan. ^e	1987 Feb. ^e
<u>Treasury financing</u>					
Combined surplus/deficit(-)	-64.4	-53.2	-12.1	2.1	-26.9
Means of financing deficit:					
Net cash borrowing from the public	69.2	31.2	22.8	4.4	13.2
Marketable borrowings/ repayments(-)	54.5	28.2	17.1	3.8	12.0
Bills	15.9	-8.3	2.9	-3.5	-4.1
Coupons	38.6	36.5	14.2	7.3	16.1
Nonmarketable	14.7	3.0	5.7	.6	1.2
Decrease in the cash balance	.5	19.2	-13.9	-10.4	16.9
Memo: Cash balance at end of period	30.9	11.7	30.9	41.3	24.4
Other ²	-5.3	2.8	3.2	3.9	-3.2
<u>Federally sponsored credit agencies, net cash borrowing³</u>					
	4.7	1.2	2.4	-.3	.6
FHLBs	1.7	2.7	1.9	1.5	.6
FNMA	1.9	-1.0	.1	-.3	-.4
Farm Credit Banks	-1.2	-2.5	-.4	-1.9	-.3
FHLMC	.7	.5	.1	.1	.2
SLMA	1.6	1.5	.7	.3	.5

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.