

**September 27, 1989**

## **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**

the effects of the rise in the value of the dollar during 1988 and the first three quarters of 1989 begin to affect trade volumes.<sup>2</sup>

Over the four quarters of 1990, real GNP is projected to grow only 1-1/2 percent. In large part, the slow pace reflects the continued effects of the earlier rise in the dollar: growth in the volume of exports slows, while imports of non-oil merchandise account for a rising share of domestic spending. In addition, the stimulative effects on housing activity of this year's declines in interest rates are projected to wane, and defense spending is expected to remain weak. The deterioration in the external sector, along with weakness in housing and government purchases, is projected to have the usual multiplier effects on the rest of the economy as slower growth of real income damps consumer spending, while reduced sales expectations and declines in profits hold down business fixed investment and inventory accumulation.

As 1991 unfolds, the growth of domestic demand is expected to remain subdued, reflecting the effects of slow growth in real income, further

REAL GNP AND RELATED ITEMS  
(Percent change)

	1989		1989	1990	1991
	Q3	Q4			
Real GNP	2.5	2.1	2.7	1.5	2.0
Gross domestic purchases	3.3	1.0	2.0	1.7	1.3
Exports	5.2	9.8	10.5	4.6	9.2
Imports	10.4	1.2	5.0	5.7	4.1

Note: Annual changes are measured from fourth quarter to fourth quarter.

2. In the staff projection, the expected increase in aircraft exports is matched by a drawdown of inventories; similarly, a decline in oil imports is offset by a reduction in domestic oil stocks. Thus, both of these special factors in the trade sector are expected to have no appreciable influence on total GNP.

fiscal restraint, and some firming of money market conditions. At the same time, the depreciation of the dollar is projected to contribute to an acceleration in exports. Owing to the improvement in the external sector, real GNP is expected to pick up somewhat in 1991--to about a 2 percent growth rate.

With output expected to grow at below-potential rates throughout the projection period, the unemployment rate is projected to rise steadily, moving above 6 percent in 1991. In the near term, with labor markets fairly tight and some of the earlier increases in consumer prices still likely to be feeding through to wage adjustments, we expect a slight acceleration in hourly compensation. By the middle of next year, however, the lagged and contemporaneous effects of a widening margin of labor market slack and the slower rise in consumer prices begin to put some downward pressure on the underlying trend in wage inflation. Employers' actual costs will be boosted in January 1990 and again in January 1991 by a mandated increase in employer contributions for social security and by our assumption of a hike in the minimum wage in each year.

Inflation during the next few months is likely to be affected by a variety of special factors. On the one hand, further declines in retail energy prices and the continuing influence of lower prices of non-oil

**EMPLOYMENT COST INDEX FOR COMPENSATION OF PRIVATE INDUSTRY WORKERS**  
(Percent change)

	1989		1990				1991			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ECI	4.8	4.8	6.3	4.7	4.6	4.5	5.2	4.3	4.3	4.2
ECI - excluding social security and minimum wage effects	4.8	4.8	4.8	4.7	4.5	4.5	4.4	4.3	4.3	4.2

would be associated with an additional \$29 billion deterioration in the current account deficit by the end of 1991.

ALTERNATIVE PRICE PROJECTIONS  
(Percent change, fourth quarter to fourth quarter)

	1988	1989	1990	1991
<u>GNP fixed-weight price index</u>				
Greenbook	4.5	4.2	4.2	4.2
Alternative projection	4.5	4.2	4.1	3.8
<u>CPI</u>				
Greenbook	4.3	4.4	4.1	4.4
Alternative projection	4.3	4.4	3.7	3.9

Note: The alternative projection is based on the pooled results of the quarterly econometric model of the U.S. economy and the multicountry model. The alternative assumes an (exogenously) unchanged value of the dollar from current levels, with monetary policy adjusted to keep the real GNP path the same as in the Greenbook.

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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)	
		8/16/89	9/27/89	8/16/89	9/27/89	8/16/89	9/27/89	8/16/89	9/27/89	8/16/89	9/27/89
Annual changes:											
1987	<2>	6.9	6.9	3.7	3.7	3.6	3.6	3.7	3.7	6.2	6.2
1988	<2>	7.9	7.9	4.4	4.4	4.2	4.2	4.1	4.1	5.5	5.5
1989		7.2	7.3	2.8	3.0	4.6	4.5	4.8	4.8	5.3	5.2
1990		6.0	5.8	1.9	1.9	4.3	4.0	4.2	3.9	5.6	5.6
1991			5.6		1.7		4.2		4.3		6.1
Quarterly changes:											
1988	Q1 <2>	6.5	6.5	4.0	4.0	3.8	3.8	3.9	3.9	5.7	5.7
	Q2 <2>	8.6	8.6	3.7	3.7	4.8	4.8	4.5	4.5	5.5	5.5
	Q3 <2>	7.5	7.5	3.2	3.2	5.2	5.2	4.5	4.5	5.5	5.5
	Q4 <2>	7.5	7.5	2.7	2.7	4.3	4.3	4.4	4.4	5.3	5.3
1989	Q1 <2>	7.9	7.9	3.7	3.7	4.8	4.8	5.4	5.4	5.2	5.2
	Q2 <2>	6.6	7.1	1.7	2.5	5.2	5.0	6.4	6.4	5.3	5.3
	Q3	5.8	6.1	2.2	2.5	3.5	3.3	3.0	2.6	5.3	5.2
	Q4	5.9	5.3	2.1	2.1	3.8	3.6	3.6	3.3	5.3	5.3
1990	Q1	6.5	6.4	1.8	1.8	4.7	4.4	4.2	3.9	5.4	5.4
	Q2	5.9	5.7	1.7	1.5	4.3	4.1	4.5	4.2	5.5	5.5
	Q3	5.8	5.2	1.7	1.3	4.3	4.1	4.7	4.2	5.6	5.7
	Q4	5.8	5.3	1.8	1.5	4.3	4.1	4.7	4.3	5.7	5.9
1991	Q1		5.8		1.6		4.6		4.5		6.0
	Q2		5.7		2.1		4.0		4.3		6.1
	Q3		6.0		2.2		4.0		4.3		6.2
	Q4		5.8		2.2		4.0		4.3		6.2
Two-quarter changes: <3>											
1988	Q2 <2>	7.5	7.5	3.9	3.9	4.2	4.2	4.2	4.2	-4	-4
	Q4 <2>	7.5	7.5	2.9	2.9	4.8	4.8	4.4	4.4	-2	-2
1989	Q2 <2>	7.2	7.5	2.7	3.1	5.0	5.0	5.9	5.9	.0	.0
	Q4	5.8	5.7	2.1	2.3	3.6	3.4	3.3	2.9	.0	.0
1990	Q2	6.2	6.0	1.7	1.7	4.5	4.3	4.3	4.0	.2	.2
	Q4	5.8	5.3	1.7	1.4	4.3	4.1	4.7	4.2	.2	.4
1991	Q2		5.8		1.8		4.3		4.4		.2
	Q4		5.9		2.2		4.0		4.3		.1
Four-quarter changes: <4>											
1987	Q4 <2>	8.6	8.6	5.4	5.4	4.0	4.0	4.4	4.4	-9	-9
1988	Q4 <2>	7.5	7.5	3.4	3.4	4.5	4.5	4.3	4.3	-6	-6
1989	Q4	6.5	6.6	2.4	2.7	4.3	4.2	4.6	4.4	.0	.0
1990	Q4	6.0	5.6	1.7	1.5	4.4	4.2	4.5	4.1	.4	.6
1991	Q4		5.8		2.0		4.2		4.4		.3

For all urban consumers.

Actual.

&lt;3&gt; Percent change from two quarters earlier.

&lt;4&gt; Percent change from four quarters earlier.

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

		Projection								
	Units	1983	1984	1985	1986	1987	1988	1989	1990	1991
EXPENDITURES										
Nominal GNP	Billions of \$	3405.7	3772.2	4014.9	4231.6	4524.3	4880.6	5235.2	5540.7	5853.3
Real GNP	Billions of 82\$	3279.1	3501.4	3618.7	3717.9	3853.7	4024.4	4144.2	4221.6	4294.7
Real GNP	Percent change*	6.5	5.1	3.6	1.9	5.4	3.4	2.7	1.5	2.0
Gross domestic purchases		8.4	6.4	4.3	2.1	4.6	2.4	2.0	1.7	1.3
Final sales		3.7	4.7	4.6	2.7	3.3	4.4	3.0	1.3	2.1
Private dom. final purchases		7.7	5.6	4.6	2.9	2.7	3.8	2.8	1.7	1.4
Personal consumption expend.		5.4	4.1	4.6	3.8	2.2	3.8	2.6	1.8	1.3
Durables		14.7	10.8	7.0	11.5	-2.0	8.0	2.0	.6	1.3
Nondurables		4.4	2.3	3.3	2.9	1.1	2.1	1.2	1.4	.7
Services		3.9	3.5	5.0	2.1	4.4	3.6	3.7	2.5	1.7
Business fixed investment		10.8	13.8	3.7	-5.5	8.5	4.2	6.1	1.5	2.9
Producers' durable equipment		20.9	14.9	4.6	.4	11.1	7.0	8.6	2.7	3.8
Nonresidential structures		-4.8	11.8	1.9	-17.7	1.9	-3.4	-1.6	-2.7	-3.9
Residential structures		38.1	6.1	5.8	11.6	-4.2	3.2	-2.0	.6	-7.7
Exports		5.8	5.9	-2.4	10.6	19.1	13.9	10.5	4.6	9.2
Imports		23.8	17.4	4.5	10.0	9.6	5.3	5.0	5.7	4.1
Government purchases		-2.7	7.9	8.6	3.1	2.1	1.8	.1	.5	1.1
Federal		-8.1	13.0	13.3	.5	.7	-3.3	-2.3	-1.4	.0
Defense		5.1	6.5	7.1	6.0	4.3	-1.9	-4.9	-2.9	-1.0
State and local		1.5	4.4	4.9	5.2	3.1	3.4	1.9	1.9	1.8
Change in business inventories	Billions of 82\$	-6.4	62.3	9.1	5.6	23.7	27.9	17.6	18.6	17.8
Nonfarm	Billions of 82\$	-.1	57.8	13.4	8.0	25.8	30.7	14.1	15.5	17.2
Net exports	Billions of 82\$	-19.9	-84.0	-104.3	-129.7	-115.7	-74.9	-53.4	-59.6	-40.7
Nominal GNP	Percent change*	10.4	8.6	6.6	4.6	8.6	7.5	6.6	5.6	5.8
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	90.2	94.5	97.5	99.5	102.2	105.6	108.6	110.4	111.3
Unemployment rate	Percent	9.6	7.5	7.2	7.0	6.2	5.5	5.2	5.6	5.1
Industrial production index	Percent change*	14.3	6.6	1.7	1.0	5.8	5.0	2.1	1.5	2.4
Capacity utilization rate-avg.	Percent	73.9	80.5	80.1	79.7	81.1	83.5	84.1	82.7	82.1
Housing starts	Millions	1.70	1.75	1.74	1.81	1.62	1.49	1.43	1.43	1.41
Auto sales	Millions	9.23	10.38	11.06	11.47	10.26	10.69	10.12	9.64	9.65
Domestic	Millions	6.82	7.92	8.22	8.22	7.06	7.55	7.21	6.91	7.05
Foreign	Millions	2.41	2.46	2.84	3.25	3.21	3.14	2.90	2.73	2.60
INCOME AND SAVING										
Nominal personal income	Percent change*	7.8	8.4	6.6	5.8	8.6	7.1	8.4	5.7	5.6
Real disposable income	Percent change*	5.1	4.3	2.7	3.3	3.0	4.0	3.7	1.4	.9
Personal saving rate	Percent	5.4	6.1	4.4	4.1	3.2	4.2	5.5	5.5	5.2
Corp. profits with IVA & CCAdj	Percent change*	70.1	7.4	9.2	-5.6	12.0	10.4	-12.1	-3.0	.4
Profit share of GNP	Percent	6.3	7.1	7.0	6.7	6.6	6.7	5.8	5.3	4.8
Federal govt. surplus/deficit	Billions of \$	-176.0	-169.6	-196.9	-206.9	-161.4	-145.8	-145.9	-124.2	-101.6
State and local govt. surplus		47.5	64.6	65.1	62.8	51.3	49.7	49.4	54.0	64.5
Exc. social insurance funds		4.4	19.8	13.8	5.6	-12.4	-21.4	-28.6	-30.2	-25.7
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.6	3.4	2.9	2.6	3.0	4.0	3.8	4.0	3.8
GNP fixed-weight price index		3.9	3.7	3.3	2.6	4.0	4.5	4.2	4.2	4.2
Cons. & fixed invest. prices		3.3	3.3	3.4	2.5	4.7	4.2	4.3	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	4.3	4.4	4.6
ECI hourly compensation		5.7	4.9	3.9	3.2	3.3	4.9	4.7	5.0	4.5
Nonfarm business sector										
Output per hour		3.4	1.5	1.6	1.3	2.5	1.7	.1	.8	1.2
Compensation per hour		3.1	4.2	4.6	5.0	4.0	4.9	5.3	5.7	5.2
Unit labor costs		-.4	2.6	3.0	3.6	1.5	3.1	5.2	4.9	3.9

\* Percent changes are from fourth quarter to fourth quarter.

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

		1987				1988				1989	
	Units	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
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 \$2\$	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	1.1	-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 \$2\$	18.1	13.3	6.8	56.6	34.3	21.5	37.5	18.3	24.5	19.1
Nonfarm	Billions of \$2\$	20.3	14.5	12.9	55.6	28.3	25.4	37.2	31.9	16.9	19.5
Exports	Billions of \$2\$	-118.2	-115.9	-118.9	-109.8	-78.2	-72.6	-74.9	-73.8	-55.0	-51.2
nal 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	3.2
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
hourly compensation**		3.3	2.8	3.8	3.5	5.5	5.0	4.1	4.9	4.3	4.7
arm business sector											
Output per hour		.4	3.3	3.6	2.7	3.0	-1.5	3.4	1.9	-1.3	.7
Compensation per hour		1.4	2.7	4.8	7.3	2.7	5.5	5.5	5.9	4.8	5.6
Unit labor costs		1.0	-.6	1.2	4.5	-.3	7.1	2.0	3.9	6.2	4.9

\* Not at an annual rate.

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

September 27, 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 \$	5278.8	5347.3	5430.6	5506.3	5577.0	5649.0	5729.3	5809.7	5894.9	5979.1
Real GNP	Billions of 82\$	4157.7	4179.8	4198.9	4214.9	4228.7	4244.0	4261.0	4282.7	4305.8	4329.3
Real GNP		2.5	2.1	1.8	1.5	1.3	1.5	1.6	2.1	2.2	2.2
Gross domestic purchases		3.3	1.0	2.9	1.7	1.3	1.1	1.2	1.4	1.3	1.3
Final sales		2.5	3.1	1.2	1.3	1.1	1.6	1.7	2.1	2.2	2.4
Private dom. final purchases		4.4	2.5	2.6	1.5	1.4	1.4	1.3	1.5	1.5	1.5
Personal consumption expend.		4.7	1.6	2.6	1.6	1.6	1.6	1.4	1.4	1.2	1.2
Durables		9.4	-5.0	3.0	-8	-6	.8	1.6	1.6	1.1	.8
Nondurables		4.0	1.8	2.2	1.3	1.2	1.0	.7	.7	.7	.7
Services		3.8	3.6	2.8	2.5	2.5	2.2	1.9	1.8	1.6	1.7
Business fixed investment		5.2	3.6	3.1	1.7	.7	.5	1.8	2.7	3.3	3.8
Producers' durable equipment		5.6	4.6	4.2	3.0	2.0	1.7	2.9	3.7	4.0	4.6
Nonresidential structures		4.0	.4	-.7	-2.7	-3.6	-3.6	-2.0	-.9	.8	1.1
Residential structures		-2.0	12.8	1.0	.0	.8	.6	-2.2	-.6	.0	.0
Exports		5.2	9.8	-.7	5.6	6.0	7.5	7.7	9.3	9.9	9.9
Imports		10.4	1.2	6.4	6.3	5.3	4.7	4.3	4.5	4.0	3.7
Government purchases		-1.1	-.4	.8	1.1	-.5	.7	1.2	1.1	1.0	1.0
Federal		-5.1	-3.6	-.7	.0	-3.7	-1.1	.2	.0	-.3	-.1
Defense		-5.4	-5.3	-2.9	-2.6	-3.7	-2.6	-1.3	-.5	-1.3	-1.0
State and local		2.0	2.0	1.9	2.0	1.9	1.9	1.9	1.8	1.8	1.7
Change in business inventories	Billions of 82\$	18.4	8.5	15.4	18.3	20.9	19.6	18.5	18.4	18.0	16.4
Nonfarm	Billions of 82\$	14.7	5.4	11.9	15.0	17.9	17.0	17.0	17.7	17.8	16.3
Net exports	Billions of 82\$	-59.7	-47.7	-59.1	-61.0	-60.8	-57.2	-52.7	-45.8	-37.0	-27.3
Nominal GNP	Percent change	6.1	5.3	6.4	5.7	5.2	5.3	5.8	5.7	6.0	5.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	109.0	109.5	110.0	110.5	110.4	110.6	110.9	111.2	111.5	111.9
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	1.8	1.6	1.5	1.2	1.7	1.7	1.9	2.5	3.0	3.0
Capacity utilization rate-mfg.	Percent*	84.0	83.6	83.2	82.8	82.6	82.3	82.1	82.1	82.1	82.1
Housing starts	Millions	1.40	1.43	1.44	1.43	1.42	1.42	1.42	1.41	1.40	1.39
Auto sales	Millions	10.70	9.73	9.90	9.70	9.50	9.45	9.55	9.65	9.70	9.70
Domestic	Millions	7.76	6.90	7.05	6.90	6.85	6.85	6.95	7.05	7.10	7.10
Foreign	Millions	2.94	2.83	2.85	2.80	2.65	2.60	2.60	2.60	2.60	2.60
INCOME AND SAVING											
Nominal personal income	Percent change	6.2	6.4	6.6	5.6	5.0	5.7	6.6	5.2	4.9	5.8
Real disposable income	Percent change	5.3	2.3	3.3	.7	.4	1.1	1.8	.5	.3	1.0
Personal saving rate	Percent*	5.5	5.7	5.8	5.6	5.4	5.3	5.4	5.2	5.0	5.0
Corp. profits with IVA & CCAdj	Percent change	-12.0	1.1	-7.6	3.8	-1.3	-6.4	-18.6	6.1	14.0	3.3
Profit share of GNP	Percent*	5.6	5.6	5.4	5.4	5.3	5.1	4.8	4.8	4.9	4.9
Federal govt. surplus/deficit	Billions of \$	-143.8	-146.9	-136.1	-129.2	-116.9	-114.7	-112.2	-106.1	-96.0	-92.1
State and local govt. surplus		50.6	50.8	50.4	54.1	55.4	56.2	62.3	65.2	65.0	65.6
Exc. social insurance funds		-28.4	-29.7	-31.6	-29.4	-29.6	-30.3	-25.7	-24.3	-26.0	-26.9
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.4	3.1	4.5	4.1	3.9	3.8	4.1	3.6	3.7	3.5
GNP fixed-weight price index		3.3	3.6	4.4	4.1	4.1	4.1	4.6	4.0	4.0	4.0
Cons. & fixed invest. prices		2.8	3.5	3.8	4.1	4.1	4.2	4.4	4.2	4.2	4.2
CPI		2.6	3.3	3.9	4.2	4.2	4.3	4.5	4.3	4.3	4.3
Exc. food and energy		3.7	4.4	4.3	4.4	4.4	4.5	4.8	4.5	4.5	4.5
ECI hourly compensation**		4.8	4.8	6.3	4.7	4.6	4.5	5.2	4.3	4.3	4.2
Nonfarm business sector											
Output per hour		.4	.7	.6	.7	.9	1.1	1.1	1.2	1.3	1.3
Compensation per hour		5.4	5.4	7.0	5.4	5.3	5.2	5.9	5.0	5.0	4.9
Unit labor costs		5.0	4.7	6.4	4.7	4.4	4.1	4.7	3.8	3.7	3.6

\* Not at an annual rate.

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



CONFIDENTIAL - FR  
CLASS II FCNC

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

September 27, 1989

											Projection			
	1987				1988				1989		1986	1987	1988	1989
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
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	110.4
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	84.2
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	120.3
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	93.3
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	67.3
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	8.6
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	10.8
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	48.0
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	29.8
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	31.8
Nonresidential structures	-3.3	-2.4	7.8	.2	-3.9	.7	.5	-1.6	-.3	-3.0	-26.5	2.3	-4.3	-2.0
Residential structures	-3.0	.5	-5.7	-.2	-2.8	5.1	.9	3.0	-2.5	-6.3	20.9	-6.4	6.2	-4.0
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	-9.8
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	-26.5
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	16.7
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	26.1
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	57.7
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	31.5
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	.9
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	-7.9
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	-12.7
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	4.8
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	8.8

CONFIDENTIAL - FR  
CLASS II FOMC

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

September 27, 1989

	Projection										Projection			
	1989		1990				1991				1988	1989	1990	1991
											(fourth quarter to fourth quarter, net change)			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	25.2	22.1	19.1	16.0	13.8	15.3	17.0	21.7	23.1	23.5	133.8	110.4	64.2	85.3
Gross domestic purchases	33.7	10.1	30.6	18.0	13.6	11.7	12.4	14.9	14.3	13.8	97.8	84.2	73.8	55.4
Final sales	25.8	32.0	12.2	13.1	11.2	16.6	18.2	21.8	23.5	25.1	172.0	120.3	53.1	88.6
Private dom. final purchases	36.5	20.8	22.0	12.8	11.9	11.7	11.1	12.8	12.7	13.5	121.7	93.3	58.3	50.1
Personal consumption expend.	30.9	10.4	17.6	10.6	10.6	10.7	9.8	9.5	8.4	8.4	95.4	67.3	49.4	36.1
Durables	9.7	-5.5	3.2	-.8	-.6	.9	1.7	1.7	1.2	.8	31.1	8.6	2.7	5.4
Nondurables	9.0	4.1	5.0	3.0	2.8	2.3	1.6	1.6	1.6	1.6	19.1	10.8	13.1	6.6
Services	12.4	11.8	9.3	8.4	8.4	7.5	6.5	6.2	5.5	5.9	45.2	48.0	33.6	24.1
Business fixed investment	6.5	4.6	3.9	2.2	1.0	.7	2.4	3.6	4.4	5.1	20.0	29.8	7.8	15.4
Producers' durable equipment	5.4	4.5	4.2	3.0	2.0	1.7	3.0	3.8	4.1	4.8	24.3	31.8	11.0	15.7
Nonresidential structures	1.2	.1	-.2	-.8	-1.1	-1.1	-.6	-.2	.2	.3	-4.3	-2.0	-3.2	-.3
Residential structures	-.9	5.8	.5	.0	.4	.3	-1.1	-.3	.0	.0	6.2	-4.0	1.1	-1.4
Change in business inventories	-.7	-9.9	6.9	2.9	2.6	-1.3	-1.2	-.1	-.4	-1.6	-38.3	-9.8	11.1	-3.3
Nonfarm	-4.8	-9.3	6.5	3.1	2.9	-.9	-.1	.7	.1	-1.5	-23.7	-26.5	11.6	-.8
Farm	4.2	-.6	.4	-.2	-.3	-.4	-1.1	-.8	-.5	-.1	-14.6	16.7	-.5	-2.5
Net exports	-8.5	12.0	-11.5	-1.9	.2	3.6	4.6	6.9	8.8	9.7	36.0	26.1	-9.6	29.9
Exports	7.5	14.0	-1.1	8.3	9.1	11.4	11.9	14.6	15.8	16.2	67.3	57.7	27.7	58.5
Imports	16.0	2.0	10.3	10.2	8.9	7.9	7.3	7.7	7.0	6.5	31.3	31.5	37.3	28.6
Government purchases	-2.2	-.8	1.6	2.3	-.9	1.3	2.5	2.2	1.9	1.9	14.3	.9	4.3	8.6
Federal	-4.5	-3.1	-.6	.0	-3.1	-1.0	.2	.0	-.3	-.1	-1.0	-7.9	-4.7	-.1
Defense	-3.5	-3.4	-1.8	-1.6	-2.3	-1.6	-.8	-.3	-.8	-.6	-5.1	-12.7	-7.3	-2.5
Nondefense	-1.0	.3	1.2	1.6	-.8	.6	1.0	.3	.5	.5	4.1	4.8	2.6	2.4
State and local	2.3	2.3	2.2	2.3	2.2	2.3	2.3	2.2	2.2	2.0	15.3	8.8	9.0	8.7

CT-1

FEDERAL SURVEILLANCE ACCOUNTS<sup>1</sup>  
(Billion Dollars)

	Fiscal years				1989				1990				1991			
	1988a	1989	1990	1991	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
<b>BUDGET</b>					Not seasonally adjusted											
Budget receipts <sup>2</sup>	909	995	1069	1137	220	308	245	229	250	325	265	250	262	341	283	267
Budget outlays <sup>2</sup>	1064	1154	1187	1251	280	285	298	300	298	299	291	318	311	313	308	315
Surplus/deficit (-)																
to be financed <sup>2</sup>	-155	-159	-119	-114	-61	23	-53	-71	-48	27	-26	-68	-49	28	-25	-48
(On-budget)	-194	-209	-185	-188	-77	0	-58	-80	-67	4	-41	-79	-70	3	-42	-56
(Off-budget)	39	50	66	74	16	23	5	9	19	23	15	11	22	25	17	8
Means of financing:																
Borrowing	162	140	116	111	38	10	38	63	33	6	14	65	26	4	16	43
Cash decrease	-8	14	-5	0	19	-29	14	11	5	-25	5	10	10	-25	5	10
Other <sup>3</sup>	1	5	8	3	4	-4	1	-3	11	-7	7	-7	13	-7	4	-5
Cash operating balance, end of period	44	30	35	35	15	44	30	20	15	40	35	25	15	40	35	25
<b>NIPA FEDERAL SECTOR</b>					Seasonally adjusted annual rates											
Receipts	958	1035	1114	1195	1036	1053	1055	1072	1109	1128	1145	1162	1187	1205	1227	1247
Expenditures	1103	1186	1246	1302	1184	1199	1198	1219	1245	1258	1262	1276	1299	1312	1323	1339
Purchases	377	405	412	423	399	406	408	406	413	416	414	415	422	425	431	434
Defense	297	300	299	303	299	301	300	297	301	301	300	299	302	304	308	310
Nondefense	80	105	113	120	100	105	108	109	112	115	114	116	121	122	123	124
Other expend.	726	781	834	879	785	793	791	813	832	842	848	861	877	886	892	906
Surplus/deficit	-145	-151	-132	-107	-148	-145	-144	-147	-136	-129	-117	-115	-112	-106	-96	-92
<b>FISCAL INDICATORS<sup>4</sup></b>																
High-employment (HEB) surplus/deficit (-)	-150	-167	-139	-90	-165	-162	-160	-161	-147	-134	-114	-105	-96	-86	-72	-64
Change in HEB, percent of potential GNP	.3	.4	-.5	-.9	-.3	-.1	.0	.0	-.3	-.2	-.4	-.2	-.2	-.2	-.2	-.1
Fiscal impetus measure (FI), percent	.2 *	-4.0 *	-7.4 *	-3.3 *	-2.7	-.2	-.5	-3.0	-3.9	-.2	-1.0	-2.0	-1.3	.1	.0	.0

a--actual

\*--calendar year

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

- 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.
- 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.
- 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.
- 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.

CURRENT ACCOUNT BALANCE  
(Excluding capital gains and losses, \$ billions)

	<u>Greenbook</u>	<u>Alternative Projection</u>
1988Q4*	-130.6	-130.6
1989Q4	-99.2	-97.2
1990Q4	-110.4	-115.0
1991Q4	-95.6	-124.8

\*--actual

Note: The alternative projection is based on the pooled results of the quarterly econometric model of the U.S. economy and the multicountry model. The alternative assumes an (exogenously) unchanged value of the dollar from current levels, with monetary policy adjusted to keep the real GNP path the same as in the Greenbook.

September 26, 1989

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

	ANNUAL			1989		1990				1991			
	1989-P	1990-P	1991-P	Q3-P	Q4-P	Q1	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
<b>1. GNP Exports and Imports 1/</b>													
Current \$, Net	-47.8	-44.6	-30.7	-48.9	-37.7	-46.0	-45.6	-45.0	-41.9	-39.1	-34.8	-28.2	-20.4
Exports of G+S	630.2	675.3	750.6	636.4	652.6	654.2	667.2	681.4	698.6	717.1	738.5	761.5	785.1
Imports of G+S	677.9	719.9	781.1	685.2	690.2	700.1	712.7	726.2	740.3	756.1	773.3	789.6	805.4
Constant 82 \$, Net	-53.4	-59.6	-40.7	-59.7	-47.7	-59.1	-61.0	-60.8	-57.2	-52.7	-45.8	-37.0	-27.3
Exports of G+S	590.3	621.6	671.6	595.0	609.1	607.9	616.2	625.3	636.8	648.7	663.3	679.1	695.3
Imports of G+S	643.7	681.1	712.3	654.7	656.7	667.0	677.3	686.2	694.0	701.4	709.1	716.1	722.6
<b>2. Merchandise Trade Balance 2/</b>	-108.5	-109.8	-104.9	-110.2	-99.6	-108.2	-109.9	-110.9	-110.2	-110.3	-108.2	-103.6	-97.4
Exports	365.9	389.3	433.7	368.4	380.0	377.7	384.4	392.4	402.5	412.8	425.5	440.3	456.0
Agricultural	41.2	41.6	44.1	39.0	39.9	40.7	41.4	41.9	42.3	43.0	43.8	44.4	45.2
Non-Agricultural	324.7	347.7	389.6	329.4	340.1	337.0	343.0	350.6	360.3	369.8	381.7	395.8	410.8
Imports	474.4	499.1	538.5	478.6	479.5	485.9	494.2	503.4	512.7	523.1	533.7	543.8	553.4
Petroleum and Products	50.3	51.9	55.5	53.9	50.2	51.0	51.6	52.1	52.7	53.8	54.9	56.1	57.2
Non-Petroleum	424.1	447.2	483.0	424.7	429.4	434.9	442.6	451.2	460.0	469.3	478.8	487.8	496.3
<b>3. Other Current Account Transactions</b>													
Capital Gains and Losses 3/	-8.9	1.6	1.7	-1.3	-1.5	1.6	1.6	1.6	1.5	1.7	1.7	1.7	1.7
Other D.I. Income, Net	35.7	36.2	40.4	35.6	35.3	35.1	35.5	36.3	37.9	39.5	40.2	40.9	41.1
Portfolio Income, Net	-36.6	-44.6	-50.9	-37.2	-40.1	-42.1	-43.8	-45.5	-47.1	-48.6	-50.0	-51.7	-53.2
Other Current Account, Net	5.1	9.9	14.2	6.5	5.1	8.8	10.4	11.3	9.1	13.0	14.2	15.5	14.0
<b>4. U.S. Current Account Balance</b>													
Including Capital G/L	-113.2	-106.8	-99.4	-106.6	-100.7	-104.9	-106.2	-107.2	-108.8	-104.6	-102.0	-97.1	-93.9
Excluding Capital G/L	-104.3	-108.3	-101.1	-105.3	-99.2	-106.4	-107.7	-108.8	-110.4	-106.3	-103.7	-98.8	-95.6
<b>5. Foreign Outlook 4/</b>													
Real GNP--Ten Industrial 5/	3.3	2.7	2.8	3.2	2.7	2.9	2.9	2.8	2.6	2.5	2.8	3.2	2.7
Real GNP--NonOPEC LDC 6/	2.7	3.8	3.8	3.1	3.7	4.2	4.1	3.9	3.7	3.5	3.8	4.1	4.4
Consumer Prices--Ten Ind. 5/	4.1	3.7	3.4	2.7	3.6	3.5	4.5	2.8	3.1	3.4	4.2	2.7	3.1

1/ National Income and Product Account data.

2/ International accounts basis.

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

4/ Percent change, annual rates.

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

6/ Weighted by share in NonOPEC LDC GNP.

P/ Projected

September 27, 1989

## **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

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

	1988	Planned for 1989	
		Commerce (Apr.-May)	Commerce (July-Aug.)
All business	10.5	9.9	10.0
Manufacturing	14.0	8.2	9.4
Durable	10.3	5.1	5.0
Nondurable	17.5	11.0	13.2
Nonmanufacturing	8.5	10.9	10.3
Memo: <sup>1</sup>			
Prediction of P & E			
Mean error		.2	-.2
Mean absolute error		1.5	.8
Prediction of BFI			
Mean error		-.5	.2
Mean absolute error		2.6	2.4

1. Estimated from 1962 to the present.

Business Inventories

Business inventory investment was dominated in July by large accumulations of stocks at manufacturers of motor vehicles and aircraft, and given the current circumstances in each of these industries, this stockbuilding is likely to be temporary. In aircraft, a delay in the delivery of a sizable number of Boeing 747s apparently led to a runup in both work-in-process and finished inventories in July.<sup>7</sup> In addition, given the large orders backlogs, aircraft production has remained at high levels and, as a result, work-in-process inventories held by aircraft

7. The Census Bureau uses the method of payment as a means of allocating aircraft stocks between the in-process and finished stages of processing. A finished aircraft may appear in work-in-process inventories if it is going to be paid for in one lump sum. Alternatively, if an aircraft is purchased with a series of progress payments, the value of those progress payments is included in stocks of finished goods.

U.S. CROP PRODUCTION AND INVENTORIES<sup>1</sup>PRODUCTION

	Millions of bushels						
	1980 to 1986			1987	1988	Projected for 1989	
	High	Low	Avg.			as of Aug. 10	as of Sept. 12
Wheat	2785	2092	2495	2107	1811	2044	2064
Corn	8877	4175	7424	7072	4921	7348	7321
Soybeans	2190	1636	1930	1923	1539	1905	1889
Cotton (Millions of bales)	15.4	9.7	11.8	14.8	15.4	11.8	12.3

INVENTORIES

	Months' supply at end of marketing year						
	1967 to 1986			1987	1988	Projected for 1989	
	High	Low	Avg.			as of Aug. 10	as of Sept. 12
Wheat	11.66	2.07	6.43	5.64	3.47	2.49	2.59
Corn	7.90	.83	2.80	6.64	3.04	2.69	2.69
Soybeans	4.15	.56	1.81	1.76	1.10	1.93	1.87
Cotton <sup>2</sup>	8.89	2.29	4.69	4.88	6.17	3.02	3.02

1. Derived from data in USDA's World Agricultural Supply and Demand Estimates, September 12, 1989. Production, consumption, and stocks are measured on a "marketing year" basis, which differs from crop to crop.

2. The figures for cotton exclude 1985. A pre-announced change in USDA price support policy at the end of that marketing year caused some consumption to be delayed into 1986 and raised the stocks-to-use ratio to an artificially high level of 13.42 months.

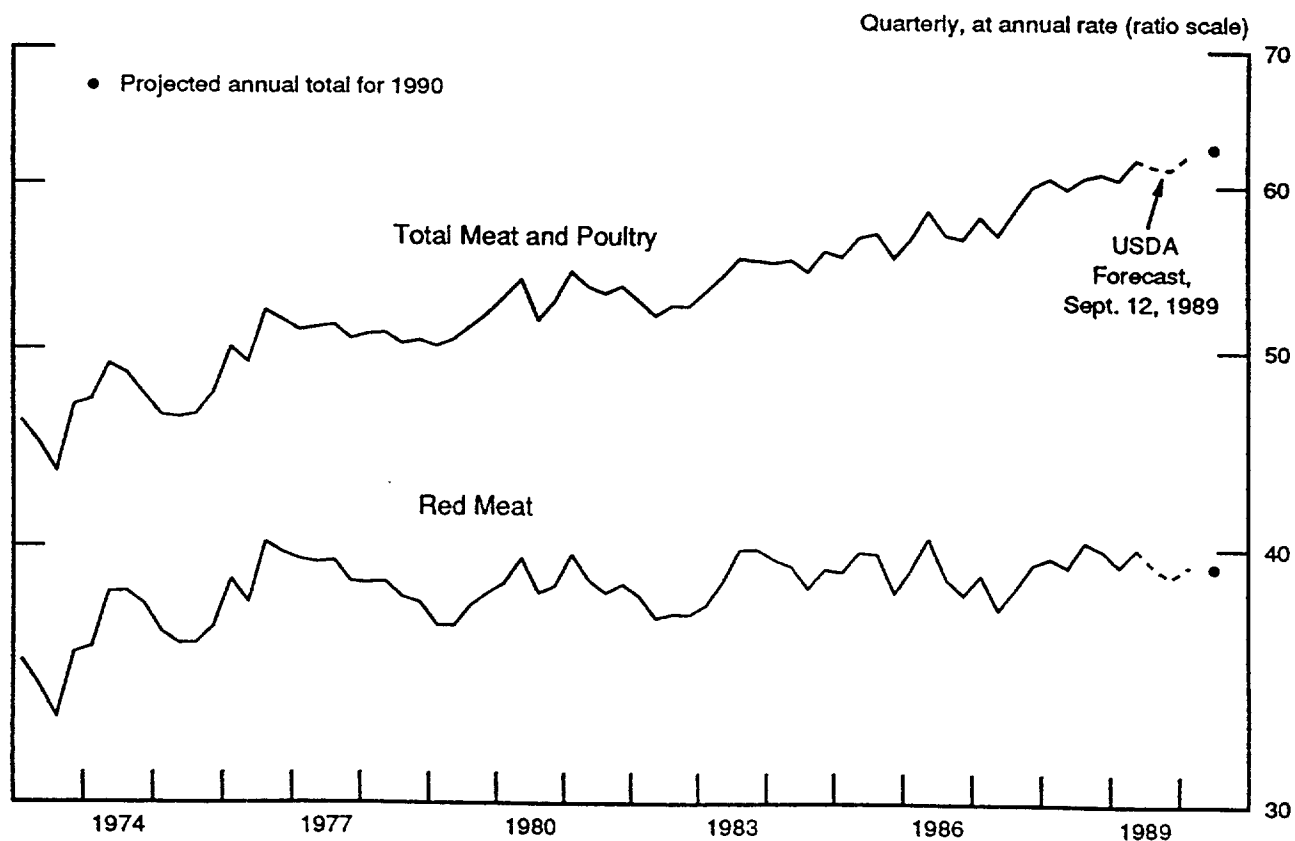


**MEAT AND POULTRY PRODUCTION**  
(Millions of pounds)

	1988	USDA Projections			
		for 1989		for 1990	
		as of Aug. 10	as of Sep. 12	as of Aug. 10	as of Sep. 12
1. Total red meat and poultry	60350	61125	61224	62640	62630
2. Red meat <sup>1</sup>	39763	39313	39303	39215	39205
3. Beef	23424	22706	22756	22825	22825
4. Pork	15623	15915	15865	15700	15700
5. Poultry	20587	21812	21921	23425	23425

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

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



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

COMPOSITION OF FEDERAL GOVERNMENT BUDGET  
(Billions of dollars)

Item	First 11 months of fiscal year		Year- to-year change	Memoranda (percent):	
	1988	1989		Share of change	Growth rate
Total receipts	811.2	892.4	81.2	100	10.0
Individual income taxes	359.4	400.7	41.3	51	11.5
Social insurance	305.6	330.2	24.6	30	8.0
Corporate income taxes	73.5	83.2	9.7	12	13.2
Other <sup>1</sup>	72.6	78.4	5.8	7	8.0
Total outlays	976.5	1,038.3	61.8	100	6.3
National defense	268.4	274.9	6.5	11	2.4
Commerce and housing credit <sup>2</sup>	13.0	17.7	4.7	8	31.2
Priority nondefense <sup>3</sup>	87.6	98.6	11.0	18	12.6
Net interest	139.3	155.6	16.3	26	11.7
Medicare	71.8	77.6	5.8	9	8.1
Social security	200.8	213.0	12.2	20	6.1
Other <sup>4</sup>	195.5	200.9	5.4	9	2.8
Deficit	165.3	145.9	-19.4	100	-11.7

1. Includes excise taxes, estate and gift taxes, customs duties, deposits of 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. Includes 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).