

March 22, 1989

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

but growth begins to pick up in the second half of next year as the more rapid decline in the dollar in 1990 induces some additional improvement in the external accounts. With GNP growing at less than the estimated trend of potential output, the unemployment rate begins to drift upward this summer, reaching 5-1/2 percent by year-end and edging above 6 percent by the end of 1990.

REAL GNP AND THE DROUGHT
(Percent change, annual rate)

	1988	1989			1990		1988	1989
	Q4	Q1	Q2	H2	H1	H2	Q4/Q4	
Real GNP	2.0	5.2	3.0	1.8	.6	1.4	2.7	2.9
Real GNP, excluding effects of the drought	3.1	2.6	2.8	1.8	.6	1.4	3.4	2.1

The staff inflation projection has been revised upward, reflecting incoming price information and a more pessimistic outlook for labor productivity. Consumer food prices, which rose faster than the staff had expected in early 1989, still are projected to slow to a 3-1/4 percent annual pace in the second half of the year--a forecast that is contingent on a return to more normal weather conditions in the current growing season. Energy prices increase 4-3/4 percent over the year, about 1 percentage point more than in the last forecast, as a result of higher crude oil costs in the near term. The CPI excluding food and energy is forecast to increase 5-1/4 percent in 1989, only marginally above the pace projected in the February Greenbook. The GNP fixed-weight price index--a measure of the goods and services we produce rather than those we consume--now is projected to rise 4.7 percent in 1989, 1/4 percentage point more than in the February

forecast. A 1/2 percentage point downward revision to labor productivity growth is expected to boost GNP prices and squeeze profit margins.

Given the anticipated tightness in labor markets, the staff expects compensation to be under continuing upward pressure. In addition, employers' costs are boosted almost 1-1/2 percentage points (annual rate) in the first quarter of 1990 by a hike in social security payroll taxes and an assumed increase in the minimum wage.² However, as some margin of slack emerges in labor markets, the growth of hourly compensation begins to edge lower in the second half of 1990.

Price inflation is greater in 1990 than in 1989, reflecting the increase in labor costs and an acceleration in import prices as a result of the more rapid decline in the dollar. A slowing in price inflation should be possible in 1991, however, if the margin of slack in resource markets that is projected to develop next year is maintained.

2. The staff's assumption follows the administration's proposal to raise the minimum wage from its current level of \$3.35 per hour to \$3.65 in the first quarter of 1990. The Bush proposal also would establish a \$3.35 per hour "training wage" for all new hires that would apply in the first six months of employment. On balance, the assumed increase in the minimum wage raises the growth of compensation per hour 0.4 percentage point (annual rate) in the first quarter of 1990 and 0.1 percentage point for the year as a whole.

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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)	
		2/1/89	3/22/89	2/1/89	3/22/89	2/1/89	3/22/89	2/1/89	3/22/89	2/1/89	3/22/89
Annual changes:											
1987	<1>	6.8	6.8	3.4	3.4	3.6	3.6	3.3	3.3	6.2	6.2
1988	<1>	7.4	7.4	3.8	3.8	4.2	4.2	3.4	3.4	5.5	5.5
1989		7.5	7.8	3.0	3.1	4.5	4.7	4.3	4.6	5.4	5.3
1990		5.8	5.8	1.5	1.2	4.7	4.8	4.3	4.5	5.9	5.9
Quarterly changes:											
1988	Q1 <1>	5.4	5.4	3.4	3.4	3.5	3.5	1.7	1.7	5.7	5.7
	Q2 <1>	8.7	8.7	3.0	3.0	5.0	5.0	5.5	5.5	5.5	5.5
	Q3 <1>	7.3	7.3	2.5	2.5	5.3	5.3	4.7	4.7	5.5	5.5
	Q4 <1>	6.8	7.2	2.0	2.0	4.0	4.2	4.7	5.3	5.3	5.3
1989	Q1	8.9	9.4	5.0	5.2	4.3	4.8	3.9	3.9	5.3	5.2
	Q2	7.3	7.8	2.8	3.0	4.6	4.8	4.4	4.7	5.3	5.2
	Q3	6.1	6.3	2.4	2.0	4.3	4.6	3.7	4.3	5.4	5.3
	Q4	6.0	5.9	2.0	1.6	4.5	4.4	4.0	4.2	5.5	5.4
1990	Q1	5.7	5.6	.9	.4	5.2	5.3	4.8	5.2	5.7	5.6
	Q2	5.1	5.2	.8	.8	4.6	4.7	4.3	4.4	5.9	5.8
	Q3	5.7	5.6	1.3	1.2	4.5	4.6	4.3	4.4	6.0	6.0
	Q4	5.9	6.0	1.6	1.7	4.5	4.5	4.3	4.3	6.1	6.1
Two-quarter changes: <2>											
1988	Q2 <1>	7.0	7.0	3.2	3.2	4.2	4.2	3.6	3.6	-.4	-.4
	Q4 <1>	7.0	7.2	2.2	2.2	4.8	4.8	4.7	5.0	-.2	-.2
1989	Q2	8.1	8.6	3.9	4.1	4.5	4.8	4.1	4.3	.0	-.1
	Q4	6.1	6.1	2.2	1.8	4.4	4.5	3.8	4.2	.2	.2
1990	Q2	5.4	5.4	.8	.6	4.9	5.0	4.5	4.8	.4	.4
	Q4	5.8	5.8	1.5	1.4	4.5	4.6	4.3	4.3	.2	.3
Four-quarter changes: <3>											
1987	Q4 <1>	8.3	8.3	5.0	5.0	4.0	4.0	3.1	3.1	-.9	-.9
1988	Q4 <1>	7.0	7.1	2.7	2.7	4.5	4.5	4.1	4.3	-.6	-.6
1989	Q4	7.1	7.3	3.0	2.9	4.4	4.7	4.0	4.3	.2	.1
1990	Q4	5.6	5.6	1.1	1.0	4.7	4.8	4.4	4.6	.6	.7

<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									
		1988		1989				1990			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of \$	4909.0	4995.2	5108.6	5205.2	5285.7	5361.7	5435.4	5505.2	5580.3	5662.2
Real GNP	Billions of 82\$	4009.4	4029.7	4080.8	4110.8	4130.8	4147.3	4151.5	4159.8	4171.8	4189.0
Nominal GNP	Percent change	7.3	7.2	9.4	7.8	6.3	5.9	5.6	5.2	5.6	6.0
Real GNP		2.5	2.0	5.2	3.0	2.0	1.6	.4	.8	1.2	1.7
Gross domestic product		2.0	2.2	5.7	3.0	2.0	1.7	.5	.7	1.1	1.6
Gross domestic purchases		2.5	2.9	4.7	2.6	1.6	1.0	.0	.0	.3	.7
Final sales		2.0	3.1	3.2	3.3	2.9	2.0	1.3	1.4	1.4	1.8
Private dom. final purchases		3.9	2.6	3.4	3.2	2.5	1.3	.9	.6	.5	.8
Personal consumption expend.		3.9	3.5	2.6	4.1	2.7	1.3	1.0	.7	.6	.9
Durables		-.2	6.1	3.6	5.9	3.5	-3.9	-1.7	-2.3	-2.0	.0
Nondurables		5.0	2.1	1.0	2.0	2.0	1.8	1.1	.7	.6	.6
Services		4.5	3.6	3.4	4.9	3.0	2.6	1.9	1.6	1.4	1.4
Business fixed investment		4.0	-4.6	7.9	2.6	3.3	2.8	1.4	.9	.5	.2
Producers' durable equipment		4.6	-5.9	7.3	4.3	5.0	4.5	3.0	2.5	2.0	1.5
Nonresidential structures		2.6	-.3	9.4	-2.3	-1.6	-2.3	-3.2	-3.9	-4.0	-3.9
Residential structures		4.3	10.9	2.4	-6.4	-2.3	-1.6	-2.6	-2.0	-.2	.9
Exports		14.5	7.7	16.0	10.4	8.7	8.9	5.1	6.7	7.2	9.0
Imports		13.1	13.0	10.6	6.4	5.0	3.6	1.9	.9	.9	1.8
Government purchases		-5.2	9.8	.3	1.6	2.1	1.5	.7	.7	.6	.9
Federal		-13.2	16.8	-2.6	.8	2.2	.6	-1.1	-1.3	-1.5	-.9
Defense		-10.5	7.5	-7.4	-2.3	-1.4	-5.0	-2.8	-2.9	-2.9	-2.6
State and local		1.1	5.1	2.4	2.2	2.1	2.1	2.0	2.1	2.1	2.1
Change in business inventories	Billions of 82\$	39.5	29.3	48.6	45.5	36.6	32.6	23.7	17.8	15.1	13.5
Nonfarm	Billions of 82\$	40.4	37.7	39.8	37.1	29.5	29.2	21.7	16.4	14.0	12.9
Net exports	Billions of 82\$	-93.9	-103.3	-99.4	-95.8	-92.2	-85.8	-81.7	-73.5	-64.6	-54.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	106.5	107.3	108.3	109.0	109.4	109.7	109.8	110.0	110.1	110.3
Unemployment rate	Percent*	5.5	5.3	5.2	5.2	5.3	5.4	5.6	5.8	6.0	6.1
Industrial production index	Percent change	7.1	4.7	3.6	2.2	1.9	1.6	.3	.5	1.5	2.3
Capacity utilization rate-mfg.	Percent*	84.0	84.4	84.6	84.5	84.2	83.8	83.2	82.7	82.3	82.1
Housing Starts	Millions	1.47	1.56	1.56	1.49	1.47	1.46	1.43	1.44	1.44	1.44
Auto sales	Millions	10.53	10.53	9.99	10.40	10.60	9.95	9.75	9.50	9.30	9.30
Domestic	Millions	7.41	7.42	7.15	7.40	7.60	7.00	6.90	6.80	6.70	6.70
Foreign	Millions	3.12	3.11	2.84	3.00	3.00	2.95	2.85	2.70	2.60	2.60
INCOME AND SAVING											
Nominal personal income	Percent change	7.3	9.2	12.4	7.4	6.7	7.3	7.4	5.8	5.9	6.4
Real disposable income	Percent change	5.6	4.8	6.8	1.0	1.2	1.5	1.6	.1	.1	.7
Personal saving rate	Percent*	4.2	4.5	5.4	4.7	4.4	4.4	4.5	4.4	4.2	4.2
Corp. profits with IVA & CCAdj	Percent change	4.4	3.3	-9.6	6.3	-6.8	-13.9	-28.6	-12.0	-6.8	-2.1
Profit share of GNP	Percent*	6.7	6.7	6.4	6.3	6.1	5.8	5.3	5.0	4.9	4.8
Federal govt. surplus/deficit	Billions of \$	-123.5	-156.7	-154.6	-143.5	-139.0	-141.7	-134.7	-129.3	-119.0	-113.8
State and local govt. surplus		56.0	52.0	60.6	65.6	67.9	69.3	69.1	68.9	70.1	72.1
Exc. social insurance funds		-13.3	-18.9	-11.3	-7.2	-5.8	-5.2	-6.2	-7.2	-6.8	-5.6
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.7	5.3	3.9	4.7	4.3	4.2	5.2	4.4	4.4	4.3
GNP fixed-weight price index		5.3	4.2	4.8	4.8	4.6	4.4	5.3	4.7	4.6	4.5
Cons. & fixed invest. prices		4.5	4.4	4.8	5.1	4.8	4.7	5.0	5.0	5.0	4.9
CPI		4.5	4.4	5.4	5.4	5.0	4.8	5.2	5.2	5.2	5.1
Exc. food and energy		4.0	4.9	5.2	5.2	5.3	5.6	5.8	5.8	5.7	5.7
Nonfarm business sector											
Output per hour		2.0	.1	-.4	.3	.4	.4	.4	.5	.9	1.2
Compensation per hour		5.7	5.6	5.3	5.3	5.5	5.6	7.0	5.5	5.4	5.4
Unit labor costs		3.7	5.6	5.7	5.0	5.1	5.2	6.6	5.0	4.5	4.2

* Not at an annual rate.

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

		Projection								
	Units	1982	1983	1984	1985	1986	1987	1988	1989	1990
EXPENDITURES										

Nominal GNP	Billions of \$	3166.0	3405.7	3772.2	4014.9	4240.3	4526.7	4863.1	5240.3	5545.8
Real GNP	Billions of \$2\$	3166.0	3279.1	3501.4	3618.7	3721.7	3847.0	3995.1	4117.4	4168.0
Real GNP	Percent change*	-1.9	6.5	5.1	3.6	2.0	5.0	2.7	2.9	1.0
Gross domestic product		-1.6	6.6	5.3	3.8	2.3	5.1	2.9	3.1	1.0
Gross domestic purchases		-.8	8.4	6.4	4.3	2.4	4.4	2.1	2.4	.2
Final sales		.3	3.7	4.7	4.6	2.5	3.0	3.7	2.9	1.5
Private dom. final purchases		.8	7.7	5.6	4.6	2.8	2.4	3.8	2.6	.7
Personal consumption expend.		2.9	5.4	4.1	4.6	4.2	1.8	3.7	2.7	.8
Durables		9.0	14.7	10.8	7.0	11.5	-2.4	7.5	2.2	-1.5
Nondurables		1.8	4.4	2.3	3.3	3.1	.6	2.1	1.7	.7
Services		2.3	3.9	3.5	5.0	2.7	4.2	3.7	3.5	1.6
Business fixed investment		-11.3	10.8	13.8	3.7	-7.3	8.8	5.2	4.1	.8
Producers' durable equipment		-12.5	20.9	14.9	4.6	-2.4	9.6	9.3	5.3	2.2
Nonresidential structures		-9.1	-4.8	11.8	1.9	-17.4	6.7	-4.8	.7	-3.7
Residential structures		4.9	38.1	6.1	5.8	11.3	-3.5	2.0	-2.0	-1.0
Exports		-13.8	5.8	5.9	-2.4	5.6	18.4	14.0	10.9	7.0
Imports		-5.9	23.8	17.4	4.5	7.6	10.4	7.1	6.4	1.4
Government purchases		3.8	-2.7	7.9	8.6	2.9	2.3	-.1	1.4	.7
Federal		8.2	-8.1	13.0	13.3	.0	2.1	-4.3	.3	-1.2
Defense		8.8	5.1	6.5	7.1	4.8	6.0	-2.6	-4.1	-2.8
State and local		.6	1.5	4.4	4.9	5.3	2.5	3.2	2.2	2.1
Change in business inventories	Billions of \$2\$	-24.5	-6.4	62.3	9.1	15.4	34.4	42.5	40.8	17.5
Nonfarm	Billions of \$2\$	-23.1	-.1	57.8	13.4	17.9	36.9	40.0	33.9	16.3
Net exports	Billions of \$2\$	26.3	-19.9	-84.0	-104.3	-137.5	-128.9	-99.7	-93.3	-68.5
Nominal GNP	Percent change*	3.1	10.4	8.6	6.6	4.8	8.3	7.1	7.3	5.6
EMPLOYMENT AND PRODUCTION										

Nonfarm payroll employment	Millions	89.6	90.2	94.5	97.5	99.5	102.3	106.0	109.1	110.0
Unemployment rate	Percent	9.7	9.6	7.5	7.2	7.0	6.2	5.5	5.3	5.9
Industrial production index	Percent change*	-7.7	14.3	6.6	1.7	1.0	5.8	5.1	2.3	1.1
Capacity utilization rate-mfg.	Percent	70.3	73.9	80.5	80.1	79.7	81.1	83.5	84.3	82.6
Housing Starts	Millions	1.06	1.71	1.77	1.74	1.81	1.63	1.49	1.50	1.44
Auto sales	Millions	8.00	9.18	10.43	11.09	11.52	10.34	10.66	10.24	9.46
Domestic	Millions	5.77	6.77	7.97	8.24	8.28	7.14	7.51	7.29	6.78
Foreign	Millions	2.23	2.41	2.46	2.84	3.25	3.21	3.14	2.95	2.69
INCOME AND SAVING										

Nominal personal income	Percent change*	5.3	7.8	8.4	6.6	5.9	8.5	7.1	8.4	6.4
Real disposable income	Percent change*	1.0	5.1	4.3	2.7	3.4	3.0	3.8	2.6	.6
Personal saving rate	Percent	6.8	5.4	6.1	4.4	4.0	3.2	4.2	4.7	4.3
Corp. profits with IVA & CCAdj	Percent change*	-19.1	70.1	7.4	9.2	.9	7.6	5.3	-6.3	-13.0
Profit share of GNP	Percent	4.7	6.3	7.1	7.0	7.0	6.9	6.7	6.2	5.0
Federal govt. surplus/deficit	Billions of \$	-145.9	-176.0	-169.6	-196.9	-205.6	-157.8	-143.3	-144.7	-124.2
State and local govt. surplus		35.1	47.5	64.6	65.1	61.2	52.9	54.9	65.8	70.0
Exc. social insurance funds		-1.7	4.4	19.8	13.8	5.0	-9.2	-13.5	-7.4	-6.5
PRICES AND COSTS										

GNP implicit deflator	Percent change*	5.2	3.6	3.4	2.9	2.8	3.1	4.3	4.3	4.6
GNP fixed-weight price index		5.0	3.9	3.7	3.3	2.7	4.0	4.5	4.7	4.8
Cons. & fixed invest. prices		4.4	3.3	3.3	3.4	2.5	4.7	4.1	4.9	5.0
CPI		4.4	3.2	4.2	3.5	1.3	4.4	4.3	5.2	5.2
Exc. food and energy		5.2	4.2	5.0	4.3	3.9	4.2	4.6	5.3	5.7
Nonfarm business sector										
Output per hour		1.0	3.6	1.5	1.5	1.2	1.9	.7	.2	.8
Compensation per hour		7.3	3.3	4.2	4.5	4.2	4.1	4.8	5.4	5.8
Unit labor costs		6.2	-.3	2.6	2.9	3.0	2.1	4.0	5.2	5.0

* 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)

March 22, 1989

	Projection										Projection			
	1988		1989				1990				1987	1988	1989	1990
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	24.2	20.3	51.1	30.0	20.0	16.4	4.2	8.4	12.0	17.2	188.3	106.7	117.6	41.8
Gross domestic product	20.0	21.9	55.9	29.7	19.9	17.3	4.7	7.2	11.5	16.6	188.3	112.6	122.9	40.0
Gross domestic purchases	25.5	29.7	47.2	26.4	16.3	10.1	.1	.2	3.1	6.9	171.9	84.0	100.1	10.3
Final sales	20.0	30.4	31.9	33.1	28.9	20.4	13.1	14.3	14.7	18.8	110.7	144.4	114.4	60.9
Private dom. final purchases	31.6	21.5	27.4	26.3	21.0	11.1	7.6	4.7	4.5	6.8	76.2	122.5	85.9	23.6
Personal consumption expend.	24.8	22.2	16.8	26.4	18.1	8.4	7.0	4.5	4.0	6.1	45.5	94.3	69.7	21.6
Durables	-.2	6.1	3.7	6.1	3.7	-4.3	-1.8	-2.5	-2.1	.0	-9.7	28.9	9.2	-6.5
Nondurables	10.9	4.8	2.3	4.5	4.5	4.1	2.5	1.6	1.4	1.4	5.2	18.8	15.5	6.9
Services	14.1	11.3	10.9	15.8	9.8	8.6	6.3	5.4	4.7	4.7	50.0	46.6	45.1	21.2
Business fixed investment	4.8	-5.6	9.4	3.2	4.1	3.5	1.8	1.1	.7	.2	37.5	24.4	20.1	3.9
Producers' durable equipment	4.1	-5.6	6.4	3.9	4.6	4.2	2.8	2.4	1.9	1.5	29.2	30.9	19.2	8.6
Nonresidential structures	.8	-.1	2.9	-.7	-.5	-.7	-1.0	-1.2	-1.3	-1.2	8.3	-6.4	.9	-4.7
Residential structures	2.0	5.0	1.2	-3.2	-1.2	-.8	-1.2	-.9	-.1	.4	-7.0	3.9	-4.0	-1.9
Change in business inventories	4.2	-10.2	19.3	-3.1	-8.9	-4.0	-8.9	-5.9	-2.7	-1.6	77.6	-37.8	3.3	-19.1
Nonfarm	10.3	-2.7	2.1	-2.7	-7.6	-.3	-7.5	-5.3	-2.4	-1.1	67.0	-30.5	-8.5	-16.3
Farm	-6.1	-7.5	17.1	-.4	-1.3	-3.7	-1.4	-.6	-.3	-.5	10.6	-7.2	11.7	-2.8
Net exports	-1.3	-9.4	3.9	3.6	3.6	6.4	4.1	8.2	8.9	10.3	16.4	22.7	17.5	31.5
Exports	17.1	9.6	19.8	13.6	11.7	12.2	7.3	9.6	10.4	13.2	71.4	64.4	57.3	40.6
Imports	18.4	18.9	16.0	10.0	8.1	5.8	3.1	1.5	1.5	2.9	55.0	41.6	39.9	9.1
Government purchases	-10.3	18.3	.6	3.2	4.2	2.9	1.4	1.4	1.3	1.8	18.1	-.8	11.0	5.8
Federal	-11.5	12.7	-2.2	.7	1.8	.5	-.9	-1.1	-1.2	-.7	7.2	-14.9	.9	-4.0
Defense	-7.2	4.7	-5.0	-1.5	-.9	-3.2	-1.8	-1.8	-1.8	-1.6	15.1	-7.1	-10.6	-7.0
Nondefense	-4.2	8.0	2.8	2.2	2.7	3.7	.9	.7	.6	.9	-7.9	-7.8	11.5	3.0
State and local	1.2	5.7	2.7	2.5	2.4	2.4	2.3	2.5	2.5	2.5	10.9	14.2	10.0	9.8

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March 22, 1989

FEDERAL SECURITIES ACCOUNTS
(Billions of dollars)

	Fiscal Year 1988a	FY1989p			FY1990p			1988 IVA	FRB Staff Projection							
		Admin	CBO	FRB Staff	Admin	CBO	FRB Staff		1989				1990			
									I	II	III	IV	I	II	III	IV
BUDGET									Not seasonally adjusted							
Budget receipts	909	979	983	980	1066	1069	1071	222	218	288	252	237	251	317	267	254
Budget outlays	1064	1144	1142	1141	1157	1215	1189	289	278	291	283	299	298	301	292	303
Surplus/deficit (-)																
to be financed	-155	-164	-159	-161	-91	-146	-118	-68	-60	-2	-31	-62	-47	16	-25	-49
(On-budget)	-194	-220	-215	-213	-162	-214	-183	-73	-77	-20	-43	-71	-66	-6	-40	-63
(Off-budget)	39	56	56	52	69	68	66	6	17	18	12	9	19	22	15	13
Means of financing:																
Borrowing	162	n.a.	n.a.	152	n.a.	n.a.	112	54	35	21	41	44	32	11	24	36
Cash decrease	-8	n.a.	n.a.	4	n.a.	n.a.	0	11	18	-5	-19	22	3	-20	-5	22
Other	1	n.a.	n.a.	5	n.a.	n.a.	6	3	7	-14	9	-5	12	-8	6	-8
Cash operating balance, end of period	44	n.a.	n.a.	40	n.a.	n.a.	40	34	16	21	40	18	15	35	40	18
NIPA FEDERAL SECTOR									Seasonally adjusted annual rates							
Receipts	964	n.a.	1037	1029	n.a.	1133	1117	991	1020	1045	1061	1078	1112	1129	1148	1169
Expenditures	1107	n.a.	1177	1178	n.a.	1255	1248	1148	1175	1189	1200	1219	1247	1258	1267	1283
Purchases	380	n.a.	395	397	n.a.	416	410	394	394	398	401	403	411	413	414	415
Defense	298	n.a.	302	301	n.a.	311	304	301	300	301	302	300	305	305	305	305
Nondefense	82	n.a.	93	96	n.a.	105	106	94	94	97	99	103	106	108	109	110
Other expend.	727	n.a.	782	781	n.a.	839	837	753	781	791	799	816	836	845	853	868
Surplus/deficit	-142	n.a.	-140	-148	n.a.	-122	-131	-157	-155	-144	-139	-142	-135	-129	-119	-114
FISCAL INDICATORS																
High-employment (HEB) surplus/deficit (-)	-151	n.a.	n.a.	-168	n.a.	n.a.	-136	-168	-176	-167	-161	-160	-143	-130	-112	-101
Change in HEB, percent of potential GNP	.2	n.a.	n.a.	.4	n.a.	n.a.	-.6	.7	.2	-.2	-.1	0	-.3	-.3	-.3	-.2
Fiscal impetus measure (FI), percent	.1 *	n.a.	n.a.	-4.1 *	n.a.	n.a.	-6.7 *	1.2	-2.2	-.4	-.5	-2.8	-3.7	-.5	-.5	-.3
a--actual		p--projection				*--calendar year				n.a.--not available						

Notes:

1. The Administration figures are from Building a Better America (February 9, 1989), with a minor revision from the Budget Director's testimony. Budget estimates include policy proposals.
2. The CBO figures are baseline budget estimates from An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990 (February 1989).
3. 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.
4. Other means of financing are checks issued less checks paid, accrued items and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.
6. Details may not add to total due to rounding.

March 21, 1989

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

	ANNUAL			1988		1989				1990			
	1988-	1989-P	1990-P	Q3-	Q4-	Q1-P	Q2-P	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P
1. <u>GNP Exports and Imports 1/</u>													
Current \$, Net	-94.3	-94.7	-76.8	-80.0	-94.8	-98.0	-96.8	-94.2	-89.9	-87.1	-80.3	-73.8	-65.8
Exports of G+S	520.2	603.1	664.9	536.1	549.7	576.2	595.4	612.1	628.7	640.5	655.8	671.9	691.5
Imports of G+S	614.5	697.8	741.7	616.0	644.5	674.2	692.2	706.3	718.6	727.6	736.1	745.7	757.3
Constant 82 \$, Net	-99.7	-93.4	-68.6	-93.9	-103.3	-99.5	-95.9	-92.3	-85.9	-81.8	-73.6	-64.7	-54.4
Exports of G+S	505.2	562.5	603.9	514.0	523.6	543.4	557.0	568.7	580.9	588.2	597.8	608.2	621.4
Imports of G+S	604.8	655.8	672.4	607.9	626.8	642.8	652.8	660.9	666.7	669.8	671.3	672.8	675.8
2. <u>U.S. Merchandise Trade Balance 2/</u>	-126.5	-127.9	-115.5	-116.7	-128.1	-129.1	-130.0	-128.6	-123.8	-121.6	-118.4	-113.9	-108.2
Exports	319.9	360.2	395.6	326.7	334.6	348.3	356.1	363.3	373.1	380.4	389.5	399.9	412.6
Agricultural	38.3	42.7	46.2	40.9	38.4	42.6	42.1	42.0	44.2	44.6	45.7	46.6	47.8
Non-Agricultural	281.6	317.5	349.4	285.8	296.2	305.7	314.0	321.3	328.9	335.8	343.7	353.2	364.8
Imports	446.4	488.1	511.1	443.4	462.7	477.4	486.1	492.0	496.9	502.0	507.9	513.7	520.8
Petroleum and Products	39.3	44.2	46.0	39.4	36.9	44.1	44.7	43.8	44.0	45.0	45.8	46.2	46.8
Non-Petroleum	407.1	444.0	465.2	404.0	425.7	433.3	441.5	448.1	452.9	457.0	462.1	467.5	474.1
3. <u>U.S. Current Account Balance</u>	-135.3	-141.5	-128.6	-130.4	-127.7	-145.8	-141.5	-138.8	-139.9	-134.9	-130.3	-126.1	-123.2
Of Which: Net Investment Income	2.6	-3.2	-7.3	-4.9	18.8	-5.3	-1.6	-1.3	-4.7	-6.0	-6.4	-7.8	-8.9
4. <u>Foreign Outlook 3/</u>													
Real GNP--Ten Industrial 4/	3.7	2.7	2.4	4.5	2.3	2.9	2.7	2.3	2.2	2.3	2.4	2.5	2.7
Real GNP--NonOPEC LDC 5/	3.9	3.4	3.7	3.7	3.5	3.3	3.3	3.3	3.3	3.4	3.9	4.5	5.0
Consumer Prices--Ten Ind. 4/	2.6	3.6	3.2	2.5	3.7	3.9	4.3	2.9	3.0	3.0	4.0	2.4	2.9

1/ National Income and Product Account data.

2/ International accounts basis.

3/ Percent change, annual rates.

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

5/ Weighted by share in NonOPEC LDC GNP.

P/ Projected

March 22, 1989

RECENT DEVELOPMENTS

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

securities. The ratio of tax-exempt to taxable yields has hovered near the current level since its substantial decline in August.

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

	1987	1988	1988			1989		
	Year	Year	Q2	Q3	Q4	Jan.	Feb. ^p	Mar. ^f
Total offerings ¹	10.44	10.88	11.73	11.55	11.58	7.63	9.29	--
Total tax-exempt	10.05	10.60	11.41	11.32	11.21	7.43	9.09	10.00
Long-term	8.53	9.01	9.20	8.80	10.09	6.64	7.96	9.00
Refundings ²	3.80	2.75	3.18	1.87	2.91	2.50	1.79	--
New capital	4.73	6.26	6.02	6.93	7.18	4.14	6.17	--
Short-term ³	1.52	1.59	2.21	2.52	1.12	.79	1.13	1.00
Total taxable	.39	.28	.32	.23	.37	.20	.20	--
Memo item:								
Bank-qualified ⁴	n.a.	n.a.	n.a.	n.a.	n.a.	.39	.37	--

1. Includes issues for public and private purposes; also includes taxable issues.

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

3. Does not include tax-exempt commercial paper.

4. No data prior to January 1989.

p--preliminary.

f--forecast.

Commercial banks have, since 1986, been trimming their holdings of tax-exempt securities. Because their ability to deduct 80 percent of the carrying costs on newly acquired tax-exempt bonds is restricted to instruments issued by units that do not expect to issue more than \$10 million of bonds during the year, bank holdings have been largely determined by the pace at which pre-tax reform acquisitions are maturing. Thus far in 1989 "bank-qualified" municipal issues have accounted for about five percent of total long-term municipal volume.

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

	1988	1989	1989		
	Q4	Q1 ^e	Jan.	Feb.	Mar. ^e
<u>Treasury financing</u>					
Total surplus/deficit (-)	-67.6	-60.2	2.8	-27.9	-35.2
Means of financing deficit:					
Net cash borrowing from the public	53.7	35.3	7.2	17.3	10.9
Marketable borrowings/repayments (-)	36.9	29.7	6.5	13.7	9.5
Bills	15.5	2.8	2.3	-.1	.6
Coupons	21.4	27.0	4.2	13.8	8.9
Nonmarketable ²	6.3	5.8	.8	3.7	1.4
Other borrowing ²	10.5	-.2	-.1	-.1	.0
Decrease in the cash balance	10.8	17.5	-8.1	16.9	8.7
Memo: Cash balance at end of period	33.7	16.1	41.8	24.8	16.1
Other ³	3.1	7.4	-1.9	-6.4	15.6
<u>Federally sponsored credit agencies, net cash borrowing⁴</u>					
	13.4 ^P	-	3.0 ^P	5.4 ^P	-
FHLBs	10.8	-	4.0	4.1 ^P	-
FNMA	-.6	-	-.6	.4	-
Farm Credit Banks	-.6	-	-.8	.1	-
FAC ⁵	.2	-	.0	.0	-
FHLMC	.4 ^P	-	.3 ^P	.3 ^P	-
FICO	2.1	-	.0	.0	-
SLMA	2.0	-	.1 ^P	.5 ^P	-

1. Data reported on a not seasonally adjusted, payment basis.

2. Securities issued by federal agencies under special financing authorities (primarily FSLIC).

3. Includes checks issued less checks paid, accrued items and other transactions.

4. Excludes mortgage pass-through securities issued by FNMA and FHLMC.

5. Financial Assistance Corporation, an institution within Farm Credit System, was created in January 1988 by Congress to provide financial assistance to Farm Credit Banks. It first issued bonds in July 1988.

e--staff estimate.

p--preliminary.

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

CONFIDENTIAL (FR)
CLASS III - FOMC

March 24, 1989

SUPPLEMENT
CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Prepared for the
Federal Open Market Committee

By the Staff
Board of Governors
of the Federal Reserve System

Table 1

BUSH ADMINISTRATION FEDERAL BUDGET PROPOSALS
(Billions of dollars)

	Fiscal years					
	1989	1990	1991	1992	1993	1994
Outlays	1150	1160	1212	1249	1284	n.a.
Receipts	979	1066	1148	1219	1287	n.a.
Deficit, excluding asset sales	171	95	64	31	-3	n.a.

Source: Building a Better America, February 9, 1989.

* In testimony before the House Budget Committee on February 22, OMB Director Darman revised the FY1989 administration outlay total upward by \$0.4 billion. The FY1989 deficit, excluding asset sales, now rounds to \$171 billion.

BUSH ADMINISTRATION ECONOMIC ASSUMPTIONS

	Calendar years					
	1989	1990	1991	1992	1993	1994
-----Percent change, Q4 to Q4-----						
Nominal GNP	7.3	7.0	6.4	5.8	5.3	4.7
Real GNP	3.5	3.4	3.3	3.2	3.2	3.2
GNP deflator	3.7	3.5	3.0	2.5	2.0	1.5
-----Percent, annual average-----						
Civilian unemployment rate	5.3	5.2	5.0	5.0	5.0	5.0
Interest rate						
(3-month Treasury bills)	7.4	5.5	4.5	4.0	3.5	3.0
(10-year Treasury Notes)	8.6	7.2	6.0	5.0	4.5	4.0

Source: OMB, Revised Economic Assumptions for the Bush Budget, February 9, 1989.

Table 2

SUMMARY OF BUSH BUDGET PLAN FOR FY1990
(Billions of dollars)

			1990 -----Change-----	From current services ¹
	FY1989	FY1990	Year-to-year	
Receipts	979.3	1065.6	+86.3	5.6
Outlays				
<u>Defense</u>	298.2	300.3	+2.1	-.6 ²
<u>Income security--</u>				
Social security, unemployment comp., veterans pensions, and means-tested programs.	314.4	330.9	+16.5	.0
<u>Priority spending--</u>				
Science, conservation, education, drugs, crime prevention, Medicaid, and interna- tional affairs.	104.4	116.1	+11.7	+3.5e
<u>Specified programs with cuts from current services--farm price support and credit, Medicare, federal employee health and retirement.</u>	167.3	165.5	-1.8	-14.8
<u>Deposit insurance</u> ³	14.7	.4	-14.3	-.3
<u>Interest</u>	168.8	173.3	+4.5	-1.1
<u>Offsetting receipts</u>	-36.9	-39.6	-2.7	-2.7
<u>All other spending</u>	<u>118.6</u>	<u>113.5</u>	<u>- 5.1</u>	<u>-11.3</u>
Total⁴	1149.5	1160.4	+10.9	27.3
Deficit	-170.2	-94.8	+75.4	-32.9
Deficit, with asset sales	-163.3	-91.1	+72.2	n.a.

e--estimated by the staff.

1. Current services as estimated in the January budget documents, adjusted for changes in economic assumptions.

2. Reduction in outlays from current services is in parts of the defense function other than the military functions of the Department of Defense and the nuclear waste clean-up activities in the Department of Energy.

3. Deposit insurance estimates include all aspects of the President's thrift resolution proposal as estimated February 9; current services estimate was preliminary.

4. Outlays before asset sales, which are estimated to amount to \$6.9 billion in FY1989 and \$3.7 billion in FY1990.

Table 3

CBO BASELINE BUDGET ESTIMATES¹
(Billions of dollars)

	Fiscal years					
	1989	1990	1991	1992	1993	1994
Outlays	1142	1215	1287	1348	1416	1489
Receipts	983	1069	1140	1209	1280	1359
Deficit	159	146	146	140	135	130

CBO ECONOMIC ASSUMPTIONS

	Calendar years					
	1989	1990	1991	1992	1993	1994
-----Percent change, year-to-year-----						
Nominal GNP	7.2	6.4	6.5	6.4	6.4	6.5
Real GNP	2.9	2.1	2.2	2.2	2.3	2.3
GNP deflator	4.2	4.2	4.2	4.1	4.1	4.1
-----Percent, annual average-----						
Civilian unemployment rate	5.5	5.5	5.5	5.6	5.6	5.6
Interest rate						
(Treasury bills)	7.9	7.1	6.7	6.4	6.1	5.9
(Treasury notes)	9.3	9.0	8.6	8.1	7.7	7.4

Source: CBO, An Analysis of President Reagan's Budgetary Proposals for Fiscal Year 1990, (February 1989).

1. CBO projections assume that revenues and outlays evolve according to laws now on the statute books, and that defense and nondefense discretionary appropriations are held constant in real terms.