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Strictly Confidential (FR) Class II FOMC

October 30, 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

The "hard" data on economic activity received in recent weeks have been only a little less favorable, on balance, than we had expected, but considered in the context of strikingly downbeat reports on business and consumer sentiment, they have led us to mark down appreciably our projection of near-term growth. Given the apparent lack of thrust in aggregate demand, we now think it likely that real GNP will increase at only a 1-1/2 percent annual rate, on average, over the next two quarters. Even with this revision, the downside risks to the output projection may remain considerable: While a full-fledged "double-dip" does not appear to be the most likely outcome, the fragile state of confidence certainly leaves the economy vulnerable to any negative shock.

In seeking an explanation for the apparent shortfall in aggregate demand relative to the staff's previous expectations, some obvious suspects come to mind. It is quite possible that we have been underestimating the extent and duration of the adverse effects flowing from the real estate slump and the "credit crunch": The major imbalance in a key interest-sensitive sector and the damage to many financial intermediaries may well be muting the stimulus provided by System easing actions more than we thought. We also are impressed, however, by the depth of public anxiety about the economy, which seems out of proportion to the prevailing circumstances--an unemployment rate far lower than produced by some previous recessions and inflation and interest rates that are low by recent standards. While these negative animal spirits might spontaneously reverse themselves and provide a spur to demand, at this juncture it appears more likely than before that further easing steps will be necessary to override these drags on the economy.

The pace of the expansion is expected to quicken over the course of 1992, partly in response to the lagged effects on final demand of past and prospective interest rate declines, working through exchange rate, wealth, and borrowing channels. Sustained growth in sales should prompt a further positive swing in inventory investment, even as businesses keep a tight rein on stock-sales ratios. The resultant boost to production and employment is expected to bolster income and confidence, with attendant feedbacks on aggregate demand. On balance, real GNP is projected to rise a bit more than 3 percent next year, just 1/4 percentage point less than in the last Greenbook. As a result of the slower near-term growth, the unemployment rate now is projected to move up to a peak of 7 percent in early 1992 and to edge down only to 6-3/4 percent by the end of next year.

Recent news on inflation has been mixed but, on balance, has not prompted a significant change in the staff outlook for wages and prices. Labor cost increases, particularly benefit costs, have displayed considerable inertia; however, with the large amount of slack expected in this forecast, we continue to look for progress in reducing inflation: The CPI excluding food and energy is projected to decelerate from 4-1/2 percent this year to about 3-3/4 percent in 1992.

<u>Recent Developments and the Fourth-Quarter Outlook</u>

Although real GNP is estimated to have risen 2-1/2 percent at an annual rate in the third quarter, most of this increase occurred at the beginning of the period. Indeed, the expansion in industrial output--the primary source of strength early in the recovery--flattened out during August and September. Moreover, motor vehicle assemblies and other available physical product data suggest little change in industrial production in October.

Consumer demand seems likely to be weak in the near term, in light of deteriorating consumer sentiment and the effects of cautious hiring on labor income. Purchases of goods (excluding motor vehicles) moved lower over the course of the third quarter; while we anticipate small increases in coming months, spending is likely to be flat for the fourth quarter as a whole. Sales of cars and light trucks dropped back in the first twenty selling days of October, and with growth in services also projected to be slow, real PCE rises only 1/2 percent at an annual rate--a downward revision of more than one percentage point from the September Greenbook. Even with this revision, the decline in the Conference Board index of consumer confidence to recession levels suggests that there may be downside risks to our consumption forecast.

CURRENT-QUARTER PROJECTIONS
(Percent change, annual rate)

	1991		
	Q2	Q3	Q4
			-Projection-
Real GNP	-.5	2.4	1.2
(September projection)	(-.1)	(2.8)	(3.2)
Industrial production	2.6	6.2	1.4
(September projection)	(2.6)	(7.8)	(6.4)

Recent indicators from the housing sector have been weak. Although single-family starts registered healthy growth for the third quarter as a whole, they edged down in September. Existing home sales continued to move lower in September, and new home sales plunged after some gain earlier in the summer. Builders reportedly are continuing to find it difficult to secure credit, particularly for land acquisition and development, and with considerable uncertainty about the near-term course of the economy, we expect starts to be slightly lower, on average, in the fourth quarter.

Nonetheless, residential investment outlays are likely to rise moderately in the fourth quarter, as construction proceeds mainly on single-family homes started earlier.

In the business sector, firms appear to be increasing their equipment purchases, while outlays for nonresidential structures continue to contract sharply. On net, business capital spending may make a small contribution to GNP growth in the fourth quarter. Orders for nondefense capital goods (excluding aircraft) were up on average in the third quarter and are likely to support higher spending levels in the fourth quarter. Although bookings for office and computing equipment fell in nominal terms, prices declined sharply, buoying the real level; in addition, IBM is beginning to fill earlier orders for its new generation of mainframes. Permits and contracts for new nonresidential structures continued to move lower in September, and real outlays are likely to post another big decline in the fourth quarter.

Businesses appear to have slowed the pace of their inventory liquidation in the third quarter to a greater degree than we anticipated at the time of the last FOMC meeting. Based on actual data through August, manufacturers reduced their stocks further, as we had expected, and retail trade inventories increased slightly. However, there was a noticeable buildup in segments of wholesale trade that, in the current economic environment, likely was, at least in part, unintended. As a consequence, we have lowered the forecast for inventory investment in the fourth quarter. Relative to the September Greenbook, the absence now of a further positive swing in nonfarm inventory investment reduces the projected growth rate of real GNP in the fourth quarter by 1-1/2 percentage points.

Employers clearly are experiencing difficulty in slowing the rate of increase in labor costs. Although, in a slack labor market, they have been able to cut the rise in private wages and salaries quite noticeably this year, progress on the benefits front is less clear. Over the first three quarters of 1991, benefit costs rose at about a 6-1/2 percent annual rate, about the same as for 1990 as a whole, boosted by large increases in employers' expenses for health insurance and workers' compensation. Anticipating that benefit increases will slow somewhat in the fourth quarter from the recent rapid pace, we project that the December-to-December change in the ECI for private hourly compensation will be 4.5 percent this year--just a shade below the figure for 1990.

Recent information on consumer prices generally has been in line with the staff's expectations. Food prices edged up in September after two months of decline. Energy prices also firmed in September, and further increases are expected in the latter part of the fourth quarter in response to recent increases in crude oil prices. The increase in the CPI excluding food and energy in September was a bit larger than expected, reflecting an acceleration in rents. Monthly movements in this item are volatile, and we have not interpreted the September increase as signaling an ongoing pickup in shelter costs. We expect that the CPI excluding food and energy will rise about 0.3 percent a month during the fourth quarter. Increases of that magnitude would put the twelve-month change in the CPI excluding food and energy at 4-1/2 percent in December--a slowdown of 3/4 percentage point from the pace in 1990.

<u>The Outlook for 1992</u>

Economic growth is expected to remain weak in the first quarter of 1992, but real GNP is expected to accelerate thereafter and reach an annual pace of almost 4 percent in the second half of next year. In part, this pickup reflects the influence on final demands of recent and prospective declines in interest rates, the diminishing effects of the imbalances that now are restraining growth, and an improvement in consumer and business confidence, once the economy moves through the current period of uncertainty. Moreover, with prospects for final demand looking up, firms again will have some cause to add to their stocks.

PROJECTIONS OF REAL GNP AND RELATED ITEMS
(Percent change, annual rate)

	1991			1992		
	Q2	Q3	Q4	Q1	Q2	H2
			--------Projection------			
Real GNP	-.5	2.4	1.2	1.8	3.0	3.9
Real GDP	.3	2.5	1.2	1.7	3.1	4.0
Final sales excl. CCC	-.5	1.4	1.1	1.8	2.3	3.0
Memo:						
Real GDP (1987 dollars)*	1.7	2.1	.8	1.5	2.9	3.9

* Staff estimate.

Key assumptions. Private credit demands are likely to remain very weak in the near term, placing some downward pressure on interest rates. The current projection assumes a further moderate easing of money market rates and anticipates that long-term interest rates will fall still more over the coming year, against a backdrop of moderate economic growth and an improving inflation trend. Constraints on credit supplies are assumed to have more of a depressing effect on economic activity in the near term than anticipated in the September Greenbook; however, these problems are not expected to intensify and may begin to ease before the end of next year as loan losses abate.

Over the remainder of 1991, M2 and M3 are projected to continue growing more rapidly than over the third quarter, boosted by lagged effects of recent policy easings and a lessening of depressing effects from RTC activity. M2 is expected to end the year around the bottom of its target range of 2-1/2 to 6-1/2 percent. Similarly, we project M3 to finish 1991 close to the lower bound of its range of 1 to 5 percent. In 1992, ongoing weakness in depository credit will continue to damp the increases in both aggregates. However, shifts out of M2 assets toward the longer end of the yield curve likely will abate as stock adjustments wane. Although M2 is expected to accelerate to around the midpoint of its tentative range, growth is projected to remain below that of nominal GNP, implying a further increase in velocity. The growth in M3 is expected to increase only moderately next year as the restructuring of the thrift industry proceeds and banks continue to be cautious lenders.

PROJECTIONS OF INFLATION
(Percent change, fourth quarter to fourth quarter)

	1990	1991	1992	1993
Consumer price index	6.3	3.1	3.7	3.3
Excl. food and energy	5.3	4.5	3.8	3.3
ECI hourly compensation	4.6	4.5	4.0	3.7
Memo:				
Civilian unemployment rate[1]	5.9	6.9	6.7	6.3

1. Value in the fourth quarter.

The fiscal policy assumptions are little changed from the last Greenbook. Although several new tax-cut packages have been proposed, any plan that would provide significant near-term fiscal stimulus would require a rewriting of budget rules, including a loosening of deficit-reduction targets--a task of considerable political difficulty. The projected sluggishness of the economy in the next several months may galvanize such an effort, but, for now, we assume that budget policies will adhere closely to last autumn's budget agreement.[1] Because of the weaker economic forecast and a number of other technical adjustments, the staff has raised its estimate of the unified deficit in FY1992 from $356 billion to $366 billion. Excluding outlays for deposit insurance and foreign contributions related to Operation Desert Storm, the deficit is expected to be $262 billion in FY1992 compared with $246 billion in FY1991.

Reflecting the weakness in the U.S. economy and the expected movements in interest rates, the path for the foreign exchange value of the dollar has been lowered by about 1-1/2 percent relative to the September Greenbook. While the path of economic activity outside of the United States has been revised down somewhat, we still expect that growth abroad will pick up to an average annual rate of 3-1/2 percent by the end of next year. The projected path for crude oil prices has been raised in the near term from the September Greenbook. As result of recent upward movements, the posted price of West Texas Intermediate is expected to average $22 per barrel in the fourth quarter, roughly $2 higher than in the last forecast. Thereafter, crude oil prices decline gradually to $19.25 per barrel in the third quarter of 1992--the same as in the September Greenbook--and remain at that level for the remainder of the forecast horizon.

Consumer spending. After a weak first quarter, real consumer expenditures are expected to strengthen over the course of 1992 and grow about 2-3/4 percent. An acceleration of real disposable income is the primary force behind the growth in consumer expenditures next year. Real DPI is projected to rise 2-1/2 percent in 1992, with

1. Passage of legislation providing extended unemployment benefits is a distinct near-term possibility, but it likely will be in a package that provides no significant macroeconomic stimulus.

most of the strength occurring in the second half of the year in conjunction with faster job growth. Improved job prospects also should bolster consumer confidence.

Like the growth in real GNP, the pickup in consumer spending in 1992 is modest relative to what was observed in earlier cyclical upswings. In particular, spending on consumer durables is forecast to rise only 5-1/2 percent, reflecting our view that pent-up demands are not the factor today that they have been after some deeper recessions. A 2-1/2 percent increase in outlays for services accounts for about half of the growth in PCE in 1992, while expenditures on nondurables are projected to rise 2 percent.

Housing. The staff continues to expect housing construction to rise over the forecast period. In the near term, single-family starts are likely to be restrained by general uncertainty about the economy and difficulties on the part of small and medium-sized builders in securing credit. However, with mortgage interest rates moving lower, affordability rising, and income prospects improving, increased demand for new homes is likely to stimulate construction during 1992. As a result, we expect an increase in single-family starts from 850,000 units (annual rate) in the fourth quarter to 1.03 million units (annual rate) by the end of next year. In contrast, high vacancy rates and unfavorable demographic trends are likely to continue to damp activity in the multifamily sector; the pace of multifamily starts is projected to remain below 200,000 through 1992.

Business fixed investment. Real BFI is projected to increase only 3-1/4 percent in 1992, as a pickup in spending on producers' durable equipment is offset by the continued contraction of nonresidential outlays. Further increases in business purchases of computers are responsible for the bulk of the growth in real PDE in the first half of next year. However, as economic growth continues and firms' sales expectations improve, spending on other types of equipment is projected to pick up in the second half of next year. A significant increase in corporate profits in 1992 and a greater willingness on the part of lenders to finance new projects also are likely to contribute to this improvement, the latter factor being particularly important for small businesses that do not have direct access to capital markets.

After declining 15 percent in 1991, outlays for nonresidential structures are projected to drop another 5-1/2 percent in 1992. Office and other commercial construction is expected to remain depressed, although the rate of contraction in this sector is likely to slow, given the large adjustment that already has taken place over the past couple of years. Industrial construction is expected to turn up in 1992, stimulated by strengthening demand and rising rates of capacity utilization.

Business inventories. A shift from inventory liquidation to a modest rate of stock accumulation is expected to contribute a little more than 1/2 percentage point to the growth in real GNP over the four quarters of 1992. Early in the year, we expect that businesses still will be running down their stocks, in response to disappointing sales in the fourth quarter of 1991. However, in order to prevent inventory-sales ratios from becoming so lean that they threaten the loss of potential sales, stock building is likely to resume by the fourth quarter. The rate of accumulation is expected to be relatively low, however, and stock-sales ratios are projected to trend lower as firms strive to reduce their inventory holding costs.

Government sector. The outlook for the federal sector in 1992 is a bit less negative than in the September Greenbook. Real federal purchases are projected to fall 3-1/2 percent in 1992. Lower outlays for defense more than account for the decline; defense spending is projected to decrease 6-3/4 percent in real terms as a result of cutbacks enacted in last fall's budget agreement and the trailing off of purchases related to Operation Desert Storm. Real nondefense purchases are projected to rise 5-1/4 percent, boosted by higher outlays for space exploration, law enforcement, and health research.

In the state and local sector, fiscal difficulties are expected to restrain spending through 1992. Cutbacks in personnel are continuing, and many states and localities are raising sales and income taxes to cope with their deteriorating fiscal condition; further belt-tightening measures are expected to occur in 1992. Bond financing will be employed to sustain urgent infrastructure investment, but budgetary pressures are projected to hold real state and local expenditures to an increase of only 1-1/4 percent in 1992 after a small decline this year. The state and local budget deficit--as measured by the NIPA operating and capital accounts (excluding retirement funds)--is expected to fall from $41 billion at the beginning of this year to around $5 billion by the end of 1992.

Net exports. Real net exports of goods and services are projected to show moderate increases, on average, over the next two quarters but then to decline somewhat during the second half of 1992. This outlook incorporates fairly steady growth in exports over the next five quarters and a pattern of slower growth in imports in the near term and stronger growth later next year as U.S. domestic demand accelerates. A more detailed discussion of these projections is presented in the International Developments section.

Labor markets. Payroll employment is projected to be essentially flat in the near term in response to the sluggishness in economic activity. However, even with the expected pickup in output growth, employers are likely to be hesitant to add new employees, especially in light of the high cost of fringe benefits. Rather, they are likely to emphasize the lengthening of workweeks and efficiency enhancements as the means of expanding output. Labor productivity in the nonfarm business sector is projected to rise 2 percent in 1992--well above its estimated 1-1/4 percent trend rate of increase.

With unemployment declining only very gradually, the continued slack in labor markets should put downward pressure on compensation costs: Growth in hourly compensation (as measured by the employment cost index) is expected to slow by 1/2 percentage point in 1992 to 4 percent. Employers should make some progress in reducing inflation in benefit costs, but most of the deceleration is expected to occur in wages and salaries.

Prices. The CPI is expected to rise 3.7 percent next year, a 1/2 percentage point acceleration from 1991, as the result of higher food and energy prices. After increasing 2 percent this year, food prices are expected to rise in line with overall inflation in 1992. Energy prices are projected to increase 3 percent in 1992, following an 8 percent decline this year, in reaction to the higher level of crude oil prices. As noted earlier, the CPI excluding food and energy is projected to slow to 3-3/4 percent next year. And, with a significant amount of slack remaining in the economy, further progress toward reducing inflation is expected in 1993, when both the CPI and CPI excluding food and energy are projected to rise about 3-1/4 percent.

October 30, 1991

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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)	
		9/25/91	10/30/91	9/25/91	10/30/91	9/25/91	10/30/91	9/25/91	10/30/91	9/25/91	10/30/91
Annual changes:											
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990	<2>	5.1	5.1	1.0	1.0	4.6	4.6	5.4	5.4	5.5	5.5
1991		3.4	3.2	-.3	-.5	4.0	4.0	4.2	4.3	6.7	6.7
1992		6.1	5.2	3.1	2.2	3.3	3.4	3.5	3.7	6.6	6.9
1993		6.0	6.3	3.1	3.5	3.2	3.2	3.4	3.4	6.2	6.5
Quarterly changes:											
1990	Q1 <2>	6.7	6.7	1.7	1.7	6.6	6.6	7.5	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	7.0	7.0	5.6	5.6
	Q4 <2>	.9	.9	-1.6	-1.6	4.7	4.7	6.9	6.9	5.9	5.9
1991	Q1 <2>	2.2	2.2	-2.8	-2.8	5.2	5.2	3.6	3.6	6.5	6.5
	Q2 <2>	4.2	4.0	-.1	-.5	3.0	3.1	2.1	2.1	6.8	6.8
	Q3 <2>	4.5	4.2	2.8	2.4	2.1	2.1	2.8	3.0	6.8	6.8
	Q4	5.8	3.5	3.2	1.2	3.4	3.2	3.8	3.8	6.8	6.9
1992	Q1	7.2	5.6	3.6	1.8	4.1	4.3	4.1	4.5	6.7	7.0
	Q2	6.8	6.0	3.5	3.0	3.4	3.5	3.6	3.6	6.7	7.0
	Q3	6.3	6.6	3.4	3.8	3.2	3.2	3.4	3.3	6.6	6.9
	Q4	5.8	6.6	3.1	3.9	3.0	3.1	3.4	3.5	6.5	6.7
1993	Q1	6.5	6.8	3.1	3.5	3.7	3.7	3.4	3.4	6.4	6.6
	Q2	5.7	5.9	3.0	3.2	3.0	3.0	3.3	3.3	6.3	6.5
	Q3	5.7	5.9	3.2	3.3	2.9	2.9	3.2	3.2	6.2	6.4
	Q4	5.3	5.6	2.8	3.0	2.9	2.9	3.2	3.2	6.1	6.3
Two-quarter changes: <3>											
1990	Q2 <2>	5.9	5.9	1.1	1.1	5.3	5.3	5.6	5.6	.0	.0
	Q4 <2>	3.1	3.1	-.1	-.1	4.4	4.4	6.9	6.9	.6	.6
1991	Q2 <2>	3.2	3.1	-1.5	-1.7	4.1	4.3	2.8	2.8	.9	.9
	Q4	5.1	3.8	3.0	1.8	2.7	2.6	3.3	3.4	.0	.1
1992	Q2	7.0	5.8	3.6	2.4	3.8	3.9	3.9	4.1	-.1	.1
	Q4	6.0	6.6	3.2	3.9	3.1	3.1	3.4	3.4	-.2	-.3
1993	Q2	6.1	6.3	3.1	3.4	3.4	3.4	3.3	3.4	-.2	-.2
	Q4	5.5	5.8	3.0	3.2	2.9	2.9	3.2	3.2	-.2	-.2
Four-quarter changes: <4>											
1989	Q4 <2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990	Q4 <2>	4.5	4.5	.5	.5	4.8	4.8	6.3	6.3	.6	.6
1991	Q4	4.2	3.5	.8	.0	3.4	3.4	3.1	3.1	.9	1.0
1992	Q4	6.5	6.2	3.4	3.1	3.4	3.5	3.6	3.7	-.3	-.2
1993	Q4	5.8	6.1	3.0	3.3	3.1	3.1	3.3	3.3	-.4	-.4

<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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October 30, 1991

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

	Units	1985	1986	1987	1988	1989	1990	Projection 1991	1992	1993
EXPENDITURES										
Nominal GNP	Billions of $	4014.9	4231.6	4515.6	4873.7	5200.8	5465.1	5640.1	5932.9	6308.1
Real GNP	Billions of 82$	3618.7	3717.9	3845.3	4016.9	4117.7	4157.3	4135.3	4227.2	4374.4
Real GNP	Percent change*	3.6	1.9	5.0	3.5	1.8	.5	.0	3.1	3.3
Real GDP		3.8	2.3	5.0	3.5	1.7	.4	.2	3.2	3.3
Gross domestic purchases		4.3	2.1	4.2	2.6	1.1	-.5	.5	3.1	3.2
Final sales		4.6	2.7	3.1	4.5	1.7	1.6	-.2	2.5	3.2
Private dom. final purchases		4.6	2.9	2.5	4.0	1.2	-.1	.7	3.2	3.7
Personal consumption expend.		4.6	3.8	2.3	4.1	1.2	.1	1.3	2.8	3.1
Durables		7.0	11.5	-1.2	9.3	-1.4	-1.8	-1.2	5.4	3.9
Nondurables		3.3	2.9	1.3	2.4	.6	-2.4	.8	2.1	2.6
Services		5.0	2.1	4.1	3.7	2.4	2.5	2.5	2.5	3.1
Business fixed investment		3.7	-5.5	6.1	5.3	4.5	2.2	-2.4	3.3	5.3
Producers' durable equipment		4.6	.4	8.2	8.2	5.4	4.6	1.1	5.5	6.8
Nonresidential structures		1.9	-17.7	.8	-2.7	1.7	-5.4	-14.6	-5.6	-1.5
Residential structures		5.8	11.6	-2.2	-.1	-7.1	-10.2	-.6	10.2	9.1
Exports		-2.4	10.6	19.8	14.0	10.1	5.8	2.6	6.9	7.6
Imports		4.5	10.0	10.4	5.5	4.5	-.5	5.3	6.4	7.0
Government purchases		8.6	3.1	2.0	1.1	.3	3.8	-1.5	-.7	.5
Federal		13.3	.5	1.5	-1.6	-2.8	5.2	-2.5	-3.5	-3.0
Defense		7.1	6.0	4.0	-1.8	-2.1	4.0	-5.6	-6.7	-5.6
State and local		4.9	5.2	2.3	3.1	2.6	2.7	-.7	1.3	2.9
Change in business inventories	Billions of 82$	9.1	5.6	22.8	23.6	23.8	-3.6	-22.5	-4.8	12.0
Nonfarm	Billions of 82$	13.4	8.0	28.7	26.5	18.7	-5.1	-20.5	-3.4	12.5
Net exports	Billions of 82$	-104.3	-129.7	-118.5	-75.9	-54.1	-33.8	-16.2	-22.0	-23.2
Nominal GNP	Percent change*	6.6	4.6	8.2	7.8	5.6	4.5	3.5	6.2	6.1
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	97.5	99.5	102.2	105.5	108.3	110.0	109.0	109.6	111.5
Unemployment rate	Percent	7.2	7.0	6.2	5.5	5.3	5.5	6.7	6.9	6.5
Industrial production index	Percent change*	1.9	1.4	6.5	4.5	1.1	.3	.0	5.0	4.3
Capacity utilization rate-mfg.	Percent	79.5	79.0	81.4	83.9	83.9	82.3	78.3	79.0	80.5
Housing starts	Millions	1.74	1.81	1.62	1.49	1.38	1.19	1.00	1.14	1.29
Auto sales	Millions	11.03	11.44	10.23	10.65	9.89	9.53	8.46	8.95	9.52
Domestic	Millions	8.22	8.22	7.06	7.55	7.06	6.92	6.17	6.51	6.94
Foreign	Millions	2.82	3.22	3.18	3.10	2.83	2.61	2.29	2.44	2.58
INCOME AND SAVING										
Nominal personal income	Percent change*	6.6	5.8	8.1	7.6	6.8	5.6	3.5	6.5	6.3
Real disposable income	Percent change*	2.7	3.3	2.7	4.3	1.7	-.4	1.0	2.5	3.1
Personal saving rate	Percent	4.4	4.1	2.9	4.2	4.6	4.6	4.0	3.9	4.1
Corp. profits with IVA & CCAdj	Percent change*	9.2	-5.6	17.4	8.2	-16.8	-.7	-.5	16.6	13.0
Profit share of GNP	Percent	7.0	6.7	6.8	6.9	6.0	5.5	5.1	5.4	5.7
Federal govt. surplus/deficit	Billions of $	-196.9	-206.9	-158.2	-141.7	-134.3	-166.0	-178.7	-223.6	-216.6
State and local govt. surplus		65.1	62.8	51.0	46.5	46.4	35.4	39.1	63.5	80.9
Exc. social insurance funds		13.8	5.6	-8.3	-16.4	-19.9	-34.0	-33.0	-12.0	1.9
PRICES AND COSTS										
GNP implicit deflator	Percent change*	2.9	2.6	3.0	4.1	3.7	4.0	3.4	3.0	2.7
GNP fixed-weight price index		3.3	2.6	3.8	4.6	4.0	4.8	3.4	3.5	3.1
CPI		3.5	1.3	4.5	4.3	4.6	6.3	3.1	3.7	3.3
Exc. food and energy		4.3	3.9	4.3	4.5	4.3	5.3	4.5	3.8	3.3
ECI hourly compensation		3.9	3.2	3.3	4.8	4.8	4.6	4.5	4.0	3.7
Nonfarm business sector										
Output per hour		1.6	1.3	2.3	1.8	-1.4	-.1	.8	2.0	1.7
Compensation per hour		4.6	4.9	3.8	4.2	2.5	4.6	4.1	4.0	3.7
Unit labor costs		3.0	3.6	1.5	2.3	4.0	4.7	3.3	2.0	2.0

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

October 30, 1991

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

	Units	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 Q2
EXPENDITURES											
Nominal GNP	Billions of $	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3	5514.6	5527.3	5557.7	5612.4
Real GNP	Billions of 82$	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1	4170.0	4153.4	4124.1	4118.9
Real GNP	Percent Change	3.6	1.6	1.7	.3	1.7	.4	1.4	-1.6	-2.8	-.5
Real GDP		3.5	2.1	1.4	-.1	1.8	1.2	.7	-2.1	-3.0	.3
Gross domestic purchases		1.2	1.8	2.8	-1.2	.5	1.3	1.6	-5.1	-4.3	1.4
Final sales		2.4	1.7	1.8	.9	3.8	-.7	1.9	1.4	-2.9	.3
Private dom. final purchases		.8	1.4	4.1	-1.5	2.4	-1.2	2.3	-3.8	-5.1	2.3
Personal consumption expend.		-.3	1.3	4.6	-.8	1.1	.2	2.7	-3.4	-1.5	2.5
Durables		-6.0	5.6	9.6	-13.0	14.4	-9.5	2.6	-12.3	-11.7	-1.5
Nondurables		.6	-1.7	3.9	-.2	-3.2	-1.9	2.3	-6.5	-1.8	2.3
Services		.9	2.1	3.5	3.1	.1	5.1	3.0	1.8	2.1	3.9
Business fixed investment		8.9	6.9	6.3	-3.8	5.0	-4.7	8.9	.1	-16.3	1.4
Producers' durable equipment		9.5	12.2	6.1	-5.2	5.7	-3.3	10.2	6.3	-18.4	6.3
Nonresidential structures		7.5	-8.2	7.1	1.3	2.3	-9.0	5.1	-18.2	-9.0	-14.0
Residential structures		-3.6	-11.3	-7.6	-5.5	15.1	-11.2	-19.8	-20.6	-25.3	1.6
Exports		15.8	12.4	-.5	13.5	11.2	-5.0	6.9	11.0	.5	4.5
Imports		-2.3	12.8	6.4	1.7	2.5	.7	7.6	-11.8	-8.8	17.7
Government purchases		-3.3	4.0	-2.4	3.0	2.9	6.2	1.2	4.7	-1.3	1.8
Federal		-9.1	7.0	-7.9	-.4	.4	16.4	.1	4.6	-.5	5.5
Defense		-10.9	3.2	7.2	-7.0	-1.7	3.3	2.7	12.1	2.7	-11.6
State and local		1.3	1.8	1.8	5.6	4.8	-.6	2.0	4.9	-1.9	-.8
Change in business inventories	Billions of 82$	26.1	25.5	24.6	18.9	-2.2	9.5	4.7	-26.4	-25.0	-33.3
Nonfarm	Billions of 82$	16.4	21.5	21.7	15.3	-8.2	11.6	4.7	-28.5	-28.1	-27.2
et exports	Billions of 82$	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6	-46.5	-8.8	7.1	-12.6
Nominal GNP	Percent change	7.5	5.8	5.1	3.9	6.7	5.1	5.3	.9	2.2	4.0
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	107.6	108.1	108.5	109.0	109.7	110.2	110.2	109.8	109.2	108.8
Unemployment rate	Percent*	5.2	5.3	5.3	5.3	5.3	5.3	5.6	5.9	6.5	6.8
Industrial production index	Percent change	2.7	2.8	-1.2	.2	.6	4.2	3.9	-7.0	-9.7	2.6
Capacity utilization rate-mfg.	Percent*	84.7	84.5	83.7	82.9	82.7	82.8	82.9	80.8	78.0	77.9
Housing starts	Millions	1.46	1.36	1.35	1.35	1.43	1.20	1.13	1.04	.92	1.00
Auto sales	Millions	10.03	10.26	10.20	9.09	10.01	9.53	9.68	8.93	8.25	8.46
Domestic	Millions	7.08	7.26	7.36	6.56	7.11	6.78	7.21	6.59	6.00	6.10
Foreign	Millions	2.95	3.00	2.84	2.53	2.90	2.75	2.47	2.34	2.25	2.36
INCOME AND SAVING											
Nominal personal income	Percent change	11.6	5.8	3.7	6.2	8.6	5.3	5.0	3.5	1.5	4.2
Real disposable income	Percent change	4.2	-1.2	2.7	1.2	2.5	.3	-.7	-3.5	-1.5	2.3
Personal saving rate	Percent*	5.2	4.6	4.1	4.6	4.9	5.0	4.2	4.2	4.2	4.2
Corp. profits with IVA & CCAdj	Percent change	-23.2	-7.0	-17.1	-19.1	8.4	13.9	-7.5	-14.8	-3.7	-2.5
Profit share of GNP	Percent*	6.4	6.2	5.9	5.5	5.5	5.6	5.5	5.2	5.1	5.1
Federal govt. surplus/deficit	Billions of $	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0	-145.7	-184.3	-126.9	-184.6
State and local govt. surplus		48.9	50.3	48.1	38.5	38.1	38.6	39.3	25.7	30.0	38.6
Exc. social insurance funds		-16.2	-15.6	-18.7	-29.1	-30.2	-30.4	-30.5	-44.8	-41.0	-33.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.9	3.9	3.2	3.8	4.8	4.7	3.7	2.8	5.2	4.5
GNP fixed-weight price index		4.9	4.6	3.1	3.8	6.6	3.9	4.2	4.7	5.2	3.1
CPI		5.1	6.0	3.3	3.9	7.5	3.8	7.0	6.9	3.6	2.1
Exc. food and energy		4.9	4.2	3.8	4.7	5.9	4.9	6.1	4.2	6.8	3.5
ECI hourly compensation**		4.2	4.9	5.3	4.4	5.6	5.1	4.3	3.8	4.6	4.9
onfarm business sector											
Output per hour		-2.8	.1	-.7	-2.2	-1.1	1.2	.6	-.8	.0	.5
Compensation per hour		3.1	2.2	2.3	2.6	4.0	5.9	5.0	3.7	4.2	4.6
Unit labor costs		6.0	2.0	3.0	5.0	5.2	4.7	4.4	4.6	4.2	4.0

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

October 30, 1991

CONFIDENTIAL - FR
CLASS II FOMC

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

			Projection								
		1991		1992				1993			
	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	5670.8	5719.3	5797.6	5882.8	5977.7	6073.7	6174.3	6262.9	6353.9	6441.2
Real GNP	Billions of 82$	4143.1	4155.1	4173.9	4205.0	4244.3	4285.4	4322.5	4356.8	4392.7	4425.7
Real GNP	Percent Change	2.4	1.2	1.8	3.0	3.8	3.9	3.5	3.2	3.3	3.0
Real GDP		2.5	1.2	1.7	3.1	3.8	4.1	3.4	3.2	3.2	3.2
Gross domestic purchases		4.4	.5	1.4	2.8	3.8	4.3	3.5	3.2	3.1	3.0
Final sales		.6	1.3	1.8	2.3	2.9	3.0	3.2	3.2	3.4	3.0
Private dom. final purchases		4.9	.8	2.0	2.8	3.9	4.3	4.0	3.8	3.7	3.4
Personal consumption expend.		3.8	.6	1.7	2.5	3.3	3.7	3.3	3.1	3.0	2.9
Durables		9.3	.3	3.5	6.1	5.9	6.2	4.5	4.1	3.8	3.4
Nondurables		2.9	-.3	.6	1.7	2.8	3.2	2.8	2.5	2.5	2.5
Services		2.7	1.2	1.8	2.0	2.8	3.3	3.2	3.2	3.1	3.1
Business fixed investment		6.6	.3	1.7	2.2	4.2	5.3	5.4	5.4	5.1	5.2
Producers' durable equipment		17.1	2.7	4.5	4.5	6.0	7.0	7.0	7.0	6.5	6.5
Nonresidential structures		-25.3	-9.1	-9.3	-7.1	-3.7	-2.1	-1.9	-1.8	-1.2	-1.1
Residential structures		20.6	6.8	8.3	9.1	12.8	10.5	11.2	10.2	9.6	5.6
Exports		.1	5.5	6.5	7.1	7.0	7.2	7.2	8.2	7.7	7.4
Imports		12.9	1.5	3.7	5.6	7.0	9.1	7.0	7.6	6.2	7.3
Government purchases		-6.6	.2	-.9	-.5	-.8	-.5	-.1	.2	.8	1.3
Federal		-14.3	.2	-3.0	-2.9	-4.1	-3.9	-3.6	-3.4	-2.8	-2.1
Defense		-7.9	-5.1	-6.2	-6.2	-7.2	-7.0	-6.5	-6.3	-5.4	-4.4
State and local		-.3	.2	.7	1.2	1.5	1.9	2.3	2.6	3.2	3.5
Change in business inventories	Billions of 82$	-15.1	-16.6	-16.8	-9.9	-.9	8.5	11.6	12.0	11.9	12.3
Nonfarm	Billions of 82$	-12.9	-13.9	-15.6	-8.3	.5	10.0	11.9	12.5	12.4	13.0
Net exports	Billions of 82$	-32.8	-26.5	-22.3	-20.3	-20.8	-24.5	-24.6	-24.1	-21.9	-22.2
Nominal GNP	Percent change	4.2	3.5	5.6	6.0	6.6	6.6	6.8	5.9	5.9	5.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	108.9	109.0	109.3	109.7	110.3	110.8	111.3	111.8	112.3
Unemployment rate	Percent*	6.8	6.9	7.0	7.0	6.9	6.7	6.6	6.5	6.4	6.3
Industrial production index	Percent change	6.2	1.4	2.5	5.0	6.2	6.2	4.5	4.4	4.3	4.2
Capacity utilization rate-mfg.	Percent*	78.7	78.5	78.4	78.7	79.3	79.8	80.1	80.4	80.6	80.9
Housing starts	Millions	1.05	1.02	1.08	1.12	1.17	1.21	1.26	1.28	1.31	1.33
Auto sales	Millions	8.72	8.45	8.59	8.84	9.08	9.30	9.42	9.50	9.56	9.61
Domestic	Millions	6.44	6.15	6.22	6.43	6.62	6.78	6.87	6.93	6.96	7.00
Foreign	Millions	2.28	2.30	2.37	2.41	2.46	2.52	2.55	2.57	2.60	2.61
INCOME AND SAVING											
Nominal personal income	Percent change	3.4	5.2	6.5	6.0	6.3	7.1	7.9	5.9	5.6	5.9
Real disposable income	Percent change	2.0	1.1	1.7	2.0	2.8	3.7	5.3	2.5	2.2	2.4
Personal saving rate	Percent*	3.8	4.0	4.0	3.9	3.8	3.8	4.3	4.2	4.0	3.8
Corp. profits w/ IVA & CCAdj***	Percent change	10.5	-5.5	23.0	12.1	15.8	15.7	14.9	9.7	12.7	14.7
Profit share of GNP***	Percent*	5.1	5.0	5.2	5.3	5.4	5.5	5.6	5.7	5.8	5.9
Federal govt. surplus/deficit	Billions of $	-190.3	-212.9	-237.7	-229.2	-214.5	-213.1	-228.7	-219.9	-208.5	-209.2
State and local govt. surplus		41.9	45.9	54.4	60.1	67.3	72.1	76.8	79.4	82.3	85.1
Exc. social insurance funds		-30.4	-27.3	-19.7	-14.9	-8.6	-4.7	-.9	.8	2.8	4.7
PRICES AND COSTS											
GNP implicit deflator	Percent change	1.8	2.2	3.7	2.9	2.7	2.6	3.2	2.6	2.5	2.5
GNP fixed-weight price index		2.1	3.2	4.3	3.5	3.2	3.1	3.7	3.0	2.9	2.9
CPI		3.0	3.8	4.5	3.6	3.3	3.5	3.4	3.3	3.2	3.2
Exc. food and energy		4.0	3.9	4.2	3.8	3.7	3.6	3.4	3.3	3.2	3.2
ECI hourly compensation**		4.4	4.3	4.3	4.0	3.9	3.9	3.8	3.8	3.7	3.7
Nonfarm business sector***											
Output per hour		2.5	.4	1.7	1.7	2.4	2.2	1.8	1.7	1.6	1.6
Compensation per hour		3.6	4.2	4.5	3.9	3.8	3.8	4.1	3.7	3.6	3.6
Unit labor costs		1.0	3.8	2.8	2.2	1.4	1.6	2.3	1.9	2.0	2.0

* Not at an annual rate.
** Private industry workers.
*** Data for 1991 Q3 are staff estimates.

CONFIDENTIAL - FR
CLASS II FOMC

October 30, 1991

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

	1989				1990				1991		1988	1989	1990	Proj. 1991
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	36.4	16.5	17.5	3.5	17.4	4.5	14.9	-16.6	-29.3	-5.2	138.6	73.9	20.2	1.7
Real GDP	35.1	21.0	14.3	-.6	18.7	12.4	6.9	-22.3	-31.6	3.4	135.1	69.8	15.7	9.4
Gross domestic purchases	11.8	18.7	28.3	-12.7	4.9	13.7	16.8	-54.3	-45.2	14.5	103.0	46.1	-18.9	19.4
Final sales	24.4	17.0	18.5	9.3	38.4	-7.2	19.7	14.5	-30.8	3.2	172.9	69.2	65.4	-8.1
Private dom. final purchases	6.5	11.4	34.1	-12.9	20.2	-10.3	19.1	-32.8	-44.0	19.1	128.7	39.1	-3.8	22.0
Personal consumption expend.	-2.1	8.6	30.0	-5.4	7.4	1.5	18.0	-23.2	-9.9	16.8	104.6	31.1	3.7	35.5
Durables	-6.6	5.8	9.9	-15.0	14.5	-10.8	2.7	-13.9	-12.7	-1.5	36.4	-5.9	-7.5	-4.9
Nondurables	1.4	-3.9	8.8	-.4	-7.4	-4.4	5.2	-15.2	-4.1	5.1	21.9	5.9	-21.8	6.9
Services	3.0	6.7	11.3	10.0	.4	16.6	10.0	5.9	7.0	13.2	46.4	31.0	32.9	33.6
Business fixed investment	10.5	8.4	7.8	-4.9	6.2	-6.2	10.9	.1	-22.6	1.7	24.3	21.8	11.0	-12.6
Producers' durable equipment	8.4	10.9	5.7	-5.2	5.4	-3.3	9.5	6.1	-20.0	5.9	27.7	19.8	17.7	4.3
Nonresidential structures	2.2	-2.6	2.1	.4	.7	-2.9	1.5	-6.0	-2.7	-4.2	-3.4	2.1	-6.7	-17.0
Residential structures	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-9.8	-9.7	-11.5	.6	-.2	-13.8	-18.5	-.9
Change in business inventories	12.1	-.6	-.9	-5.7	-21.1	11.7	-4.8	-31.1	1.4	-8.3	-34.4	4.9	-45.3	9.8
Nonfarm	-10.8	5.1	.2	-6.4	-23.5	19.8	-6.9	-33.2	.4	.9	-28.2	-11.9	-43.8	14.6
Farm	22.9	-5.7	-1.1	.7	2.4	-8.1	2.1	2.1	1.0	-9.2	-6.3	16.8	-1.5	-4.8
Net exports	24.6	-2.2	-10.8	16.2	12.5	-9.2	-1.9	37.7	15.9	-19.7	35.6	27.8	39.1	-17.7
Exports	20.8	17.1	-.7	19.1	16.5	-8.0	10.4	16.7	.8	7.1	68.3	56.3	35.6	17.0
Imports	-3.7	19.2	10.1	2.8	4.1	1.2	12.3	-21.0	-15.0	26.6	32.7	28.4	-3.4	34.6
Government purchases	-6.7	7.8	-4.8	6.0	5.7	12.3	2.5	9.6	-2.7	3.8	8.6	2.3	30.1	-12.4
Federal	-8.1	5.7	-6.9	-.3	.3	12.9	.1	3.9	-.4	4.7	-5.4	-9.6	17.2	-8.9
Defense	-7.4	2.0	4.5	-4.7	-1.1	2.1	1.7	7.5	1.8	-8.1	-4.9	-5.6	10.2	-14.9
Nondefense	-.8	3.8	-11.4	4.4	1.4	10.8	-1.6	-3.6	-2.2	12.9	-.5	-4.0	7.0	6.0
State and local	1.5	2.1	2.1	6.3	5.5	-.7	2.4	5.7	-2.3	-1.0	13.9	12.0	12.9	-3.5

CONFIDENTIAL - FR
CLASS II FOMC

October 30, 1991

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

	Projection											Projection		
	1991		1992				1993				1990	1991	1992	1993
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	24.2	12.0	18.8	31.2	39.3	41.1	37.0	34.4	35.9	33.0	20.2	1.7	130.3	140.3
Real GDP	25.1	12.5	17.7	31.6	39.4	43.0	35.8	34.1	34.4	34.5	15.7	9.4	131.7	138.9
Gross domestic purchases	44.4	5.7	14.6	29.2	39.8	44.8	37.1	33.9	33.7	33.3	-18.9	19.4	128.4	138.0
Final sales	6.0	13.5	19.0	24.3	30.3	31.7	33.9	34.0	36.0	32.6	65.4	-8.1	105.2	136.5
Private dom. final purchases	40.2	6.7	16.6	23.4	32.5	36.4	34.2	33.1	32.2	30.3	-3.8	22.0	108.9	129.8
Personal consumption expend.	24.8	3.8	11.2	17.0	22.1	25.3	22.5	21.5	21.1	20.7	3.7	35.5	75.5	85.8
Durables	9.0	.3	3.6	6.2	6.0	6.5	4.8	4.4	4.2	3.7	-7.5	-4.9	22.3	17.1
Nondurables	6.5	-.6	1.4	3.8	6.3	7.3	6.4	5.8	5.8	5.9	-21.8	6.9	18.8	23.9
Services	9.3	4.1	6.2	6.9	9.7	11.5	11.3	11.4	11.1	11.2	32.9	33.6	34.4	44.9
Business fixed investment	8.0	.3	2.1	2.8	5.2	6.7	6.9	7.0	6.8	6.9	11.0	-12.6	16.9	27.6
Producers' durable equipment	15.7	2.7	4.5	4.6	6.1	7.2	7.3	7.5	7.1	7.2	17.7	4.3	22.4	29.0
Nonresidential structures	-7.7	-2.4	-2.4	-1.8	-.9	-.5	-.4	-.4	-.3	-.2	-6.7	-17.0	-5.5	-1.4
Residential structures	7.3	2.7	3.3	3.6	5.2	4.4	4.8	4.5	4.4	2.6	-18.5	-.9	16.5	16.3
Change in business inventories	18.2	-1.5	-.2	6.9	9.0	9.4	3.1	.4	-.1	.4	-45.3	9.8	25.1	3.8
Nonfarm	14.3	-1.0	-1.7	7.3	8.8	9.5	1.9	.6	-.1	.6	-43.8	14.6	23.9	3.0
Farm	3.9	-.5	1.5	-.4	.2	-.1	1.2	-.2	.0	-.2	-1.5	-4.8	1.2	.8
Net exports	-20.2	6.3	4.2	2.0	-.5	-3.7	-.1	.5	2.2	-.3	39.1	-17.7	2.0	2.3
Exports	.2	8.9	10.5	11.6	11.6	12.2	12.5	14.4	13.7	13.5	35.6	17.0	45.9	54.1
Imports	20.5	2.5	6.3	9.6	12.1	15.9	12.5	13.9	11.5	13.8	-3.4	34.6	44.0	51.7
Government purchases	-14.0	.5	-1.8	-1.1	-1.7	-1.0	-.2	.4	1.6	2.6	30.1	-12.4	-5.6	4.4
Federal	-13.4	.2	-2.6	-2.5	-3.5	-3.3	-3.0	-2.8	-2.3	-1.7	17.2	-8.9	-11.9	-9.8
Defense	-5.3	-3.3	-4.0	-3.9	-4.5	-4.3	-3.9	-3.7	-3.1	-2.5	10.2	-14.9	-16.7	-13.2
Nondefense	-8.3	3.6	1.4	1.4	1.0	1.0	.9	.9	.8	.8	7.0	6.0	4.8	3.4
State and local	-.4	.2	.8	1.4	1.8	2.3	2.8	3.2	3.9	4.3	12.9	-3.5	6.3	14.2

FEDERAL SECTOR ACCOUNTS[1]
(Billions of dollars)

	Fiscal years				1991				1992				1993			
	1990a	1991	1992	1993	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
BUDGET									Not seasonally adjusted							
Budget receipts[2]	1031	1054	1121	1202	233	307	264	254	250	339	278	273	265	362	301	285
Budget outlays[2]	1252	1323	1489	1513	299	333	356	361	373	380	375	395	376	374	368	394
Surplus/deficit(-)[2]	-220	-269	-368	-311	-66	-26	-91	-107	-123	-41	-97	-122	-111	-11	-66	-109
(On-budget)	-277	-320	-428	-374	-80	-50	-93	-119	-134	-72	-104	-134	-121	-46	-74	-122
(Off-budget)	57	51	60	64	15	24	2	11	11	31	7	12	10	35	8	14
Surplus excluding deposit insurance[3]	-162	-202	-260	-241	-63	-12	-55	-96	-92	-6	-65	-97	-94	5	-55	-100
Means of financing:																
Borrowing	263	293	366	309	56	43	95	90	112	69	96	114	99	31	65	101
Cash decrease	1	-1	1	0	0	-12	2	20	9	-23	-5	10	10	-15	-5	10
Other[4]	-44	-23	1	1	9	-6	-6	-2	2	-5	6	-2	2	-5	6	-2
Cash operating balance, end of period	40	41	40	40	32	44	41	22	12	35	40	30	20	35	40	30
NIPA FEDERAL SECTOR									Seasonally adjusted annual rates							
Receipts	1092	1137	1196	1282	1135	1139	1147	1162	1188	1207	1228	1251	1273	1291	1311	1332
Expenditures	1249	1308	1420	1499	1261	1323	1337	1375	1426	1436	1443	1464	1502	1511	1519	1542
Purchases	415	442	441	441	444	450	437	438	443	442	440	437	444	442	441	440
Defense	307	325	313	302	331	326	319	315	316	312	308	303	305	301	298	296
Nondefense	107	117	128	139	113	124	118	123	127	130	132	134	139	141	143	144
Other expend.	835	866	979	1058	818	873	900	937	983	994	1003	1027	1058	1069	1079	1102
Surplus/deficit	-158	-172	-224	-218	-127	-185	-190	-213	-238	-229	-215	-213	-229	-220	-208	-209
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-150	-106	-134	-146	-63	-105	-110	-125	-144	-137	-128	-134	-155	-151	-145	-150
Change in HEB, percent of potential GNP	0	-.8	.5	.2	-1.5	.7	.1	.3	.3	-.1	-.1	.1	.3	-.1	-.1	.1
Fiscal impetus measure (FI), percent	-3.3 *	-4 *	-4.9 *	-3.8 *	-3.8	-.9	-1.3	-.6	-2.5	-.7	-.9	-.8	-1.7	-.7	-.6	-.5

a--actual *--calendar year

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

1. Staff projections. OMB's July deficit estimates are $348 billion in FY1992 and $246 billion in FY1993. CBO's August deficit estimates are $362 billion in FY1992 and $278 billion in FY1993.
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. OMB's July deficit estimates, excluding deposit insurance spending, are $230 billion in FY1992 and $197 billion in FY1993. CBO's August deficit estimates, excluding deposit insurance spending, are $248 billion in FY1992 and $220 billion in FY1993.
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

Short-term interest rates have declined since the October 1 FOMC meeting as evidence of slowing economic activity has bolstered expectations of further monetary ease. In contrast, long-term bond yields backed up considerably through much of October, reflecting disappointing inflation numbers and concern that a mounting enthusiasm for fiscal stimulus would enlarge the federal deficit; however, much of this rise has been reversed in recent days as the markets have focused more on weak economic indicators. Most major stock indexes neared or exceeded previous highs in mid-October and have subsequently fluctuated around those levels, leaving share values at historically high levels in relation to recent earnings.

Growth of the broader monetary aggregates turned positive in October, but remained weak. M2 was boosted by a surge in demand deposits as well as by a sharp jump in overnight RPs, but edged up only to around the lower bound of its target cone. The persistence of a steep yield curve and some further decline in rates on M2 balances apparently continue to promote a shifting of assets by money stock holders into instruments outside of M2, such as bond and stock funds. A pickup in the pace of RTC resolutions during the third quarter also may have contributed to the recent weakness in M2. M3 rose slightly in October--the first monthly increase since May--reflecting a pickup in bank credit growth and continued rapid expansion in M3 money market mutual funds associated with the declines in short-term rates. M3 remained just below the bottom of its growth cone in October.

Bank credit appears to have accelerated in October, owing to both a pickup in acquisitions of securities and a slight reversal of recent runoffs of loans. Business loans posted their second consecutive month of moderate growth, with all the growth occurring at U.S. agencies and branches of foreign banks. Although these loans have been boosted in recent months by domestic rebookings from offshore offices, rebookings were not an important factor in October. Business loans at domestic banks remained weak in October, and respondents to the October Senior Loan Officer Survey again pointed to weak loan demand by businesses as the primary culprit; only a modest further tightening of lending standards was reported.

Overall borrowing by nonfinancial firms appears to have increased a bit in October. The expansion of business loans has been accompanied by a slowing in runoffs of commercial paper and by continued strong issuance of bonds. Spreads of corporate bond yields over Treasury rates remained narrow despite the heavy issuance, and spreads narrowed even on junk bonds, for which issuance in October was sizable by recent standards. Considerable equity issuance was motivated partly by the desire of firms to deleverage, as reflected in an appreciable number of reverse LBOs. Balance sheet restructuring by nonfinancial firms appears to have contributed to a slowing in the deterioration of credit quality recently: The number of downgrades of nonfinancial firms dropped sharply in the third quarter. (Among financial firms, by contrast, downgrades increased in the third quarter, largely reflecting the continuation of problems in the commercial real estate market.)

Growth of household debt apparently continues to be anemic. Consumer loans at commercial banks contracted in September and October, even after adjustment for securitization. Banks in the October Loan Officer Survey reported a notable drop in demand for consumer loans and some increase in their willingness to make such loans. Consumer installment debt at all lenders fell again in

August, pulled down as it has been for some time by its automobile credit component. Revolving credit has continued to expand, but at a relatively slow pace. The decline in interest rates on fixed-rate mortgage loans to their lowest levels since 1977 has precipitated a large volume of refinancing but not much additional new credit has been extended, as sales of new and existing homes have weakened. The refinancings apparently have entailed little cashing out of equity, but rather have been motivated largely by the opportunity to reduce interest expenses. Despite the wide interest rate spread between fixed- and adjustable-rate mortgages, the ARM share of mortgages closed remains small, as many households prefer to lock in fixed rates that are perceived to be relatively low. A large proportion of fixed-rate mortgages have been packaged in mortgage-backed securities, including multiclass securities; the appetites of commercial banks and mutual funds for these instruments have remained strong.

The Treasury's deficit is expected to reach $107 billion in the fourth quarter, and to be financed by $84 billion of borrowing and a sizable drawdown of cash balances. The Treasury moved to take advantage of recent declines in interest rates by announcing that it would call a bond prior to its maturity date, the first such action since 1962.

In tax-exempt markets, gross issuance has declined somewhat in September and October from the elevated pace of earlier in the year. Debt issuance by states and localities has been boosted, particularly at the long end, by efforts of these governmental units to finance deep budget deficits. This has required some unusual steps, including legislative initiatives authorizing the use of bonds to finance deficits, the shifting of certain outlays to capital budgets, and the sale of assets to public agencies that have financed the acquisitions with debt. Heavy gross issuance also reflects the refinancing of debt called to take advantage of the relatively low level of interest rates. Tax-exempt funding costs have been reduced by exceptionally strong investor demands for such instruments, often through open- or closed-end mutual funds and unit trusts.

The Outlook

As noted in the nonfinancial section, the staff's GNP forecast anticipates that subdued demands for money and credit will be reflected in further declines in interest rates in coming months. Credit availability problems, too, should begin to ease at some point, as the financial health of households and businesses improves and loan losses diminish at intermediaries.

In line with the moderate expansion of the economy, and reflecting more conservative attitudes toward leverage, nonfederal debt growth is expected to rise only moderately, from 3 percent this year to 4-1/2 percent next year.

Nonfinancial corporations in the aggregate are expected to generate internal funds sufficient to cover rising outlays, and the corporate financing gap is projected to be around zero over the forecast period--an unusual pattern historically. Business borrowing should be damped as well by market incentives to deleverage; firms will continue to favor equity finance so long as price-earnings ratios remain relatively high, and this strengthening of balance sheets will bolster credit ratings. In the anticipated interest rate environment, what borrowing there is by larger, higher quality firms likely will be directed more at bond markets rather than at banks and other sources of short-term credit. Credit availability to finance commercial real estate is likely to remain limited, but smaller and lower-rated firms in particular may find lenders becoming more accommodative as the business expansion progresses.

The growth of household debt is expected to pick up modestly next year in line with a subdued expansion of durable expenditures and a slow recovery in the housing market. The household sector should find credit available as lenders continue to view consumer loans as profitable despite recent increases in delinquencies, and as strong investor demands for mortgage securities help to keep spreads of mortgage rates over Treasuries narrow.

State and local government debt likely will continue to grow moderately, buoyed in the near term as low revenues force governmental units to find creative ways to fund outlays in debt markets. In the longer term, debt growth should continue around the modest pace of recent years, as spending by this sector remains constrained.

Federal government funding needs will remain strong, even in the assumed absence of any new fiscal initiatives undertaken to boost economic growth, owing to continued needs to fund the RTC and the FDIC. Growth is expected to accelerate next year to 13-3/4 percent and then fall back to 9 percent in 1993, as the deficit shrinks.

Total nonfinancial debt is projected to expand 6-3/4 percent next year and 6-1/4 percent in 1993. This debt expansion is expected to be financed largely outside traditional channels, with depository credit shrinking again in 1992 and not turning positive until 1993 as the contraction of thrifts ends.

GROWTH RATES OF DEBT BY SECTOR[1]
(Percent, 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]
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	11.9	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	6.5	12.0	4.9	7.3	9.1	1.8	2.8	2.7	4.7	4.5
1991	5.0	11.0	3.1	5.0	6.8	-2.1	1.0	3.4	3.1	3.5
1992	6.8	13.7	4.5	6.6	8.1	1.1	2.2	3.6	4.8	6.2
1993	6.3	9.1	5.3	7.3	8.3	3.4	3.3	3.3	4.7	6.1
			Seasonally adjusted, annual rates							
1990 -- Q1	8.2	10.9	7.4	10.8	12.8	3.8	4.8	2.5	7.3	6.7
Q2	5.9	9.7	4.8	7.0	8.8	0.3	2.7	2.7	4.7	5.1
Q3	6.4	11.8	4.7	6.1	7.2	2.7	3.4	4.4	4.1	5.3
Q4	4.8	13.2	2.2	4.0	5.9	0.3	0.3	1.2	2.2	0.9
1991 -- Q1	3.9	8.0	2.6	4.2	5.4	-2.9	0.9	1.9	5.0	2.2
Q2	4.3	9.2	2.7	5.1	6.5	-2.5	0.1	2.6	1.8	4.0
Q3	6.2	14.7	3.4	4.9	7.1	-1.9	1.3	5.2	3.2	4.2
Q4	5.4	10.6	3.6	5.4	7.7	-1.0	1.6	3.6	2.2	3.5
1992 -- Q1	6.8	14.8	4.0	6.2	7.7	0.0	1.5	3.6	5.0	5.6
Q2	6.2	11.8	4.2	6.4	7.9	0.8	1.9	3.6	4.2	6.0
Q3	6.8	13.0	4.5	6.6	7.9	1.6	2.2	3.5	4.6	6.6
Q4	6.9	12.5	4.9	6.6	8.0	2.1	3.0	3.5	4.9	6.6
1993 -- H1	6.1	8.7	5.1	7.0	8.1	3.2	3.2	3.4	5.0	6.3
H2	6.4	9.1	5.3	7.3	8.1	3.5	3.4	3.1	4.4	5.8

1. Published data through 1991:2; projections for other periods.
2. Deposit insurance activity raises total debt growth .6, 1, and .3 percentage points in 1991, 1992, and 1993 respectively; the corresponding figures for federal debt growth are 2.2, 3.8, and 1 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				1991				1992			
		1990	1991	1992	1993	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Net funds raised by domestic nonfinancial sectors:												
1	Total	576.3	542.0	781.3	774.9	399.4	473.6	683.1	611.7	773.7	724.8	796.5	830.2
2	Net equity issuance	-63.0	9.5	23.0	23.0	-12.0	11.0	17.0	22.0	23.0	23.0	23.0	23.0
3	Net debt issuance	639.3	532.5	758.3	751.9	411.4	462.6	666.1	589.7	750.7	701.8	773.5	807.2
	Borrowing sectors:												
	Nonfinancial business												
4	Financing gap[2]	39.6	-11.7	-2.6	7.8	-16.5	-11.1	-9.3	-10.0	-9.5	-8.9	-1.2	9.2
5	Net equity issuance	-63.0	9.5	23.0	23.0	-12.0	11.0	17.0	22.0	23.0	23.0	23.0	23.0
6	Credit market borrowing	95.6	34.5	76.8	119.6	32.0	4.2	46.1	55.6	53.0	65.6	79.3	109.1
	Households												
7	Net borrowing, of which:	254.0	192.7	267.1	313.4	162.6	199.9	192.8	215.4	251.8	262.8	274.4	279.5
8	Home mortgages	215.2	182.3	231.2	254.2	144.9	175.5	194.0	214.6	220.0	230.0	234.8	240.0
9	Consumer credit	14.3	-16.8	9.0	26.9	-23.6	-20.4	-15.0	-8.0	0.0	6.1	12.6	17.1
10	Debt/DPI (percent)[3]	93.1	96.4	96.8	97.1	96.7	96.8	97.0	97.1	97.2	97.5	97.7	97.6
	State and local governments												
11	Net borrowing	17.2	21.8	24.0	22.8	12.2	16.8	34.0	24.0	23.9	24.1	23.8	24.1
12	Current surplus[4]	-30.6	-23.3	12.2	17.5	-35.2	-29.9	-20.0	-8.2	4.4	10.1	17.3	17.1
	U.S.government												
13	Net borrowing	272.5	283.6	390.5	296.1	204.7	241.8	393.2	294.7	422.0	349.3	396.0	394.5
14	Net borrowing;quarterly, nsa	272.5	283.6	390.5	296.1	55.8	43.0	95.0	89.8	111.8	68.7	95.7	114.3
15	Unified deficit;quarterly, nsa	236.1	290.0	382.8	297.3	65.6	25.7	91.3	107.4	123.1	41.0	96.8	121.9
	Funds supplied by												
16	depository institutions	-34.7	-73.9	-10.2	143.7	-20.6	-131.9	-144.3	1.1	-35.5	-38.5	3.0	30.2
	Memoranda: As percent of GNP:												
17	Dom. nonfinancial debt[3]	186.3	191.9	193.3	193.8	191.8	192.0	193.0	193.9	194.5	194.7	194.8	195.1
18	Dom. nonfinancial borrowing	11.7	9.4	12.8	11.9	7.4	8.2	11.7	10.3	12.9	11.9	12.9	13.3
19	U.S. government[5]	5.0	5.0	6.6	4.7	3.7	4.3	6.9	5.2	7.3	5.9	6.6	6.5
20	Private	6.7	4.4	6.2	7.2	3.7	3.9	4.8	5.2	5.7	6.0	6.3	6.8

1. Published data through 1991:2; 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 nominal GNP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

2.6.4 FOF

Recent Developments

Since the October FOMC meeting, the weighted-average foreign-exchange value of the dollar in terms of the other G-10 currencies has fluctuated in a fairly narrow range and has ended the period about unchanged, on balance. The dollar has risen slightly against the mark, and has fallen somewhat more against the yen. The mark has been weakened by growing concern about sizable German loans to the USSR, which continues to unravel politically and economically. The yen has strengthened on on continuing indications that Japan's external surplus has increased significantly this year. Widespread talk about U.S. tax cuts appeared to boost the dollar and the yield on U.S. bonds until recently, when adverse information called into question the strength of the U.S. recovery and depressed the dollar and bond yields somewhat. Japanese and German bellwether bond yields have changed little. Japanese three-month interest rates have moved down with U.S. three-month rates, while German three-month rates have firmed 15 basis points.

. The Desk has not intervened.

Some recent indicators of economic activity in major foreign industrial countries suggest that real growth abroad was weaker during the third quarter than we had expected. In particular, actual and prospective recoveries from deep recessions in the United Kingdom and Canada look less firm than they did five weeks ago: Retail sales have been disappointing in both countries, and industrial production turned down again in the United Kingdom. Other indicators in those countries remain less gloomy. Data from Japan and Germany have confirmed that those two countries have experienced slower rates of growth than were recorded earlier in the year, although capacity utilization rates in both economies remain high. Economic activity in France and Italy appears to be emerging slowly but steadily from its recent stagnation.

Inflation abroad has continued to slow, as the effects of the spike in oil prices last year have run their course and as underlying demand pressures have eased. In October, twelve-month consumer price inflation in Japan remained near 3 percent, and Japanese wholesale prices were almost 1/2 percent below their level of a year earlier. German consumer-price inflation remained below 4 percent in October (and would have been close to 3 percent except for the effects of recent tax increases), while French inflation in September dropped to near 2-1/2 percent. Continued weakness in demand in the United Kingdom and Canada has helped reduce further the wage and price inflation rates in those countries.

A continued expansion of Japan's trade surplus through September reflected in part the slowing growth of domestic demand in that country. For the first nine months of 1991, the Japanese trade surplus (on a customs basis) exceeded $75 billion at an annual rate, compared with a rate of less than $60 billion for the same period of 1990. Germany's current account position declined further to a cumulative deficit of about $17 billion (not at an annual rate) through August despite some recent improvement in that country's trade balance.

The U.S. merchandise trade deficit widened further in August. For the first two months of the third quarter the deficit was substantially greater than the average rate in the second quarter, reflecting a strong expansion of imports while exports remained little changed. The surge in imports was concentrated in consumer goods and automotive products, consistent with the pickup in U.S. consumer demand and automotive purchases. Part of this growth in imports also reflected the return to more normal levels of shipments of autos from Japan; these imports had been depressed in the second quarter following a bunching of shipments from Japan early in the year. Exports, after having advanced rapidly in the second quarter, edged off during the third quarter as growth in U.S. markets abroad slowed. Prices of non-oil imports rose moderately in September after having declined steadily since March in the wake of the appreciation of the dollar during the second quarter.

Outlook

The staff forecast incorporates a slightly lower path for the dollar and slightly lower economic growth abroad through 1992 than in the last Greenbook. We have revised down the projected level of real net exports of goods and services throughout the forecast period in response to weaker-than-expected exports and stronger-than-expected imports in the third quarter. In the fourth quarter and early next year, reduced U.S. economic growth should contribute to a slightly more positive trajectory for net exports. During the latter part of 1992, however, a small boost to net exports from the lower dollar is expected to be more than offset by the effects of increased U.S. growth.

The Dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will decline somewhat in the near term, consistent with the anticipated path of U.S. interest rates. Thereafter, the dollar remains unchanged at a level about 1-1/2 percent below that projected in the September Greenbook. Against the currencies of the eight major developing countries, the dollar shows a moderate depreciation on a CPI-adjusted basis throughout the forecast period.

Foreign Industrial Countries. The softer tone of developments in foreign industrial countries in recent weeks has prompted a slight downward revision of the staff projection for foreign growth. We now expect average GNP growth in the foreign G-7 countries (using GNP-based weights) to be just below 2 percent for 1991 and about 2-3/4 percent for 1992. This outlook implies that the average level of foreign GNP at the end of 1992 will be about 1/4 percent below the level forecast in the September Greenbook. Among individual countries, the outlook for the United Kingdom has weakened the most, that for Canada somewhat less, and those for most of the other major countries by small amounts. Nevertheless, the staff still expects growth in all of the major countries to pick up noticeably in the fourth quarter and to continue at a moderate pace throughout 1992. Cyclical recoveries in the United Kingdom and Canada, though somewhat less robust, still appear in train; and the economies of Germany and Japan are expected to resume expanding. Economic growth in Japan will be supported by recent and expected near-term monetary easing by the Bank of Japan, and that in Germany by strong investment demand in eastern Germany.

Inflation in the foreign G-7 countries is expected to slow to an average rate of 4 percent during 1991, and to about 3-3/4 percent in 1992, rates that are slightly below those in the previous forecast. Inflation rates in Japan and Germany are projected to be in the neighborhood of 3 percent over the four quarters of 1992. However, wage pressures are a continuing source of concern in Germany, and inflation in that country is expected to rise somewhat in the near term. We now forecast that Canada, too, will achieve an inflation rate of 3 percent for 1992, in line with the Bank of Canada's objective.

The staff expects the average level of short-term interest rates in the major foreign countries to decline about 50 basis points over the next five quarters, much the same as we previously forecast. Policy-induced declines in Canada and the United Kingdom reflect the recent and anticipated further progress in reducing underlying rates of inflation in those countries. Monetary policy is also expected to ease in Japan in the near term. Short-term interest rates in Germany could move up slightly in the near term, but we expect them to change little thereafter through most of next year. Long-term rates abroad, on average, are expected to fall a little less than half as much as short-term rates.

Developing Countries. Growth of real GDP in developing countries that are major U.S. trading partners is projected to increase moderately in 1991 to about 5-1/2 percent, on average. The effects of expansionary monetary and fiscal policies in several key countries and lower oil prices probably are more than offsetting the negative effects of the decline in growth in industrial countries on exports of developing countries. Real GDP growth should continue to increase slightly on average next year because of stronger external demand. This outlook is about the same as that in the September forecast.

U.S. Real Net Exports of Goods and Services. We expect real net exports, after having worsened during the second and third quarters of 1991, to improve somewhat in the fourth quarter of 1991 and the first quarter of 1992. The expected near-term improvement reflects partly a combination of somewhat faster expansion of exports as growth abroad picks up and slower expansion of imports as U.S. growth slows from the rate recorded in the third quarter. We project net exports to edge down again in the second half of next year as U.S. growth (and demand for imports) recovers more fully and as the positive effects of past and prospective increases in U.S. price competitiveness diminish.

The recent weakness of nonagricultural exports and the apparent slowing of recovery abroad have led us to revise down the projected level of these exports through 1992. Nevertheless, we still expect the growth of nonagricultural exports in real terms during the next five quarters to return to near the average annual rate of about 10 percent achieved over the past several years, though the projected pickup in growth is not quite as rapid as we forecast in September. The key factor underlying this export projection remains the expected resumption of more normal rates of income growth in major U.S. export markets on average. Also contributing to the projected expansion of exports are our expectations of continued rapid growth in trade in computers (measured in constant 1982 dollars) and some additional stimulus from past and anticipated near-term depreciations of the dollar.

TRADE QUANTITIES*
(Percent change from preceding period shown, annual rate)

	1991				------Projection-------	
					1992	1993
	Q1	Q2	Q3	Q4	Q4	Q4
Nonagric. exports	6.6	18.0	1.7	8.1	10.4	9.7
Agric. exports	13.1	-24.7	30.1	3.7	-0.5	1.9
Non-oil imports	-10.0	15.9	23.0	5.6	7.8	7.9
Oil imports	23.4	74.4	5.3	-7.7	10.1	8.9

* GNP basis, 1982 dollars.

Agricultural exports rose sharply in the third quarter to slightly above their average level in 1990. We expect these exports to strengthen somewhat further in the fourth quarter, largely because of the recent provision of both credit guarantees and an export enhancement program for wheat to the Soviet Union. Weekly data from the U.S. Department of Agriculture confirm a significant increase in sales of wheat to the Soviet Union in early October. Agricultural exports are expected to remain little changed in 1992.

Growth in the quantity of non-oil imports is expected to slow substantially from the high rates seen during the past two quarters. These imports have now largely recovered from their depressed levels early this year, and the anticipated deceleration reflects in part the staff's expectation of sub-par growth in domestic demand during the next two quarters. We expect the growth of non-oil imports, in real terms, to average a little under 8 percent at an annual rate over the next five quarters, somewhat less than the rate projected in September.

After increasing rapidly during the first half of the year, oil imports increased at a more subdued pace in the third quarter as stock rebuilding appears to have been largely completed. We expect these imports to decline in the fourth quarter as the seasonal increase in consumption is more than offset by a decline in stocks, and to resume an uptrend next year.

Oil Prices. Current prices in the spot and futures markets for crude oil are consistent with a peak in the U.S. import unit value of about $21 per barrel at year's end, $2 per barrel above the projected peak in the September Greenbook. Near-term prices have risen largely because of Iraq's apparent refusal to accept the U.N. resolution concerning the export of its oil, coupled with reports of maintenance delays in Saudi Arabia and the United Arab Emirates. On the assumptions that Kuwaiti production continues to rise and that Iraqi production begins to return to the world oil market next year, the staff sees prices as likely to decline about $2.50 per barrel during the first half of 1992.

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports is projected to resume a moderate uptrend over the period ahead as U.S. producer prices (weighted by their shares in exports) begin to recover from levels depressed by the cyclical downturn. Non-oil import prices declined more in the third quarter than the staff had expected, and the projected increase in the fourth quarter has been revised down. We still expect these prices to rise next year more in line with our forecast for inflation rates abroad, especially with a slight further depreciation of the dollar projected in the near term.

SELECTED PRICE INDICATORS
(Percent change from preceding period shown, annual rate)

	1991			------Projection------		
					1992	1993
	Q1	Q2	Q3	Q4	Q4	Q4
PPI (export wts.)	-2.0	-4.2	0.5	2.2	1.7	2.0
Nonag exports	-1.0	-2.9	-0.8	1.2	1.8	1.8
Non-oil imports	4.0	-3.7	-1.7	1.1	3.5	3.0
Oil imports ($/bl)	20.33	17.31	17.43	20.27	18.00	18.00

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to widen to $80 billion at an annual rate in the fourth quarter and to remain in that vicinity over the year ahead. The current account deficit (excluding Gulf war cash grants) is projected to widen to $50 billion in the fourth quarter as the trade balance deteriorates, and to narrow by nearly $10 billion over the next year as a result of improvements in the nontrade portions of the current account.

Within the nontrade portions of the accounts, net service receipts are expected to expand steadily over the forecast period as markets for U.S. services continue to grow relatively rapidly on average. We also expect net investment income receipts to remain significantly positive. Net payments on U.S. portfolio debt to foreigners should ease a bit as U.S. interest rates come down. At the same time, net direct investment income receipts are likely to decline slightly during the course of 1992 as U.S. growth picks up and the earnings of foreign companies in the United States recover.

NOMINAL EXTERNAL BALANCES
(Billions of dollars, SAAR)

	1991				---------Projection--------- 1992	1993
	Q1	Q	Q3	Q4	Q4	Q4
Trade balance	-73.6	-62.5	-73.7	-82.0	-80.5	-86.1
Current account excl. Gulf war cash grants	-48.8	-34.5	-41.7	-51.9	-43.8	-41.4
Gulf war cash grant	90.8	46.4	18.4	16.0	0.0	0.0
Current account	42.0	11.9	-23.3	-35.9	-43.8	-41.4

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REAL GNP AND CONSUMER PRICES, SELECTED COUNTRIES, 1989-93
(Percent change from fourth quarter to fourth quarter)

Measure and country	1989	1990	1991 (Projection)	1992 (Projection)	1993 (Projection)
REAL GNP					
Canada	2.1	-1.1	0.9	2.4	4.4
France	3.9	1.9	1.7	2.4	2.6
Western Germany	3.2	5.3	2.1	2.8	3.1
Italy	2.9	1.3	1.2	2.3	2.6
Japan	4.8	4.8	3.8	3.5	3.8
United Kingdom	1.3	-0.7	-0.6	2.1	2.1
Average, weighted by 1987-89 GNP	3.4	2.6	2.0	2.8	3.2
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	3.5	2.1	2.5	3.3	4.0
G-6	2.8	1.0	1.5	2.6	3.7
Developing countries	5.0	4.9	6.0	5.7	6.2
CONSUMER PRICES					
Canada	5.2	4.9	4.7	3.0	2.7
France	3.6	3.6	2.7	3.1	3.2
Western Germany	3.0	3.0	3.9	3.2	3.0
Italy	6.6	6.3	5.8	5.8	5.3
Japan	2.9	3.2	3.3	3.1	2.8
United Kingdom	7.6	10.0	3.9	4.8	4.1
Average, weighted by 1987-89 GNP	4.4	4.8	3.9	3.7	3.4
Average, weighted by share of U.S. non-oil imports	4.2	4.4	4.0	3.3	3.0

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October 30, 1991

OUTLOOK FOR U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

			Projection								Projection		
	1991		1992				1993				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993
GNP Net Exports of Goods and Services (82$)	-32.8	-26.5	-22.3	-20.3	-20.8	-24.5	-24.6	-24.1	-21.9	-22.2	-16.2	-22.0	-23.2
Exports of G+S	655.3	664.2	674.7	686.3	697.9	710.1	722.6	736.9	750.7	764.2	655.6	692.3	743.6
Merchandise	460.0	468.7	479.9	491.3	502.2	513.2	524.5	536.0	547.8	559.8	456.4	496.7	542.0
Services	195.3	195.5	194.8	195.0	195.7	196.9	198.1	201.0	202.8	204.4	199.2	195.6	201.6
Imports of G+S	688.1	690.6	697.0	706.6	718.7	734.6	747.1	761.0	772.5	786.3	671.8	714.2	766.8
Merchandise	554.6	558.8	568.7	578.7	591.0	604.5	617.9	629.9	641.8	653.5	536.4	585.7	635.8
Oil	102.2	100.2	102.4	104.6	107.4	110.2	112.8	115.2	117.6	120.0	97.8	106.2	116.4
Non-oil	452.4	458.7	466.4	474.1	483.6	494.2	505.1	514.7	524.2	533.4	438.7	479.6	519.4
Services	133.5	131.8	128.2	127.9	127.7	130.1	129.3	131.1	130.7	132.9	135.4	128.5	131.0
Memo:(Percent changes 1/)													
Exports of G+S	0.1	5.5	6.5	7.1	7.0	7.2	7.2	8.2	7.7	7.4	2.6	6.9	7.6
of which: Goods	3.9	7.7	9.9	9.9	9.2	9.1	9.1	9.1	9.2	9.0	8.0	9.5	9.1
Imports of G+S	12.9	1.5	3.7	5.6	7.0	9.1	7.0	7.6	6.2	7.3	5.3	6.4	7.0
of which: Non-oil Goods	23.0	5.6	6.9	6.8	8.2	9.1	9.1	7.8	7.6	7.2	7.9	7.8	7.9
Current Account Balance	-23.3	-35.9	-43.3	-38.5	-35.9	-43.8	-40.7	-40.4	-37.6	-41.4	-1.3	-40.4	-40.0
Merchandise Trade, net	-73.7	-82.0	-82.1	-78.4	-77.4	-80.5	-83.8	-85.1	-85.9	-86.1	-72.9	-79.6	-85.2
Exports	419.8	429.3	440.8	451.4	461.5	471.7	482.1	492.8	503.7	514.6	417.3	456.3	498.3
Agricultural	40.0	40.7	41.7	42.2	42.6	43.1	43.8	44.6	45.5	46.3	39.6	42.4	45.1
Nonagricultural	379.8	388.7	399.1	409.1	419.0	428.6	438.3	448.1	458.1	468.3	377.7	413.9	453.2
Imports	493.5	511.3	522.9	529.8	538.9	552.3	566.0	577.9	589.6	600.7	490.2	536.0	583.5
Oil	52.8	60.6	63.6	60.7	58.1	59.2	60.6	62.0	63.4	64.7	54.5	60.4	62.7
Non-oil	440.7	450.7	459.3	469.1	480.8	493.1	505.4	515.9	526.2	536.0	435.7	475.6	520.9
Other Current Account	50.3	46.1	38.8	39.9	41.6	36.7	43.2	44.8	48.3	44.7	71.6	39.2	45.2
Invest. Income, net	10.3	11.0	14.1	14.1	14.3	11.4	13.3	13.5	15.8	13.5	12.7	13.5	14.0
Direct, net	49.5	50.7	51.0	51.1	50.5	49.6	49.7	51.8	52.5	52.2	53.6	50.5	51.5
Portfolio, net	-39.3	-39.7	-37.0	-37.0	-36.2	-38.1	-36.4	-38.3	-36.7	-38.8	-40.9	-37.1	-37.5
Military, net	-4.4	-3.2	-2.5	-2.5	-1.7	-1.3	-0.8	-1.2	-1.6	-1.6	-5.9	-2.0	-1.3
Other Services, net	39.9	42.3	44.2	45.3	46.0	46.5	47.7	49.4	51.2	52.8	39.6	45.5	50.3
Transfers, net	4.6	-4.0	-17.0	-17.0	-17.0	-20.0	-17.0	-17.0	-17.0	-20.0	25.2	-17.8	-17.8

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.

U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1989				1990				1991		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1988	1989	1990
GNP Net Exports of Goods and Services (82$)	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6	-46.5	-8.8	7.1	-12.6	-75.9	-54.1	-33.8
Exports of G+S	576.1	593.2	592.5	611.6	628.1	620.1	630.5	647.2	648.0	655.1	534.6	593.3	631.5
Merchandise	376.9	390.7	390.3	405.2	422.4	418.4	421.0	433.8	441.4	455.6	347.3	390.8	423.9
Services	199.2	202.5	202.2	206.4	205.7	201.7	209.5	213.4	206.7	199.4	187.4	202.6	207.6
Imports of G+S	627.3	646.5	656.6	659.4	663.5	664.7	677.0	656.0	641.0	667.6	610.6	647.4	665.3
Merchandise	480.6	492.4	509.8	514.3	517.8	515.2	526.5	508.4	501.7	530.5	469.4	499.3	517.0
Oil	88.8	92.9	98.5	95.0	100.8	96.9	100.9	83.3	87.8	100.9	86.9	93.8	95.5
Non-oil	391.8	399.5	411.4	419.3	417.1	418.3	425.5	425.1	414.0	429.6	382.5	405.5	421.5
Services	146.7	154.1	146.7	145.1	145.6	149.4	150.5	147.6	139.2	137.1	141.1	148.1	148.3
Memo:(Percent changes 1/)													
Exports of G+S	15.8	12.4	-0.5	13.5	11.2	-5.0	6.9	11.0	0.5	4.5	14.0	10.1	5.8
of which: Goods	18.6	15.5	-0.4	16.2	18.1	-3.7	2.5	12.7	7.2	13.5	15.0	12.2	7.1
Imports of G+S	-2.3	12.8	6.4	1.7	2.5	0.7	7.6	-11.8	-8.8	17.7	5.5	4.5	-0.5
of which: Non-oil Goods	-1.4	8.1	12.5	7.9	-2.1	1.2	7.1	-0.4	-10.0	15.9	3.4	6.6	1.4
Current Account Balance	-110.3	-111.2	-104.9	-98.8	-90.7	-88.7	-95.5	-93.6	42.0	11.9	-126.2	-106.3	-92.1
Merchandise Trade, net	-117.7	-114.8	-116.7	-114.4	-110.1	-96.4	-115.0	-110.9	-73.6	-62.5	-127.0	-115.9	-108.1
Exports	348.8	366.4	360.6	370.0	381.0	388.4	386.6	402.3	403.6	416.4	320.3	361.5	389.5
Agricultural	42.9	43.1	40.6	42.2	43.0	40.8	39.3	37.8	39.8	38.0	38.2	42.2	40.2
Nonagricultural	306.0	323.3	320.0	327.8	338.0	347.5	347.3	364.5	363.8	378.4	282.1	319.3	349.3
Imports	466.5	481.2	477.3	484.4	491.1	484.7	501.6	513.2	477.2	478.9	447.3	477.4	497.7
Oil	44.2	54.2	52.2	53.1	63.2	51.3	61.8	72.1	52.9	51.6	39.6	50.9	62.1
Non-oil	422.3	427.0	425.1	431.3	427.9	433.4	439.8	441.1	424.3	427.3	407.7	426.4	435.6
Other Current Account	7.4	3.6	11.9	15.6	19.5	7.6	19.5	17.3	115.6	74.4	0.7	9.6	16.0
Invest. Income, net	3.6	-4.7	2.0	9.9	12.0	0.0	11.2	24.5	19.5	9.9	5.4	2.7	11.9
Direct, net	42.4	36.1	41.2	50.2	51.9	43.6	53.5	61.7	61.3	52.6	36.8	42.5	52.7
Portfolio, net	-38.8	-40.9	-39.2	-40.3	-39.8	-43.6	-42.3	-37.2	-41.8	-42.8	-31.5	-39.8	-40.7
Military, net	-6.9	-6.5	-4.6	-6.8	-6.9	-6.2	-6.7	-9.0	-9.3	-6.7	-5.7	-6.2	-7.2
Other Services, net	24.8	27.3	29.7	32.7	30.5	32.6	32.3	38.9	37.6	38.6	16.1	28.6	33.6
Transfers, net	-14.2	-12.4	-15.2	-20.2	-16.1	-18.8	-17.3	-37.1	67.8	32.6	-14.9	-15.5	-22.3

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.