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Strictly Confidential (FR) Class II FOMC

March 20, 1991

SUMMARY AND OUTLOOK

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

Overview of the Staff Forecast

Output appears to have continued falling, at least through February, and for the first quarter as a whole real gross national product is now projected to decline at an annual rate of almost 2-1/2 percent. Private payrolls fell markedly in January and February, especially in the goods-producing sector, and the unemployment rate rose another 0.4 percentage point over the two months.

Nonetheless, in two key areas--retail sales and construction of single-family houses--the readings in February were positive, and consumer confidence has rebounded markedly since the end of the Gulf war. While these are far from decisive signals of an upturn in the economy--such signals rarely are clear cut--the staff believes the odds at this point favor a rise in activity in the coming quarter.

With falling energy prices helping to bolster household purchasing power, an increase in consumer spending is expected to be the principal element spurring the turnaround in the economy. At the same time, export demand is projected to be robust during the second quarter, and homebuilding and spending on business equipment should level out. However, businesses are expected to continue to draw down inventories, moderating the effect of firmer demand on production. On balance, real GNP is projected to rise at just under a 2 percent annual rate.

During the second half of the year, the gains in real GNP should be more robust, bolstered by renewed growth in expenditures for residential contruction and in business spending for equipment. In addition, with output gains firmly established, businesses are expected to begin to accumulate inventories--albeit cautiously. In 1992, growth of real GNP is anticipated to slow a bit, but to remain above our estimate of its potential rate.

STAFF PROJECTIONS
(Percent change from end of preceding comparable period; annual rate)

	1991			1992	
	Q1	Q2	H2	H1	H2
Real GNP	-2.4	1.9	3.9	3.0	2.6
(previous)	*-1.5*	*2.8*	*3.1*	*2.7*	*2.5*
Real PCE	-3.5	3.6	2.8	2.6	2.5
(previous)	*-1.5*	*2.5*	*1.9*	*2.2*	*2.2*
Real disposable personal income	1.4	3.2	2.1	2.4	2.3
(previous)	*2.5*	*2.2*	*1.5*	*2.1*	*1.8*
Civilian unemployment rate					
(percent; end of period)	6.5	6.8	6.3	6.2	6.0
(previous)	*6.4*	*6.4*	*6.1*	*6.1*	*6.0*

We continue to anticipate that growth in aggregate demand will be subject to several important moderating influences. The adjustment under way in commercial construction is expected to be a drag on real activity for some time. Federal purchases are also anticipated to decline steadily after the current quarter, under established budgetary restrictions. The availability of credit at depository institutions likely will continue to be restrained by banks' attempts to enhance their capital positions, although the constraint on credit supplies may be a shade less at this juncture than anticipated in the last Greenbook; bond investors have shared in the renewed optimism about the economic outlook, resulting in a narrowing of risk premia, and recent supervisory policy statements should be working in the same direction.

The level of real GNP in the first half of 1991 is lower in this forecast mainly because of the immediate and lagged effects of the unexpectedly deep decline in labor income through February. After midyear, activity is projected to expand sufficiently faster than forecast in January that real GNP ends 1992 slightly higher than previously expected. As a result, the civilian unemployment rate, which now is projected to reach 6-3/4 percent in the near term, should begin to decline fairly rapidly in the second half of this year and then to edge down further during 1992 to 6 percent, the same as in the January Greenbook.

The projection of the somewhat faster pace of economic activity for the final six quarters of the forecast results principally from the assumption that short-term interest rates will remain below the levels that had been anticipated in the previous forecast and from the assumption that a lower path for energy prices will augment real disposable income. Because of the steeper decline in energy prices and a somewhat slower rise in labor compensation in the first half of this year, consumer price inflation now is expected to slow to 3-3/4 percent over the four quarters of this year. In 1992, however, further deceleration in overall prices is inhibited by an assumed leveling out of oil prices; nonetheless, the persistence of some slack in labor and product markets should promote a further modest slowing of "core" inflation.

Obviously, there are many uncertainties associated with the staff projection. Among other things, indications of an upturn are equivocal at this point, and, especially in light of the unusual dislocations in the real estate market and strains in financial institutions, a weaker economic performance cannot be ruled out. The risks are not one-sided, however, and indeed experience suggests that it is easy to underestimate, while in a recession, the speed and strength of the ensuing upturn. In this instance, given the apparent exceptional influence of the war on sentiment, a sharper rebound in household and business spending would seem a distinct possibility--with implications for pressures on interest rates and inflation.

Key Assumptions

The events in the Gulf region and the actions of OPEC countries since the war have altered our thinking about the path of crude oil prices over the projection period. Key OPEC members appear unwilling to limit production sufficiently to restore the spot price of crude oil to the level targeted in last July's accord. We now anticipate that the posted price of West Texas Intermediate will average $18-1/2 per barrel in the second quarter, down from an estimated $20-3/4 per barrel this quarter. The WTI price is assumed to average $19 per barrel over the last six quarters of the projection--$3 per barrel lower than in the January Greenbook.

For fiscal policy, the staff continues to assume that, while there may be some small "emergency" measures, no major new tax or spending programs will be enacted in fiscal years 1991 and 1992. Consequently, we expect that, overall, the federal sector will impose modest restraint on aggregate demand over the projection period. However, our projections of the unified budget deficits have been adjusted noticeably to reflect revised estimates of the net effect of Operation Desert Shield/Storm and of spending for deposit insurance.

Because of the quick conclusion of the Gulf war, the incremental increase in defense spending is now estimated to total around $45 billion rather than the $60 billion assumed in the January Greenbook. The current estimate approximates the supplemental budget authority that has been approved by the House and the Senate. Although less overall, the additional defense spending is projected to be slightly greater in the current fiscal year ($23 billion) than previously thought, with spending in FY92 ($15 billion) and beyond ($7 billion) expected to be less.[1] Contributions by allies are anticipated to more than cover the incremental budget costs. However, because these contributions are expected to be paid fully in the current fiscal year, Desert Shield/Storm on net is projected to reduce the unified FY91 budget deficit $27 billion and to raise the FY92 deficit $15 billion. The change in the unified deficit from FY91 to FY92 is further

UNIFIED BUDGET DEFICIT
(Billions of dollars)

	FY90	FY91	FY92
Total	220	257	291
(previous)		*283*	*266*
Desert Shield/Storm	1	-27	15
(previous)		*0*	*0*
Deposit insurance	58	94	101
(previous)		*91*	*94*
Excl. Desert Shield/Storm and deposit ins.	161	190	176
(previous)		*191*	*171*

1. In the January Greenbook the additional Desert Shield/Storm spending was distributed as follows: $20 billion in FY91, $20 billion in FY92, and $20 billion in subsequent years.

exaggerated by additional outlays for deposit insurance, which are expected to be another $3 billion in the current fiscal year and $7 billion in the next.

In this projection, the federal funds rate is assumed to be unchanged at 6 percent through 1992--3/4 percentage point lower through next year than in the January Greenbook. Long-term rates are expected to remain around their recent levels, which have been buoyed to some extent by greater optimism about the outlook for the economy. Interest rates have manifested a variety of patterns during the first year or so of previous cyclical upswings. Although history clearly suggests the risk that upward pressure on rates will emerge as the expansion proceeds, the relatively mild pace of the recovery that we have projected and the expected further progress in reducing inflation argue against an early upturn in rates.

The growth of M2 in 1991 is anticipated to be about in line with the projected growth of nominal GNP, despite the decline in short-term interest rates. Restrained lending activity at commercial banks is expected to continue to moderate the growth of this aggregate. Largely reflecting the lower path now assumed for short-term interest rates, this growth rate for M2 is faster than in the last Greenbook and would place the aggregate in the upper portion of its range of 2-1/2 to 6-1/2 percent. The growth of M3 in 1991 is projected at around the midpoint of its 1 to 5 percent range, as it continues to be held down by sizable RTC activity for the year as a whole. The staff foresees M2 in 1992 growing at about the same rate as in 1991; with interest rates flat and the restraint on depository credit abating, that pace is only a little below the rate of growth of nominal income. M3 also will likely maintain this year's pace as the restructuring of the thrift industry continues.

The foreign exchange value of the dollar has firmed considerably on exchange markets since the last FOMC meeting. The markets have responded with surprising force to the improved prospects for U.S. economic growth as well as to perceptions that interest rates abroad may have peaked. The dollar is assumed to retrace part of its recent runup and then to be essentially unchanged throughout the remainder of the projection period at a level about 4 percent above that shown in the January projection. At the same time, the staff has lowered slightly its projections for growth in other G-10 countries, but the general pattern is much the same: Economic activity abroad is expected to remain relatively weak in the near term but then to strengthen in the second half of the year and to continue fairly brisk in 1992. Some of the negative effects on export demand have been offset by an allowance for U.S. participation in the reconstruction of Kuwait. (For further details, see the International Developments section.)

Recent Developments and the Upturn

Real GNP appears to be declining at close to a 2-1/2 percent annual rate in the current quarter. Sales of autos and light trucks have been about in line with our earlier expectations, but domestic manufacturers of motor vehicles have been more cautious than anticipated and have further cut their assemblies back further rather than hold them at the fourth-quarter level as we previously assumed. The loss in production is estimated to be reducing GNP growth this quarter roughly 1-1/2 percentage points.

Elsewhere, changes to our current-quarter projections have had largely offsetting consequences for GNP. Real PCE is expected to be noticeably weaker than projected earlier because additional data now show steeper declines in outlays for non-auto goods and services. Incoming information on shipments of nondefense capital goods, which shows them to be marginally weaker than expected, resulted in a slight cut in projected equipment spending. Our estimate of expenditures for residential investment also is slightly lower. However, changes in our estimates of the pattern of defense spending for Operation Desert Storm have led us to raise our estimate of the growth of federal purchases this quarter. Moreover, businesses appear to have been less than fully successful in holding down inventories in the face of the sharp drop in final sales early this year. On balance, inventories held by wholesalers and retailers backed up in January, and we expect that, even with production down substantially, stocks will not be drawn down to the extent that we had projected in the January forecast.

The weak pace of activity early this year has generated a lower level of income than previously anticipated, which, other things equal, would be expected to depress spending somewhat in the near term. But, as noted above, some positive signs have surfaced of late. The most concrete indicators of a firming in spending are the reports that retail sales and housing starts rose noticeably in February. In addition, consumer confidence has bounced back smartly, the stock market has rebounded, and oil prices are down significantly. Money growth has perked up in the wake of additional System easing actions. Thus, many of the contractionary influences that prevailed last autumn have been reversed.

We expect that businesses will respond fairly promptly to indications of a recovery in sales by curtailing layoffs and stepping up production, thereby bolstering income. In the near term, non-auto businesses are expected to continue to reduce inventories, limiting the effect of firmer sales on output. However, in the motor vehicles sector, where dealer stocks have become historically quite lean, the rebound in production is expected to be somewhat faster. The automakers' current schedules indicate a moderate pickup in assemblies through mid-year, when the model changeover begins. Given our sales forecast, we believe that a slight overbuild will occur and that motor vehicle output will add 1-1/2 to 2 percentage points to growth of real GNP in the second quarter. Nonetheless, the industry still is anticipated to keep stocks low enough to avoid costly increases in sales incentives this summer and fall.

Another area of notable strength projected for the second quarter is exports. U.S. producers of nonagricultural merchandise are expected to continue benefitting from the lagged effect of the depreciation of the dollar coupled with the moderate increases in prices of U.S. exports. At the same time, the growth of non-oil merchandise imports is anticipated to be moderate.

After steep declines this quarter, real outlays for residential construction and business spending for new equipment are anticipated to change little, on average, in the second quarter, eliminating a significant drag on activity. However, nonresidential construction is projected to continue falling, defense spending in expected to resume its decline, and outlays by state and local governments are anticipated to be sluggish in view of the serious budgetary pressures on many units.

With real activity early this year somewhat weaker than previously expected, layoffs have been larger, and the civilian unemployment rate has risen faster, to 6-1/2 percent in February. Employment is expected to continue contracting into the early spring, and the jobless rate is now anticipated to peak at around 6-3/4 percent. Average hourly earnings for production workers were little changed in the first two months of the year; relatively large losses of high-wage jobs probably have exaggerated the deceleration, but these figures do suggest slightly less rapid increases in labor compensation in the near term than previously forecast.

In the current quarter, the passthrough of the recent lower level of prices of crude oil has caused a drop in domestic energy prices large enough to more than offset a sharp acceleration in consumer prices of other goods and services. On net, the CPI is expected to increase at a 3-3/4 percent annual rate in the current quarter--a bit more than in the January Greenbook. Because some of the acceleration in the CPI outside of the food and energy categories appears to be transitory--related to the stepup in excise taxes and quirks of seasonal adjustment--and because energy prices are projected to continue to slide, the CPI for the second quarter is forecast to decelerate to an annual rate of 2-3/4 percent.

Beyond Mid-1991

Real GNP is projected to increase at almost a 4 percent annual rate in the second half of this year and 2-3/4 percent in 1992. The average growth rate over this period is nearly 1/2 percentage point higher than in the January Greenbook. This change in the outlook is the result of the lower projected path for the price of imported oil and the greater monetary ease now assumed over the forecast period. Nonetheless, the projected recovery is mild by historical standards. In part, this reflects the absence of the bounce provided in past recoveries by wide swings in inventories, but it also is due to the underlying negatives in the real estate sector, the lack of countercyclical fiscal action, and the unusual constraints on financial intermediaries.

GROWTH OF REAL GNP IN EXPANSIONS
(Percent change; average annual rate)

Trough	Expansion 1st qtr.	 1st 3 qtrs.	 1st 7 qtrs.
1954:Q2	4.9	6.6	4.6
1958:Q2	9.8	8.2	5.8
1961:Q1	5.0	6.7	4.7
1970:Q4	11.2	4.3	4.8
1975:Q1	4.1	5.6	4.6
1980:Q3	5.2	3.9	.5
1982:Q4	3.5	6.3	6.4
		projection	
1991:Q1	1.9	3.2	2.9

Over the last six quarters of the forecast, real personal consumption expenditures are projected to rise at almost a 2-3/4 percent annual rate. Supported by a recovery in household wealth, spending increases slightly faster, on average, than does real disposable income. The personal saving rate is expected to drift a bit below its average of 5 percent in 1990 prior to the Iraqi invasion. Also, growth in exports of goods and services is projected to remain robust, though the growth of nonagricultural exports begins to moderate in late 1992 as the lagged effects of the 1990 dollar depreciation wane.

Elsewhere, business spending for equipment is forecast to accelerate in the second half of 1991, as production and sales show solid gains, and to grow more than 7 percent during 1992. Initially, higher outlays for motor vehicles and computers are anticipated to account for the pickup; by 1992, spending for industrial machinery is expected to firm. Some recovery in industrial building also may occur by late next year, but overall nonresidential construction will continue to be pushed lower by the decline in commercial building, as the backlog of vacant properties is worked off only slowly.

Residential construction is projected to trend upward over the second half of this year and through 1992. Although mortgage interest rates are assumed to be about flat, growth of expenditures for residential investment is expected to be sustained by rising employment and income. Starts of new single-family units are forecast to remain under 1 million units (annual rate) even by the end of the projection period, appreciably below the recent highs of the mid-1980s. In the multifamily sector, starts are forecast to rise slowly to a level of just 250,000 units. In general, the current overhang of unoccupied units and a slower trend pace of household formations argues for a relatively weak rebound in building activity. And caution on the part of lenders, especially with respect to multifamily projects, also is expected to damp construction.

Government spending is projected to decline, on balance, through the end of 1992. Federal nondefense purchases are likely to rise moderately, but the budgeted cuts in defense spending are expected to move back on track. State and local government purchases are anticipated to be held down significantly this year by efforts to balance budgets; some pickup is expected in 1992, owing to continued pressures for public services and infrastructure investment.

Some slack still is expected to persist in labor and product markets throughout 1992. Over the year, the civilian unemployment rate is projected to drift down only to 6 percent, the actual level of real GNP is projected to remain well short of our estimate of potential, and manufacturing capacity utilization is expected to edge up to just 80 percent, noticeably below its longer-run average. These factors should sustain the disinflationary process even as the economy expands at an appreciable clip.

After decelerating sharply during the first half of this year, the consumer price index is projected to rise at around a 4 percent rate in the second half. The pickup in the overall CPI occurs because the price of crude oil is assumed to stop falling by midyear, and domestic energy prices firm a bit. Excluding energy, the CPI is anticipated to rise at about a 4 percent rate, nearly a percentage point below the pace in the first half of this year. In 1992, the consumer price index is expected to slow a bit further, as the effects of slowing labor costs and the projected margin of slack shows through in underlying price trends.

STAFF PROJECTIONS OF PRICE INFLATION
(Percent change from end of preceding comparable period; annual rate)

	1991				1992	
	Q1	Q2	Q3	Q4	H1	H2
Consumer price index	3.7	2.7	4.2	4.0	4.0	3.5
(previous)	*3.4*	*3.8*	*4.3*	*4.1*	*4.1*	*3.8*
Energy	-22.4	-10.8	5.6	4.4	3.7	3.6
(previous)	*-15.5*	*-2.2*	*2.1*	*3.1*	*3.5*	*3.6*
Excluding energy	6.3	3.9	4.1	4.0	4.0	3.5
(previous)	*5.2*	*4.4*	*4.5*	*4.2*	*4.1*	*3.8*

The ECI for compensation in private industry is projected to rise 4 percent in 1991 and 3.7 percent in 1992--after running at around 4-3/4 percent in each of the past three years. The improvement is especially striking this year, when the appreciable slack in labor markets and the intense efforts of businesses to control costs in response to the recession more than offset the sizable increments to compensation associated with hikes in social security taxes and the minimum wage. Progress is less in 1992, owing to the substantial growth of the economy and diminishing slack. To some extent, labor cost pressures on prices also are expected to be held in check by above-trend growth in labor productivity, which is forecast to rise at more than a 1-1/2 percent rate, on average, from mid-1991 to late 1992.

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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)	
		1/30/91	3/20/91	1/30/91	3/20/91	1/30/91	3/20/91	1/30/91	3/20/91	1/30/91	3/20/91
Annual changes:											
1988	<2>	7.9	7.9	4.5	4.5	4.2	4.2	4.1	4.1	5.5	5.5
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990	<2>	5.0	5.1	.9	.9	4.5	4.6	5.4	5.4	5.5	5.5
1991		4.4	4.1	.5	.3	4.2	4.1	4.7	4.6	6.3	6.5
1992		6.5	6.5	2.8	3.1	3.9	3.6	4.0	3.9	6.0	6.1
Quarterly changes:											
1989	Q1 <2>	7.5	7.5	3.6	3.6	4.9	4.9	5.4	5.1	5.2	5.2
	Q2 <2>	5.8	5.8	1.6	1.6	4.6	4.6	6.0	6.0	5.3	5.3
	Q3 <2>	5.1	5.1	1.7	1.7	3.1	3.1	2.9	3.3	5.3	5.3
	Q4 <2>	3.9	3.9	.3	.3	3.8	3.8	3.9	3.9	5.3	5.3
990	Q1 <2>	6.7	6.7	1.7	1.7	6.6	6.6	8.2	7.5	5.3	5.3
	Q2 <2>	5.1	5.1	.4	.4	3.9	3.9	3.8	3.8	5.3	5.3
	Q3 <2>	5.3	5.3	1.4	1.4	4.2	4.2	6.3	7.0	5.6	5.6
	Q4 <2>	.3	.5	-2.1	-2.0	4.1	4.7	6.9	6.9	5.9	5.9
1991	Q1	3.3	2.1	-1.5	-2.4	5.0	4.7	3.4	3.7	6.4	6.5
	Q2	6.7	5.7	2.8	1.9	3.7	3.5	3.8	2.7	6.4	6.8
	Q3	6.8	7.6	3.1	3.9	4.0	3.7	4.3	4.2	6.2	6.5
	Q4	6.7	7.2	3.1	3.8	3.7	3.5	4.1	4.0	6.1	6.3
1992	Q1	6.8	6.7	2.8	3.0	4.3	4.0	4.1	4.2	6.1	6.2
	Q2	6.0	6.0	2.6	2.9	3.7	3.4	4.0	3.8	6.1	6.2
	Q3	6.0	5.6	2.5	2.6	3.7	3.3	3.8	3.5	6.0	6.1
	Q4	5.9	5.5	2.4	2.6	3.6	3.2	3.7	3.5	6.0	6.0
Two-quarter changes: <3>											
1989	Q2 <2>	6.7	6.7	2.6	2.6	4.7	4.7	5.7	5.6	.0	.0
	Q4 <2>	4.5	4.5	1.0	1.0	3.4	3.4	3.4	3.6	.0	.0
1990	Q2 <2>	5.9	5.9	1.1	1.1	5.3	5.3	5.9	5.6	.0	.0
	Q4 <2>	2.8	2.9	-.4	-.3	4.2	4.4	6.6	6.9	.6	.6
1991	Q2	5.0	3.9	.7	-.2	4.4	4.1	3.6	3.2	.5	.9
	Q4	6.8	7.4	3.1	3.9	3.8	3.6	4.2	4.1	-.3	-.5
1992	Q2	6.4	6.3	2.7	3.0	4.0	3.7	4.1	4.0	.0	-.1
	Q4	5.9	5.6	2.5	2.6	3.6	3.2	3.8	3.5	-.1	-.2
Four-quarter changes: <4>											
1988	Q4 <2>	7.8	7.8	3.5	3.5	4.6	4.6	4.3	4.3	-.5	-.5
1989	Q4 <2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990	Q4 <2>	4.3	4.4	.3	.4	4.7	4.8	6.3	6.3	.6	.6
991	Q4	5.9	5.6	1.9	1.8	4.1	3.9	3.9	3.7	.2	.4
992	Q4	6.2	5.9	2.6	2.8	3.8	3.5	3.9	3.7	-.1	-.3

<1> For all urban consumers.
<2> Actual.
<3> Percent change from two quarters earlier.
<4> Percent change from four quarters earlier.

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

	Units	1984	1985	1986	1987	1988	1989	1990	Projection 1991	Projection 1992
EXPENDITURES										
Nominal GNP	Billions of $	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5463.6	5685.5	6054.4
Real GNP	Billions of 82$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4156.3	4169.3	4299.1
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	.4	1.8	2.8
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	-.3	1.4	2.6
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	1.4	.9	2.5
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	.0	.7	3.1
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.3	1.4	2.6
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	-1.3	.5	2.7
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-2.2	.0	1.7
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.5	2.6	3.0
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	1.8	-2.3	4.5
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	4.1	-.6	7.3
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-5.4	-8.1	-5.8
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-9.6	-.7	7.9
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	4.9	4.9	8.1
Imports		17.4	4.5	10.0	10.4	5.5	4.5	.1	2.6	6.7
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	3.6	-.2	-.8
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	4.7	.2	-4.1
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	3.1	-1.9	-6.8
State and local		4.4	4.9	5.2	2.3	3.1	2.6	2.9	-.4	1.5
Change in business inventories	Billions of 82$	62.3	9.1	5.6	22.8	23.6	23.8	-2.5	-8.5	23.0
Nonfarm	Billions of 82$	57.8	13.4	8.0	28.7	26.5	18.7	-4.0	-9.9	21.0
Net exports	Billions of 82$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-36.2	-3.4	2.3
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	4.4	5.6	5.9
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.5	108.4	110.3	110.0	112.0
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.5	6.1
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	.3	1.3	4.1
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.3	78.5	79.9
Housing starts	Millions	1.77	1.74	1.81	1.62	1.49	1.38	1.19	1.05	1.18
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.51	8.80	9.48
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.90	6.42	6.85
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.60	2.38	2.63
INCOME AND SAVING										
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	5.5	6.0	6.7
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	-.4	2.2	2.3
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.5	4.9	4.7
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-.1	4.2	1.0
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.5	5.0	5.1
Federal govt. surplus/deficit	Billions of $	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-163.9	-146.4	-160.0
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	36.3	41.1	71.9
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-33.1	-31.6	-4.4
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.0	3.7	3.1
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.8	3.9	3.5
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.3	3.5	3.5
CPI		4.2	3.5	1.3	4.5	4.3	4.6	6.3	3.7	3.7
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.3	4.8	3.8
ECI hourly compensation		4.9	3.9	3.2	3.3	4.8	4.8	4.6	4.0	3.7
Nonfarm business sector										
Output per hour		1.5	1.6	1.3	2.3	1.8	-1.6	.0	1.6	1.4
Compensation per hour		4.1	4.6	4.9	3.7	4.2	2.2	4.4	4.1	3.7
Unit labor costs		2.6	3.0	3.6	1.4	2.3	3.9	4.4	2.5	2.3

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

March 20, 1991

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

	Units	1988 Q1	1988 Q2	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2
EXPENDITURES											
Nominal GNP	Billions of $	4735.8	4831.4	4917.9	5009.8	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3
Real GNP	Billions of 82$	3970.2	4005.8	4032.1	4059.3	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1
Real GNP	Percent Change	5.1	3.6	2.7	2.7	3.6	1.6	1.7	.3	1.7	.4
Gross domestic purchases		1.6	3.0	3.2	2.4	1.2	1.8	2.8	-1.2	.5	1.3
Final sales		7.1	5.1	1.1	4.6	2.4	1.7	1.8	.9	3.8	-.7
Private dom. final purchases		6.7	4.8	3.0	1.7	.8	1.4	4.1	-1.5	2.4	-1.2
Personal consumption expend.		6.9	2.7	3.5	3.5	-.3	1.3	4.6	-.8	1.1	.2
Durables		21.8	3.7	-1.1	14.1	-6.0	5.6	9.6	-13.0	14.4	-9.5
Nondurables		2.6	2.0	-4.1	1.2	.6	-1.7	3.9	-.2	-3.2	-1.9
Services		5.6	2.9	4.5	1.9	.9	2.1	3.5	3.1	.1	5.1
Business fixed investment		11.4	15.7	1.6	-6.3	8.9	6.9	6.3	-3.8	5.0	-4.7
Producers' durable equipment		20.3	17.9	2.2	-5.5	9.5	12.2	6.1	-5.2	5.7	-3.3
Nonresidential structures		-10.5	9.9	-.3	-8.7	7.5	-8.2	7.1	1.3	2.3	-9.0
Residential structures		-6.8	6.8	.4	-.4	-3.6	-11.3	-7.6	-5.5	15.1	-11.2
Exports		31.7	4.4	5.4	16.7	15.8	12.4	-.5	13.5	11.2	-5.0
Imports		.5	.3	9.2	12.4	-2.3	12.8	6.4	1.7	2.5	.7
Government purchases		-9.2	3.3	-3.8	15.7	-3.3	4.0	-2.4	3.0	2.9	6.2
Federal		-24.1	3.5	-10.4	33.6	-9.1	7.0	-7.9	-.4	.4	16.4
Defense		-5.6	-1.4	-5.0	4.9	-10.9	3.2	7.2	-7.0	-1.7	3.3
State and local		3.9	3.2	1.2	4.3	1.3	1.8	1.8	5.6	4.8	-.6
Change in business inventories	Billions of 82$	31.0	16.9	32.6	14.0	26.1	25.5	24.6	18.9	-2.2	9.5
Nonfarm	Billions of 82$	28.8	19.2	31.0	27.2	16.4	21.5	21.7	15.3	-8.2	11.6
Net exports	Billions of 82$	-77.3	-72.2	-78.5	-75.7	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6
Nominal GNP	Percent change	7.8	8.3	7.4	7.7	7.5	5.8	5.1	3.9	6.7	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	104.3	105.1	105.9	106.8	107.6	108.2	108.7	109.2	109.9	110.5
Unemployment rate	Percent*	5.7	5.5	5.5	5.3	5.2	5.3	5.3	5.3	5.3	5.3
Industrial production index	Percent change	5.0	4.2	5.9	2.8	2.7	2.8	-1.2	.2	.6	4.2
Capacity utilization rate-mfg.	Percent*	83.1	83.6	84.3	84.6	84.7	84.5	83.7	82.9	82.7	82.8
Housing starts	Millions	1.43	1.49	1.48	1.55	1.46	1.36	1.35	1.35	1.43	1.20
Auto sales	Millions	10.91	10.67	10.15	10.88	10.03	10.26	10.20	9.09	10.01	9.53
Domestic	Millions	7.60	7.50	7.20	7.89	7.08	7.26	7.36	6.56	7.11	6.78
Foreign	Millions	3.30	3.17	2.95	2.99	2.95	3.00	2.84	2.53	2.90	2.75
INCOME AND SAVING											
Nominal personal income	Percent change	6.4	8.6	8.1	7.4	11.6	5.8	3.7	6.2	8.6	5.3
Real disposable income	Percent change	7.3	2.7	4.9	2.3	4.2	-1.2	2.7	1.2	2.5	.3
Personal saving rate	Percent*	4.0	4.1	4.5	4.1	5.2	4.6	4.1	4.6	4.9	5.0
Corp. profits with IVA & CCAdj	Percent change	9.5	6.6	-1.7	19.5	-23.2	-7.0	-17.1	-19.1	8.4	13.9
Profit share of GNP	Percent*	7.0	7.0	6.8	7.0	6.4	6.2	5.9	5.5	5.5	5.6
Federal govt. surplus/deficit	Billions of $	-153.7	-136.9	-120.1	-156.3	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0
State and local govt. surplus		45.5	48.3	46.8	45.2	48.9	50.3	48.1	38.5	38.1	38.6
Exc. social insurance funds		-15.6	-14.1	-17.0	-19.0	-16.2	-15.6	-18.7	-29.1	-30.2	-30.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.7	4.4	4.7	4.7	3.9	3.9	3.2	3.8	4.8	4.7
GNP fixed-weight price index		3.9	4.7	5.5	4.4	4.9	4.6	3.1	3.8	6.6	3.9
Cons. & fixed invest. prices		2.9	4.9	4.5	5.0	5.0	5.3	2.3	4.6	6.8	2.6
CPI		3.2	4.5	5.2	4.4	5.1	6.0	3.3	3.9	7.5	3.8
Exc. food and energy		4.1	4.7	4.6	4.6	4.9	4.2	3.8	4.7	5.9	4.9
ECI hourly compensation**		5.2	5.2	3.8	5.1	4.2	4.9	5.3	4.4	5.6	5.1
Nonfarm business sector											
Output per hour		4.7	-.5	2.8	.2	-2.7	-.3	-1.0	-2.5	-1.3	.3
Compensation per hour		2.4	5.1	5.3	3.8	3.3	1.7	1.6	2.3	3.9	5.0
Unit labor costs		-2.2	5.7	2.5	3.6	6.1	2.0	2.6	5.0	5.3	4.7

* Not at an annual rate.
** Private industry workers

March 20, 1991

CONFIDENTIAL - FR
CLASS II FOMC

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

				Projection							
		1990		1991				1992			
	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	5514.6	5521.3	5550.2	5628.2	5731.7	5832.1	5927.8	6014.3	6096.5	6178.9
Real GNP	Billions of 82$	4170.0	4149.5	4124.6	4144.5	4184.5	4223.7	4255.5	4285.6	4313.6	4341.6
Real GNP	Percent Change	1.4	-2.0	-2.4	1.9	3.9	3.8	3.0	2.9	2.6	2.6
Gross domestic purchases		1.6	-4.5	-3.8	2.0	3.9	3.9	2.8	2.6	2.5	2.5
Final sales		1.9	.6	-2.4	2.0	2.1	2.0	2.5	2.6	2.6	2.4
Private dom. final purchases		2.3	-3.5	-5.4	2.7	3.0	2.8	3.0	3.1	3.2	3.2
Personal consumption expend.		2.7	-2.9	-3.5	3.6	3.0	2.6	2.6	2.6	2.5	2.5
Durables		2.6	-10.7	-14.7	9.6	5.9	3.0	3.2	2.5	2.6	2.5
Nondurables		2.3	-5.9	-5.5	2.3	1.8	1.6	1.6	1.8	1.8	1.8
Services		3.0	1.8	1.6	2.7	2.9	3.2	3.1	3.1	3.0	3.0
Business fixed investment		8.9	-1.3	-10.5	-1.4	1.3	1.9	3.1	4.3	5.2	5.5
Producers' durable equipment		10.2	4.2	-10.8	.6	3.9	4.6	6.0	7.2	8.0	8.0
Nonresidential structures		5.1	-17.9	-9.3	-8.3	-7.4	-7.4	-7.1	-6.2	-5.3	-4.5
Residential structures		-19.8	-18.5	-19.1	.6	10.3	8.5	8.9	7.4	8.1	7.0
Exports		6.9	7.1	-3.5	7.7	7.3	8.6	8.9	8.0	7.7	7.7
Imports		7.6	-9.7	-12.2	7.7	7.4	9.0	7.0	6.1	6.7	7.1
Government purchases		1.2	4.2	2.7	-.6	-1.7	-1.0	-.7	-.9	-.7	-1.1
Federal		.1	2.8	9.2	-.6	-3.9	-3.6	-3.1	-4.1	-3.9	-5.3
Defense		2.7	8.3	11.4	-4.6	-7.4	-5.7	-5.6	-6.6	-6.5	-8.3
State and local		2.0	5.3	-1.8	-.6	-.1	.9	1.1	1.5	1.7	1.8
Change in business inventories	Billions of 82$	4.7	-22.2	-21.9	-22.7	-4.0	14.6	20.0	23.0	23.5	25.5
Nonfarm	Billions of 82$	4.7	-24.0	-22.1	-23.6	-6.0	12.3	18.1	21.0	21.5	23.5
Net exports	Billions of 82$	-46.5	-18.5	-3.1	-3.2	-3.4	-4.0	-1.1	1.9	3.6	4.7
Nominal GNP	Percent change	5.3	.5	2.1	5.7	7.6	7.2	6.7	6.0	5.6	5.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	110.2	109.6	109.4	110.1	110.8	111.3	111.7	112.2	112.7
Unemployment rate	Percent*	5.6	5.9	6.5	6.8	6.5	6.3	6.2	6.2	6.1	6.0
Industrial production index	Percent change	3.9	-7.1	-9.2	1.9	7.0	6.5	4.5	4.2	3.9	3.9
Capacity utilization rate-mfg.	Percent*	82.9	80.8	78.1	77.9	78.7	79.3	79.6	79.8	80.0	80.1
Housing starts	Millions	1.13	1.04	.95	1.04	1.09	1.11	1.15	1.17	1.20	1.22
Auto sales	Millions	9.68	8.97	8.13	8.73	9.10	9.25	9.40	9.45	9.50	9.55
Domestic	Millions	7.21	6.59	6.00	6.38	6.60	6.70	6.80	6.83	6.86	6.90
Foreign	Millions	2.47	2.38	2.12	2.35	2.50	2.55	2.60	2.62	2.64	2.65
INCOME AND SAVING											
Nominal personal income	Percent change	5.0	3.3	4.7	6.3	5.9	6.9	7.9	6.2	6.1	6.5
Real disposable income	Percent change	-.7	-3.7	1.4	3.3	1.5	2.6	2.8	2.0	2.1	2.5
Personal saving rate	Percent*	4.2	4.0	5.2	5.1	4.8	4.8	4.8	4.7	4.6	4.6
Corp. profits with IVA & CCAdj	Percent change	-7.5	-12.8	-27.2	-.7	32.3	23.2	9.6	.7	-7.2	1.6
Profit share of GNP	Percent*	5.5	5.3	4.8	4.8	5.0	5.2	5.2	5.2	5.0	5.0
Federal govt. surplus/deficit	Billions of $	-145.7	-175.7	-126.2	-124.6	-160.4	-174.4	-173.6	-162.3	-152.7	-151.5
State and local govt. surplus		39.3	28.8	28.1	35.0	45.6	55.7	63.5	69.5	74.7	79.7
Exc. social insurance funds		-30.5	-41.7	-43.2	-37.2	-27.5	-18.3	-11.4	-6.3	-2.0	2.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.7	2.8	4.5	3.7	3.5	3.3	3.6	3.0	2.9	2.8
GNP fixed-weight price index		4.2	4.7	4.7	3.5	3.7	3.5	4.0	3.4	3.3	3.2
Cons. & fixed invest. prices		5.4	6.4	3.3	3.0	3.9	3.7	3.8	3.5	3.4	3.3
CPI		7.0	6.9	3.7	2.7	4.2	4.0	4.2	3.8	3.5	3.5
Exc. food and energy		6.1	4.2	7.0	3.9	4.2	4.1	4.3	3.8	3.5	3.5
ECI hourly compensation**		4.3	3.8	4.4	4.2	3.8	3.7	4.1	3.6	3.6	3.5
Nonfarm business sector											
Output per hour		.6	.3	1.4	1.3	1.7	1.9	1.7	1.7	1.2	1.1
Compensation per hour		4.7	4.0	4.5	4.3	3.9	3.9	4.1	3.6	3.6	3.6
Unit labor costs		4.1	3.7	3.1	3.0	2.2	2.0	2.4	1.9	2.4	2.5

* Not at an annual rate.
** Private industry workers

CONFIDENTIAL - FR
CLASS II FOMC

March 20, 1991

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

	1988				1989				1990		1987	1988	1989	1990
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	49.5	35.6	26.3	27.2	36.4	16.5	17.5	3.5	17.4	4.5	187.1	138.6	73.9	16.3
Gross domestic purchases	15.5	30.5	32.6	24.4	11.8	18.7	28.3	-12.7	4.9	13.7	163.0	103.0	46.1	-13.1
Final sales	66.9	49.7	10.6	45.7	24.4	17.0	18.5	9.3	38.4	-7.2	117.9	172.9	69.2	57.3
Private dom. final purchases	51.8	38.3	24.4	14.2	6.5	11.4	34.1	-12.9	20.2	-10.3	78.5	128.7	39.1	-1.2
Personal consumption expend.	42.6	17.3	22.3	22.4	-2.1	8.6	30.0	-5.4	7.4	1.5	56.4	104.6	31.1	7.0
Durables	19.8	3.8	-1.1	13.9	-6.6	5.8	9.9	-15.0	14.5	-10.8	-4.9	36.4	-5.9	-5.6
Nondurables	5.7	4.4	9.1	2.7	1.4	-3.9	8.8	-.4	-7.4	-4.4	11.7	21.9	5.9	-20.4
Services	17.1	9.1	14.2	6.0	3.0	6.7	11.3	10.0	.4	16.6	49.6	46.4	31.0	33.0
Business fixed investment	12.7	17.6	2.0	-8.0	10.5	8.4	7.8	-4.9	6.2	-6.2	26.6	24.3	21.8	9.2
Producers' durable equipment	16.0	14.9	2.0	-5.2	8.4	10.9	5.7	-5.2	5.4	-3.3	25.6	27.7	19.8	15.7
Nonresidential structures	-3.4	2.9	-.1	-2.8	2.2	-2.6	2.1	.4	.7	-2.9	1.0	-3.4	2.1	-6.6
Residential structures	-3.4	3.2	.2	-.2	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-4.5	-.2	-13.8	-17.4
Change in business inventories	-17.4	-14.1	15.7	-18.6	12.1	-.6	-.9	-5.7	-21.1	11.7	69.2	-34.4	4.9	-41.1
Nonfarm	-26.6	-9.6	11.8	-3.8	-10.8	5.1	.2	-6.4	-23.5	19.8	66.3	-28.2	-11.9	-39.3
Farm	9.1	-4.5	3.9	-14.8	22.9	-5.7	-1.1	.7	2.4	-8.1	3.0	-6.3	16.8	-1.7
Net exports	34.0	5.1	-6.3	2.8	24.6	-2.2	-10.8	16.2	12.5	-9.2	24.1	35.6	27.8	29.4
Exports	34.7	5.6	7.0	21.0	20.8	17.1	-.7	19.1	16.5	-8.0	80.5	68.3	56.3	29.8
Imports	.7	.5	13.3	18.2	-3.7	19.2	10.1	2.8	4.1	1.2	56.4	32.7	28.4	.5
Government purchases	-18.9	6.3	-7.5	28.7	-6.7	7.8	-4.8	6.0	5.7	12.3	15.3	8.6	2.3	29.1
Federal	-23.2	2.8	-8.9	23.9	-8.1	5.7	-6.9	-.3	.3	12.9	5.3	-5.4	-9.6	15.7
Defense	-3.8	-.9	-3.3	3.1	-7.4	2.0	4.5	-4.7	-1.1	2.1	10.2	-4.9	-5.6	7.9
Nondefense	-19.4	3.7	-5.6	20.8	-.8	3.8	-11.4	4.4	1.4	10.8	-4.9	-.5	-4.0	7.7
State and local	4.3	3.5	1.3	4.8	1.5	2.1	2.1	6.3	5.5	-.7	10.0	13.9	12.0	13.4

March 20, 1991

CONFIDENTIAL - FR
CLASS II FOMC

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

	1990		Projection 1991				Projection 1992				1989 (fourth quarter to fourth quarter, net change)	1990	Projection 1991	Projection 1992
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	14.9	-20.5	-24.9	19.9	40.0	39.2	31.8	30.1	28.0	28.0	73.9	16.3	74.2	117.8
Gross domestic purchases	16.8	-48.5	-40.3	20.0	40.2	39.8	28.9	27.0	26.3	26.9	46.1	-13.1	59.7	109.2
Final sales	19.7	6.4	-25.2	20.7	21.3	20.6	26.4	27.1	27.5	26.0	69.2	57.3	37.4	106.9
Private dom. final purchases	19.1	-30.2	-46.1	22.0	25.1	23.3	25.0	25.8	27.2	27.3	39.1	-1.2	24.2	105.3
Personal consumption expend.	18.0	-19.9	-23.5	23.6	19.6	17.6	17.6	17.4	17.3	17.3	31.1	7.0	37.3	69.6
Durables	2.7	-12.0	-16.3	9.3	5.9	3.1	3.3	2.6	2.7	2.7	-5.9	-5.6	2.1	11.3
Nondurables	5.2	-13.8	-12.6	5.2	4.0	3.6	3.6	4.1	4.1	4.1	5.9	-20.4	.2	15.8
Services	10.0	6.0	5.4	9.1	9.7	10.9	10.7	10.7	10.5	10.6	31.0	33.0	35.1	42.5
Business fixed investment	10.9	-1.7	-14.1	-1.8	1.6	2.4	3.9	5.4	6.6	7.0	21.8	9.2	-12.0	22.9
Producers' durable equipment	9.5	4.1	-11.3	.6	3.7	4.5	5.9	7.1	8.0	8.2	19.8	15.7	-2.5	29.1
Nonresidential structures	1.5	-5.9	-2.8	-2.4	-2.1	-2.1	-1.9	-1.7	-1.4	-1.2	2.1	-6.6	-9.4	-6.2
Residential structures	-9.8	-8.6	-8.5	.2	3.9	3.3	3.5	3.0	3.3	3.0	-13.8	-17.4	-1.1	12.8
Change in business inventories	-4.8	-26.9	.3	-.8	18.7	18.6	5.4	3.0	.5	2.0	4.9	-41.1	36.8	10.9
Nonfarm	-6.9	-28.7	1.9	-1.5	17.6	18.3	5.8	2.9	.5	2.0	-11.9	-39.3	36.3	11.2
Farm	2.1	1.9	-1.7	.7	1.1	.3	-.4	.1	.0	.0	16.8	-1.7	.4	-.3
Net exports	-1.9	28.0	15.4	-.1	-.2	-.6	2.8	3.0	1.7	1.1	27.8	29.4	14.5	8.6
Exports	10.4	10.9	-5.6	11.9	11.6	13.7	14.4	13.3	13.1	13.3	56.3	29.8	31.5	54.2
Imports	12.3	-17.1	-21.0	12.0	11.7	14.4	11.6	10.3	11.5	12.2	28.4	.5	17.0	45.6
Government purchases	2.5	8.6	5.5	-1.2	-3.6	-2.1	-1.4	-1.8	-1.4	-2.4	2.3	29.1	-1.3	-7.0
Federal	.1	2.4	7.7	-.5	-3.5	-3.2	-2.7	-3.6	-3.4	-4.6	-9.6	15.7	.6	-14.3
Defense	1.7	5.2	7.2	-3.2	-5.1	-3.8	-3.7	-4.3	-4.2	-5.3	-5.6	7.9	-4.9	-17.5
Nondefense	-1.6	-2.9	.6	2.7	1.6	.6	1.0	.7	.8	.7	-4.0	7.7	5.6	3.2
State and local	2.4	6.2	-2.2	-.7	-.1	1.1	1.3	1.8	2.0	2.2	12.0	13.4	-1.9	7.3

FEDERAL SECTOR ACCOUNTS[1]
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990a	1991	1992	Ia	IIa	IIIa	IVa	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts[2]	991	1031	1148	1174	230	319	254	254	265	350	280	258	270	354	292	273
Budget outlays[2]	1144	1252	1405	1465	310	331	312	340	335	369	361	375	367	360	363	374
Surplus/deficit(-)[2]	-153	-220	-257	-291	-80	-12	-58	-86	-70	-19	-82	-117	-97	-6	-71	-101
(On-budget)	-206	-277	-323	-364	-94	-41	-65	-96	-88	-48	-91	-128	-111	-43	-82	-112
(Off-budget)	53	57	66	73	14	29	7	10	18	29	9	11	14	37	11	11
Surplus excluding deposit insurance[3]	-131	-162	-163	-190	-74	17	-41	-71	-54	15	-52	-89	-69	16	-48	-88
Means of financing:																
Borrowing	140	263	285	276	90	41	69	99	60	24	102	107	73	34	62	102
Cash decrease	3	1	0	5	8	-16	-6	8	5	4	-17	15	5	-20	5	10
Other[4]	10	-44	-28	10	-18	-13	-6	-20	5	-9	-3	-5	19	-8	4	-11
Cash operating balance, end of period	41	40	40	35	18	35	40	32	27	23	40	25	20	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1038	1092	1161	1257	1081	1106	1126	1136	1152	1164	1192	1218	1252	1271	1287	1309
Expenditures	1174	1249	1308	1423	1249	1272	1272	1311	1278	1289	1353	1392	1425	1433	1440	1460
Purchases	400	415	446	446	411	422	426	436	450	451	448	446	449	447	444	440
Defense	301	307	329	319	307	310	313	322	335	332	327	323	322	318	314	308
Nondefense	99	107	117	127	103	112	113	114	115	119	122	124	127	129	130	132
Other expend.	774	835	861	976	838	850	846	876	828	837	904	946	976	987	996	1021
Surplus/deficit	-136	-158	-147	-166	-168	-166	-146	-176	-126	-125	-160	-174	-174	-162	-153	-152
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-149	-150	-86	-111	-166	-154	-127	-137	-61	-53	-95	-116	-118	-109	-101	-103
Change in HEB, percent of potential GNP	0	0	-1.2	.4	.3	-.2	-.5	.2	-1.3	-.1	.7	.3	0	-.1	-.1	0
Fiscal impetus measure (FI), percent	-3.5 *	-3.4 *	-2.3 *	-4.8 *	-2.3	1.2	-.8	1.3	-2.5	0	-1.2	-.9	-2.2	-.9	-.9	-1

a--actual *--calendar year

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

1. Staff projections. CBO's January deficit estimates are $298 billion in FY1991 and $284 billion in FY1992. OMB's February deficit estimates are $318 billion in FY1991 and $281 billion in FY1992.
2. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. The OASDI surplus is excluded from the "on-budget" deficit and shown separately as "off-budget", as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY1990.
3. CBO's January deficit estimates, excluding deposit insurance spending, are $194 billion in FY1991 and $186 billion in FY1992. OMB's February deficit estimates, excluding deposit insurance spending, are $207 billion in FY1991 and $193 billion in FY1992.
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 and 2.3% potential output growth in the forecast period. 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.

Recent Developments

Heightened expectations of economic recovery following the conclusion of the Persian Gulf War have triggered a rise in long-term Treasury yields this month--a rise extended in recent days by disappointing PPI and CPI reports. Since the February 6 FOMC meeting, Treasury bond rates have climbed about 40 to 50 basis points; corporate bond rates are generally unchanged or down, reflecting some ebbing of concerns about debt quality as earnings prospects were seen as improving. Junk bond yields are down more than 150 basis points. Broad stock indexes, although losing ground very recently, have risen 2 to 5 percent on net, and have gained about 15 percent since turning up the day the Allied offensive began in mid-January.

Reflecting further easing actions by the System, the trading range of the federal funds rate has dropped 1/4 percentage point to around 6 percent. Treasury bill rates initially moved down in response to the easing but have turned up recently, and are little changed on balance over the intermeeting period. Private money market rates have declined a little on balance; they had begun to firm in anticipation of quarter-end pressures, but retraced those advances as funding pressures came to be seen as modest.

After several months of lethargy, the broad monetary aggregates registered vigorous growth in February. M2 expanded at an 8-1/2 percent annual rate, owing primarily to strong inflows to liquid retail deposits. The opportunity cost of holding such deposits had been declining for some time, and, in the absence of any major news on troubled institutions recently, individuals may have become more willing to respond to the rate incentives. Among M2 components, only small time deposits remained weak, reflecting much prompter declines in rates on these deposits than on liquid deposits. As of mid-March, M2 stood well within its target cone.

Reflecting continued strength in institution-only MMMFs and large time deposits along with the gain in M2, M3 growth accelerated to a 10-1/2 percent pace last month, lifting this aggregate to the upper bound of its annual growth cone. Strength in large time deposits since the end of last year has materialized solely at branches and agencies of foreign banks, and appears to reflect mainly a substitution away from other managed liabilities that was motivated by the December action on reserve requirements, not so much by any need to fund credit expansion at these institutions. Growth in bank credit picked up in February. Loans accelerated to a 6 percent growth rate, the strongest pace in more than a year, with consumer and real estate loans providing most of the impetus; part of the growth in real estate loans, however, represented acquisitions from thrifts.

Aggregate debt growth of the nonfederal sectors appears to have firmed slightly in the first quarter from the very weak 3 percent pace over the previous quarter. Substantially increased issuance of long-term debt in February by state and local governments and nonfinancial corporations has boosted the nonfederal total. Part of the proceeds from corporate bond sales have been used to pay down short-term debt; business loans and nonfinancial commercial paper contracted on balance in January and February.

Borrowing by households appears to have weakened early in the first quarter, but may have begun to pick up recently. Consumer credit contracted in January; however, an upturn in bank consumer loans in February, a sharp rebound in consumer confidence in March, and reports of more active use of credit cards all point to a possible pickup in total consumer credit in the latter part of the quarter. Few data are yet available for home mortgage borrowing in early 1991. The depressed levels of home construction and sales in January suggest that the first-quarter pace will be a shade weaker than the previous quarter's. Although home sales transactions reportedly have picked up more than seasonally in the last few weeks, the normal lags in closing suggest that mortgage flows may show the effects more in the second quarter.

The estimate of the federal deficit for the first quarter has been revised down substantially from previous forecasts, primarily because of spending constraints on the RTC and the earlier-than-anticipated receipt of foreign contributions to the funding of the Persian Gulf war effort. As a result, the Treasury has pared its bill offerings, and growth in Treasury debt is likely to dip below 9 percent this quarter.

Outlook

The staff's economic projection is based on the assumption that the federal funds rate will remain around its present 6 percent level through 1992, 3/4 percentage point below that assumed in the last Greenbook. Other short-term rates also have been revised downward from previous expectations. Long-term rates, which have moved up in recent weeks to around the levels of the previous projection, are expected to hold at those levels, as a relatively quick turnaround in economic activity forestalls any meaningful downward movements in the near-term.

As signs of a rebound in the economy become more widespread, risk premia on business and municipal debt may narrow gradually further from their present levels. Nevertheless, a note of caution is likely to linger a while in lender behavior, given the slow improvement expected in the financial positions of borrowers, the inhibiting effect on asset values of a large overhang of real property, and the daunting needs of intermediaries to build capital positions. This will affect particularly below-investment grade firms and other borrowers without access to open market credit. We have assumed that the effects of the recent supervisory policy statements will be positive, but limited in their scope by the fact that capital shortfalls lay at the root of many lenders' hesitancy.

Debt of the domestic nonfinancial sectors is estimated to have expanded at little more than a 5 percent annual rate in recent months, but growth is expected to pick up and register a rate of 6-1/4 percent for all of 1991 and 6-1/2 percent in 1992. This is a relatively mild acceleration for an economic recovery--especially when adjusted for RTC activity--but it is consistent with the comparatively subdued pace projected for the upturn in the economy. Overall, growth in domestic nonfinancial debt is projected to expand about 1/2 percentage point faster than nominal GNP in 1991 and 1992, the difference reflecting largely the influence of RTC-related borrowing on Treasury debt.

Among the nonfederal sectors, borrowing by nonfinancial businesses is projected to rise only gradually over the forecast period. In part, the slow debt growth reflects moderate financing needs associated with the sluggish economic recovery, marked by slumping commercial construction and modest investment in fixed capital by corporate businesses. It also anticipates a much lower rate of equity retirements through mergers and acquisitions than seen for several years, as well as efforts by some businesses to "deleverage" debt-laden balance sheets created by the restructurings of the 1980s.

In the household sector, too, debt growth is expected to fall below rates recorded during past expansion periods. Consumer credit is projected to increase by little more than 1 percent this year and by just 3 percent in 1992. In the past, its growth rate has often hit double digits in the second year of an expansion, but this time the outlook for spending on consumer durables, a key driving force behind consumer borrowing, is unusually weak. The growth rate of home mortgage credit appears likely to increase only a little over the projection period. Although the first quarter is expected to mark the bottom of the current downcycle in housing, the upturns in both new construction and unit sales of existing homes are quite muted through 1992. With home prices also increasing sluggishly relative to past experience, and the potential for equity extractions from refinancing more limited this time around, the household sector should make only moderate additions to its stock of mortgage debt.

Little growth is foreseen this year or next in borrowing by state and local governments, although, in the months immediately ahead, short-term borrowing will be buoyed by issuance of notes to cover deficits. Many governments are expected to be coping with sizable revenue shortfalls by cutting back or delaying major capital projects, and net offerings also will be restrained by heavy bond retirements accomplished with proceeds from earlier advance refunding issues.

In the federal sector, debt growth is expected to drop off in 1991 and 1992 despite heavy deposit insurance outlays by RTC and FDIC. This year's borrowing need is reduced by the large payments to be received from

Operation Desert Storm. Although such payments disappear from the 1992 revenue stream, economic growth generates a large enough pickup in tax receipts to lower growth of federal debt somewhat further.

GROWTH RATES OF DEBT BY SECTOR[1]
(Period-end to period-end)

	Domestic Nonfinancial Sectors								Memo	
				Households						
	Total[2]	U.S. govt.[2]	Non-federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets[3]	Nominal GNP[4]
Annual (percent)										
1982	9.3	19.4	6.9	5.4	4.5	4.4	7.8	9.1	10.3	3.1
1983	11.5	18.8	9.6	11.4	11.0	12.6	8.3	7.1	11.8	10.4
1984	14.4	16.9	13.7	12.9	11.7	18.7	15.6	7.9	13.4	8.6
1985	14.2	16.2	13.6	14.1	11.9	15.9	11.4	23.7	12.0	6.6
1986	12.3	13.4	12.0	12.8	14.9	9.6	12.0	7.6	9.1	4.6
1987	9.0	8.0	9.3	11.6	14.0	5.1	7.0	9.6	7.8	8.2
1988	9.1	8.0	9.5	10.9	12.2	7.2	8.2	8.2	8.7	7.8
1989	7.5	7.2	7.5	8.9	10.5	5.3	6.7	4.9	7.4	5.6
1990	6.8	12.0	5.2	7.4	9.2	2.3	3.4	2.3	4.9	4.4
1991	6.3	11.4	4.7	5.5	7.1	1.2	4.4	1.7	5.6	5.6
1992	6.5	9.5	5.5	6.3	7.7	2.9	5.1	2.1	5.0	5.9
Quarterly (percent-SAAR)										
1989 -- Q1	8.2	7.0	8.6	9.2	10.6	5.1	8.4	6.6	8.5	7.5
Q2	7.2	4.6	7.9	8.0	9.7	4.9	8.3	5.4	8.0	5.8
Q3	7.2	8.0	6.9	8.7	10.2	4.8	5.6	4.6	8.5	5.1
Q4	6.4	8.3	5.9	8.5	9.6	5.7	3.8	2.6	3.6	3.9
1990 -- Q1	8.0	10.9	7.2	9.6	11.7	1.9	5.8	1.4	7.9	6.7
Q2	6.0	9.7	4.9	7.4	9.2	1.3	2.8	2.8	4.5	5.1
Q3	6.7	11.8	5.1	6.6	7.1	3.3	3.6	4.5	4.6	5.3
Q4	5.4	13.2	2.9	5.0	7.1	2.7	1.1	0.5	2.0	0.5
1991 -- Q1	5.1	8.6	4.0	4.8	6.7	-0.7	3.8	1.0	5.4	2.1
Q2	5.0	6.3	4.6	5.3	6.9	1.3	4.3	1.9	4.8	5.7
Q3	7.6	15.8	5.0	5.6	7.0	2.1	4.7	2.2	6.3	7.6
Q4	7.0	13.1	4.9	5.7	7.0	2.0	4.7	1.7	5.5	7.2
1992 -- Q1	6.2	9.3	5.2	5.9	7.2	2.5	4.9	1.9	5.3	6.7
Q2	5.8	7.3	5.3	6.1	7.4	2.8	4.9	1.9	4.1	6.0
Q3	6.3	8.8	5.4	6.3	7.6	3.1	5.1	2.3	4.5	5.6
Q4	7.0	11.3	5.5	6.4	7.8	3.1	5.1	2.2	5.7	5.5

1. Published data through 1990:4; projections for other periods
2. RTC activity adds roughly .8 and .6 percentage points to total debt growth in 1991 and 1992, respectively; comparable figures for federal debt growth are 3.1 and 2.3 percentage points.
3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.
4. Annual figures are Q4 to Q4.

2.6.3 FOF

FLOW OF FUNDS PROJECTION HIGHLIGHTS[1]
(Billions of dollars, seasonally adjusted annual rates)

		Calendar year				----1990----		-----------1991-----------				----1992----	
		1989	1990	1991	1992	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
	Net funds raised by domestic												
1	nonfinancial sectors	554.0	599.1	619.1	684.3	613.2	500.0	506.4	463.0	782.1	725.0	634.5	734.1
2	Net equity issuance	-124.2	-63.0	-50.3	-45.0	-74.0	-61.0	-38.0	-73.0	-45.0	-45.0	-45.0	-45.0
3	Net debt issuance	678.2	662.1	669.4	729.3	687.2	561.0	544.4	536.0	827.1	770.0	679.5	779.1
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	33.9	32.3	37.3	56.9	52.7	30.0	31.7	27.6	39.2	50.6	52.6	61.2
5	Net equity issuance	-124.2	-63.0	-50.3	-45.0	-74.0	-61.0	-38.0	-73.0	-45.0	-45.0	-45.0	-45.0
6	Credit market borrowing	211.9	114.9	156.3	188.1	125.6	40.4	134.0	152.0	169.6	169.5	182.5	193.7
	Households												
7	Net borrowing, of which:	285.0	260.1	209.5	256.0	246.8	189.0	183.7	205.4	221.4	227.3	245.6	266.5
8	Home mortgages	221.6	217.0	187.1	218.1	179.8	183.8	177.5	184.2	191.1	195.9	209.2	227.0
9	Consumer credit	39.1	18.4	9.4	23.8	26.6	21.6	-5.9	10.8	16.8	16.1	21.8	25.8
10	Debt/DPI (percent)[3]	89.8	93.0	95.1	94.9	95.4	95.8	95.8	95.5	95.6	95.5	94.7	95.0
	State and local governments												
11	Net borrowing	29.6	14.6	11.1	13.7	28.7	3.1	6.8	12.5	14.2	10.9	12.5	14.9
12	Current surplus[4]	-25.7	-41.9	-22.2	3.2	-41.7	-51.9	-33.2	-27.6	-18.4	-9.7	-0.8	7.1
	U.S.government												
13	Net borrowing from public	151.6	272.5	292.6	271.5	286.1	328.4	220.0	166.1	421.9	362.3	239.0	304.1
14	Net borrowing from public[5]	151.6	272.5	292.6	271.5	68.4	98.7	59.6	24.0	102.2	106.7	107.2	164.4
15	Unified budget deficit[5]	155.0	236.1	287.6	275.6	57.8	86.3	69.9	18.7	82.0	117.0	103.2	172.5
	Funds supplied by												
16	depository institutions	92.8	-17.5	-46.2	-19.9	-57.4	-77.5	-27.9	-50.6	-53.9	-52.3	-27.8	-11.9
	Memoranda: As percent of GNP:												
17	Dom. nonfinancial debt[3]	181.7	186.6	192.0	191.8	189.3	191.6	193.1	192.8	192.9	192.9	191.2	192.0
18	Dom. nonfinancial borrowing	13.0	12.1	11.8	12.0	12.5	10.2	9.8	9.5	14.4	13.2	11.4	12.7
19	U.S. government[6]	2.9	5.0	5.1	4.5	5.2	5.9	4.0	3.0	7.4	6.2	4.0	5.0
20	Private	10.1	7.1	6.6	7.6	7.3	4.2	5.8	6.6	7.1	7.0	7.4	7.7

1. Published data through 1990:4; projections for other periods.
2. For corporations: excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by annual GNP.
4. NIPA surplus, net of retirement funds.
5. Quarterly data at quarterly rates, nsa.
6. Excludes gov't-insured mortgage pool securities.

2.6.4 FOF

Recent Developments

The weighted-average foreign exchange value of the dollar, in terms of the other G-10 currencies, has risen about 11 percent since the February 6 FOMC meeting. The dollar was supported by euphoria over the successful end of the Persian Gulf war and by expectations that an upturn in consumer confidence will help the U.S. economy rebound. These changed expectations, coupled with perceptions of some weakening of growth abroad, led market participants to expect movement in interest differentials more favorable to the dollar. Late in the period, concern about events in the Soviet Union weighed particularly heavily against the mark. Overall, the dollar rose about 13-1/2 percent against the mark, 11 percent against sterling, and 8 percent against the yen.

German short-term market interest rates did not rise following the increase in the Lombard rate in late January, as the Bundesbank kept the call money rate below the new Lombard rate. Elsewhere, U.K. official interest rates were eased 1 percentage point, and short-term market rates declined even more. Some signs of a slowdown in the Japanese economy fed speculation that the Bank of Japan might lower its official interest rates and contributed to downward pressure on the yen. Long-term interest rates in Germany are about unchanged over the intermeeting period while long-term Japanese rates have risen 20 basis points.

. Early in the period, the Desk

purchased about $850 million,

. The dollar's sharp rise later prompted dollar sales during the second half of the period, when

the Desk sold $330 million against DM and yen.

Preliminary data on real GNP for the fourth quarter of 1990 indicate that the pace of activity decelerated in the foreign industrial economies. Growth slowed partly in reaction to temporarily higher oil prices and uncertainties associated with the Gulf crisis, but also was dampened by tight monetary policy that had been in place for a while. Cyclical positions of individual foreign countries continued to diverge. France joined the United Kingdom and Canada as countries with negative fourth-quarter growth. In both Japan and Germany, real GNP growth slowed in the fourth quarter from very strong third-quarter rates, but remained positive; there are tentative indications of a rebound in the first quarter.

Recent declines in oil prices and softer aggregate demand in many countries have helped to moderate inflation rates. Inflationary pressure in Japan remains a concern, however, as the rate of CPI increase in the first two months of 1991 rose further. Introduction of the Goods and Services Tax in Canada caused a much larger-than-expected 2.6 percent monthly jump in the Canadian CPI in January.

The U.S. merchandise trade deficit increased slightly in January, after narrowing substantially in December. In January, exports were nearly 1 percent higher than their monthly average rate in the fourth quarter of 1990 while imports were about 3 percent lower. The current account deficit expanded $5 billion (saar) in the fourth quarter to $111 billion. The merchandise trade balance improved slightly, and net investment income receipts and net receipts from other (nonmilitary) service transactions rose, but these positive changes were more than offset by larger net military payments and a jump in unilateral transfers, both of which were mainly related to events in the Persian Gulf.

Outlook

The projected quantity of U.S. imports has been revised down in the near term. However, in the second half of 1991 and in 1992 the quantity of imports is now projected to grow somewhat more rapidly than in the January Greenbook. The path of real exports is little changed from the previous projection. The current forecast incorporates assumptions of a higher value for the dollar, slower near-term growth in the major foreign industrial countries, and weaker U.S. growth in the near term followed by a stronger recovery in the second half of this year than in the January Greenbook. In addition, net exports have been raised some by anticipated reconstruction of Kuwait, a factor that had not been incorporated in the January forecast. The nominal current account balance is expected to show a dramatic but temporary jump into surplus during the first two quarters of this year as cash grants received from foreign governments to fund Operation Desert Storm are now expected to come in much sooner than we had assumed in January. The current account balance is expected to return to deficit in the second half of this year; in 1992, the deficit is projected to be about $45 billion, slightly larger than in the January Greenbook.

The Dollar. The foreign exchange value of the dollar against the other G-10 currencies is expected to retrace some of its most recent gains and then to remain unchanged over the forecast horizon, but at a level about

4 percent above the value assumed in the January Greenbook. The stronger path for the dollar relative to the previous forecast is consistent with a downward revision to our outlook for foreign interest rates as well as recent market developments. Following appreciation of the dollar in real terms against the currencies of eight developing countries during the fourth quarter of 1990, the dollar, on balance, is projected to depreciate slightly in real terms against these currencies over this year and next--the same as in the previous Greenbook.

Foreign Industrial Countries. The staff outlook for the path of real growth in the foreign industrial countries still calls for positive, though weak, growth in early 1991, followed by a pickup that continues into 1992. Growth in 1991 has been revised down for several countries (France and Canada, particularly) in reaction to weak recent performances and, for Germany, to the Kohl government's new package of tax measures. Resolution of the Gulf war (and dissipation of related uncertainties) and reconstruction of war damage are expected to contribute positively to foreign growth later this year and in 1992. On average (using global trade weights), growth in the foreign industrial countries this year is expected to remain at about 1990's rate of 2-1/4 percent (Q4/Q4) before recovering to about 2-3/4 percent next year. Continued strong performances are expected in Japan and Western Germany, with growth rates projected in the 3-1/4 to 3-3/4 percent range in both years. Rebounds in the United Kingdom and Canada are also counted on to contribute to stronger growth abroad during the latter part of the forecast period.

The outlook for average inflation in the major foreign industrial countries in 1991 has been raised somewhat, to about 4-1/4 percent. The change reflects mainly an upward adjustment of the price level in Canada based on reassessment of the impact of the Canadian Goods and Services Tax. Elsewhere, price pressures appear to have eased somewhat in view of a more favorable oil-price outlook and reduced aggregate demand pressures. Average inflation is expected to slow to about 3-3/4 percent in 1992.

The expected paths of short- and long-term interest rates in the foreign G-10 countries have been lowered in the near term by about 1/2 percentage point from those assumed in the January Greenbook as declines in market rates have come sooner than expected. The somewhat lower level of foreign rates has been extended into the forecast period; on average, short-term interest rates are expected to remain at about current levels during the rest of this year and to move down gradually by another 1/2 percentage point by the end of the forecast horizon.

Developing Countries. The outlook for overall growth developing countries has remained essentially unchanged in 1991 and 1992 from that in the January Greenbook. This year average growth is projected to remain unchanged from 1990 at about 2-1/2 percent and then to rise to about 4 percent in 1992. An increase in oil production will boost growth in oil-producing countries in 1992, while an increase in industrial-country activity will encourage faster growth, particularly in Asia and Latin America.

U.S. Real Net Exports of Goods and Services. The balance of real net exports of goods and services is expected to improve significantly in the current quarter and much less rapidly over the rest of the forecast period. During 1991, the improvement in net exports of goods and services is projected to total $15 billion, with all of the gain occurring in the first quarter. An additional improvement of $9 billion is expected next year. The improvement in the current quarter is attributable to merchandise trade (primarily a drop in imports). After the first quarter, the outlook for real net exports is weaker relative to the January Greenbook, largely because of a stronger dollar, slightly slower growth abroad, and stronger U.S. growth, particularly in the second half of this year (following weaker U.S. growth in the very near term).

Growth in the quantity of U.S. nonagricultural exports is expected to slow in the current quarter, following unexpectedly strong expansion in the fourth quarter that resulted, in part, from special factors. Over the rest of 1991, the quantity of nonagricultural exports is expected to expand at double-digit rates, reflecting the effects of the nearly 15 percent decline in the weighted-average foreign exchange value of the dollar from mid-1989 through January of this year and a projected strengthening in growth abroad later this year. In 1992, the expansion of nonagricultural exports is projected to slow as the effects of the earlier dollar depreciation diminish. Agricultural exports are projected to pick up somewhat in the first quarter as shipments to the Soviet Union increased significantly in recent weeks, but little further growth is anticipated because demand for imported grains and soybeans in the major U.S. export markets is expected to remain sluggish.

The quantity of non-oil imports is projected to decline somewhat more in the first quarter than was forecast in the January Greenbook, as a result of the deeper decline now projected for U.S. domestic demand. These imports are projected to resume expanding with the recovery in U.S. economic activity beginning in the second quarter, with some additional boost from the higher path assumed for the dollar.

TRADE QUANTITIES*
(Percent change from end of preceding comparable period, annual rate)

	1990	Projection 1991 Q1	Q2	H2	1992
Nonagricultural exports	8.6	2.1	13.0	12.3	10.5
Agricultural exports	-5.9	47.6	-3.7	-5.6	1.5
Non-oil imports	1.6	-8.3	3.6	9.1	7.9
Oil imports	-12.7	-7.9	61.8	16.1	7.1

* GNP basis, 1982 dollars.

Oil Prices. In the last Greenbook, the staff assumed that at the conclusion of the war OPEC would reduce production levels in order to bring prices to their July 1990 target of $21 per barrel (roughly a $23 per barrel price for West Texas Intermediate). The informal accord reached at the March 11-12 Monitoring Committee meeting indicates that key members of OPEC (Saudi Arabia, the United Arab Emirates, and Venezuela) are unwilling, at least through the second quarter, to reduce production to rates consistent with the $21 per barrel target price. Rather, agreed-upon rates are likely to keep prices at current levels, consistent with an import price of about $18 per barrel. Beyond the second quarter, the staff assumption is that Saudi Arabia, Venezuela, and the United Arab Emirates will show only slight restraint, allowing the restoration of production from Iraq and Kuwait to offset the seasonal, second-half increase in world oil demand, leaving oil prices at $18 per barrel through year end. We assume that prices in 1992 will remain at $18 per barrel, as further increases in production from Iraq and Kuwait are offset by reductions in production by other OPEC members.

Prices could easily deviate from this assumed path. The speed with which oil production is restored in Iraq and Kuwait is highly uncertain. Whenever this production is restored, it may be the case that other OPEC members will only reduce production after observing a fall in prices to a level well below $18 per barrel. On the other hand, a sharper than expected decline in exports from the Soviet Union (currently assumed to fall in 1991 about 1 mb/d below their peak 1988 rates), coupled with slow progress in Iraq and Kuwait, could allow OPEC easily to reach and perhaps surpass its $21 per barrel target.

Prices of Exports and Non-oil Imports. BLS monthly price data for nonagricultural exports and non-oil imports show little change in January from December levels. The fixed-weight price index for nonagricultural exports is projected to continue about unchanged during the first half of 1991, to rise at about a 2-1/2 percent rate in the second half, and then ease to about 2 percent in 1992; this outlook is in line with the projected

SELECTED PRICE INDICATORS
(Percent change from the end of preceding comparable period, annual rate)

		----------- Projection	----------		
	1990	1991			1992
		Q1	Q2	H2	
PPI (export-share wts.)	4.8	-2.4	-0.9	2.3	2.3
Nonagric exports (Fx-Wt)	4.0	-0.5	-1.3	2.6	2.2
Non-oil imports (Fx-Wt)	2.9	4.0	3.9	3.8	3.7
Oil imports ($/barrel)	20.54	20.82	17.51	18.00	18.00

rate of increase in domestic producer prices, weighted by export shares. The fixed-weight price index of non-oil imports is expected to rise at about a 4 percent rate in the current quarter and then to decelerate slightly over the forecast period. This outlook is somewhat lower for both export prices and import prices than that presented in the last Greenbook, a combined effect of lower prices projected for the United States and a higher exchange value of the dollar.

Current Account Balance. The U.S. current account deficit has been and will continue to be buffeted by events in the Middle East. From large deficits recorded for the second half of 1990 (averaging over $100 billion at an annual rate), the balance is projected to swing into surplus in the first half of 1991 and then return to deficit during the remainder of the forecast. In 1992, the current account deficit is projected to be about $45 billion.

Cash grants were received from foreign governments in the fourth quarter of last year to support Desert Shield/Storm operations ($4.3 billion, not annual rate). The rest of the committed funds, totaling $45 billion, are expected to be received over the first three quarters of this year. These transactions, unilateral transfers from abroad, are counted as positive items in the U.S. balance of payments. The timing of receipt of these cash grants has been accelerated since the January Greenbook; in the January forecast it was assumed that $20 billion of the post-1990 grants would be received in 1991 and the remainder in 1992.

Excluding foreign cash grants, the current account is projected to be in deficit by about $60 billion annual rate in the current quarter and about $50 billion annual rate in the second and third quarters; for the year 1991, the deficit would be about $55 billion. The pattern of improvement over the forecast horizon essentially follows developments in merchandise trade. The continuing effects of the depreciation of the dollar are projected to contribute to a gradual improvement in the trade deficit beyond the current quarter. The trade deficit is forecast to reach an annual rate of about $75 billion in both 1991 and 1992. The projected deficit for 1991 is significantly smaller than in the previous Greenbook (a smaller adjustment was made for 1992); in both years, most of the revision reflected lower oil and non-oil imports.

Net portfolio payments to foreigners are expected to be essentially flat over the next two years, in contrast to a pattern of rising net payments presented in the January Greenbook. This change in outlook reflects the combined effects of lower interest rates and an improved U.S. current account position, resulting in a smaller net debt position. Net direct investment income was affected in the fourth quarter of last year by significantly reduced U.S. payments to foreigners, reflecting especially losses reported by foreign-owned banks and other financial institutions in the United States, and by high overseas earnings of U.S. oil companies; these special factors are not expected to recur. For this year and next, net direct investment income receipts are expected to remain about flat and slightly below the rates projected in January. For other service transactions, while both projected receipts and expenditures on travel have been lowered somewhat during the first half of 1991 as a result of the Persian Gulf war, projected net travel receipts were little affected. Net receipts from travel and other service transactions are expected to rise steadily over the forecast horizon, about the same as were expected in the previous Greenbook.

Outlook for U.S. Net Exports and Related Items

(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1990		1991				1992			
	1990	1991-P	1992-P	-Q3	-Q4	Q1-P	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-34.6	0.7	10.9	-41.3	-42.3	-8.6	3.0	4.4	4.1	7.2	10.7	12.4	13.2
Exports of G+S	670.8	705.1	775.8	672.7	689.4	681.3	695.5	712.7	731.1	750.0	767.3	784.4	801.6
Imports of G+S	705.4	704.4	764.9	714.1	731.7	689.9	692.5	708.2	727.0	742.7	756.5	771.9	788.4
Constant 82 $, Net	-36.2	-3.4	2.3	-46.5	-18.5	-3.1	-3.2	-3.4	-4.0	-1.1	1.9	3.6	4.7
Exports of G+S	630.0	653.9	707.3	630.5	641.4	635.8	647.6	659.2	672.9	687.4	700.7	713.9	727.2
Imports of G+S	666.3	657.3	705.0	677.0	659.9	638.9	650.8	662.6	676.9	688.5	698.8	710.3	722.5
2. Merchandise Trade Balance 2/	-108.7	-74.6	-73.5	-119.1	-115.4	-80.1	-71.5	-72.8	-74.2	-74.1	-73.5	-73.3	-73.0
Exports	389.3	424.3	475.7	384.6	401.8	405.5	417.0	430.3	444.5	457.9	470.1	481.7	493.1
Agricultural	40.4	41.1	44.0	38.9	37.5	40.2	40.8	41.4	41.8	42.7	43.5	44.4	45.4
Non-Agricultural	348.9	383.3	431.7	345.7	364.3	365.4	376.2	388.9	402.6	415.2	426.6	437.2	447.6
Imports	498.0	499.0	549.2	503.8	517.3	485.6	488.6	503.1	518.6	532.1	543.6	555.0	566.1
Petroleum and Products	62.1	54.8	60.0	62.6	74.8	54.6	51.8	55.2	57.4	58.4	59.4	60.5	61.5
Non-Petroleum	435.9	444.2	489.2	441.2	442.4	431.0	436.8	447.9	461.2	473.7	484.1	494.6	504.6
3. Other Current Account Trans.													
D.I. Capital Gains + Losses	3.0	0.0	0.0	7.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other D.I. Income, Net	46.4	44.4	44.2	45.3	55.2	44.4	44.7	44.5	43.9	44.2	44.7	44.4	43.4
Portfolio Income, Net	-41.8	-41.4	-40.9	-43.6	-37.9	-42.6	-41.9	-40.5	-40.5	-40.5	-40.6	-41.0	-41.5
Other Current Acct, Net 3/	1.9	63.3	25.0	4.2	-12.6	95.5	98.1	40.4	18.9	24.0	25.6	26.7	23.7
4. U.S. Current Account Balance 3/													
Including Capital G/L	-99.3	-8.4	-45.2	-105.9	-111.0	17.3	29.4	-28.3	-51.8	-46.4	-43.8	-43.2	-47.4
Excluding Capital G/L	-102.3	-8.4	-45.2	-113.3	-110.7	17.3	29.4	-28.3	-51.8	-46.4	-43.8	-43.2	-47.4
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.0	1.7	2.6	2.9	0.4	1.2	2.3	2.5	2.7	2.6	2.6	2.7	2.7
Real GNP--LDC 6/	2.6	2.6	4.2	2.3	2.2	2.2	2.7	3.3	3.8	4.3	4.6	4.8	5.0
Consumer Prices--Ten Ind. 5/	4.6	4.6	3.8	3.8	5.4	4.9	4.4	3.9	3.9	3.4	4.0	3.3	4.1

1/ National Income and Product Account data.
2/ International accounts basis.
3/ Includes cash grants from foreign governments to support the Desert Shield/Storm effort: 1990-Q4 $17.2 billion AR, 1991-Q1 $80.0 billion AR, 1991-Q2 $80.0 billion AR, and 1991-Q3 $20.0 billion AR.
4/ Percent change, annual rates.
5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.
6/ Weighted by share in LDC GNP.
P/ Projected