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Strictly Confidential (FR) Class II FOMC

December 11, 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 information received since the last meeting of the FOMC suggests that economic activity leveled off during the summer and may well be slipping lower at present. Employment fell across a broad front last month, and industrial production appears to have dropped noticeably after three months of little change. The staff expects real gross domestic product (GDP) to be essentially flat in the current quarter and to decline somewhat in the first quarter of next year. Production should pick up thereafter, but the projected level of output through 1993 remains below that in our previous forecast.

Underlying this downward revision of our projection are the signs of renewed softness in demand--especially in the consumer sector--and our assessment that many of the negative forces that have been at work in the economy for a while are proving more powerful than we previously appreciated. Not only do the major adjustments under way in such sectors as government, real estate, and financial services appear to be proving a greater drag on activity than we had thought, but the stimulus from easing actions by the System also seemingly has been--at least to date--a less effective counterforce.

The continuing drumbeat of layoff notices, concerns about personal indebtedness, the perceived loss of real estate wealth, and a lack of confidence in government policy seem to be weighing heavily on the minds of consumers. Thus, household spending--especially on big-ticket items, such as autos and homes--has not taken off despite lower interest rates. Businesses, too, have hesitated to commit to new investments and apparently are waiting for clearer signs of a sustained upturn in sales; like households, they are instead taking the opportunity afforded by lower long-term rates and higher share prices to adjust their balance sheets. Our assessment is that, in the near term, this pervasive mood of caution will reinforce the negative tendencies otherwise present in the economy. However, in this caution are seeds of support for activity next year, when a greater portion of the overhang of debt will have been worked off and when some pent-up demand for goods should begin to manifest itself.

The risks to the near-term output forecast now seem reasonably balanced. On the one hand, with sales having been disappointing for some time and confidence at a low ebb, businesses could slash production as they did a year ago; at a minimum, the economy is highly vulnerable to any new negative shock. On the other hand, despite the notable decline in employment, the aggregate hours of production or nonsupervisory workers so far this quarter are on a par with the third-quarter average. If the job cutbacks represent prompt efforts by employers to cut costs and enhance efficiency, production may actually be expanding this quarter.

As before, we anticipate an acceleration of economic activity over 1992. The lagged effects of the cumulative declines in interest rates, although seen as less potent than in the last Greenbook, remain an important force bolstering aggregate demand. With many households and businesses also having improved their balance sheet positions, final sales are expected to firm next spring. And, tracing out the usual cyclical dynamics, the drawdown of inventories should abate, leading to a pickup in production. The feedback on aggregate demand from renewed employment and income growth, with a related recovery in confidence, is expected to provide an additional boost to growth as the year progresses. By 1993, the "credit crunch" should have begun to ease, and under the assumption that monetary policy remains fairly accommodative, output is projected to accelerate somewhat further.

Because the projected level of output is lower than in the last Greenbook, pressures on resources should be less and inflation lower than previously anticipated. The CPI excluding food and energy, which is expected to rise about 3-3/4 percent at an annual rate over this quarter and next, is projected to slow to less than 3 percent by 1993.

Key Assumptions

The forecast assumes that money market rates will remain close to current levels through 1993. Long-term interest rates are expected to decline appreciably further over the next several quarters, however, as market participants recognize the sustainability of a lower inflation trend, in the context of an economy operating significantly below its potential level of output. We have not incorporated a possible market reaction to fiscal policy developments, although we recognize the risk that concerns about the longer-run outlook for the federal deficit could delay the expected decline in long-term rates.

The staff continues to expect constraints on credit availability to inhibit economic activity for some time. But, by 1993, with the economy on a solid growth track once again and with asset quality improving, the reluctance to lend is likely to be less widespread, and a gradual, favorable shift in credit supply conditions should tend to offset the damping effects of mildly rising real short-term interest rates.

Growth of M2 and M3 next year is expected to be centered in the lower halves of their tentative ranges of 2-1/2 to 6-1/2 percent and 1 to 5 percent. The modestly faster growth of the broader aggregates next year reflects some acceleration in nominal income growth. Even so, their expansion will be held down relative to income growth by the continued influence of the restructuring of the depository sector, cautious bank lending, and drawdowns of some money balances for reinvestment in capital market instruments and for debt repayment. In 1993, nominal income growth will be still stronger, and M2 and M3 should grow somewhat faster than in 1992.

The outcome of the intense debate on fiscal policy is impossible to predict with any precision. While the enactment of a legislative package seems quite likely, probably sometime next spring, we have not attempted to project what that package will be, or to incorporate such legislation in our forecast assumptions.[1] The staff's analysis suggests that many of the current proposals would yield little immediate economic stimulus, and the possibility of passage of a fiscal initiative would seem, at this time, to pose only a small upside risk to the output forecast in 1992-93.

The upward revision of about $16 billion in the staff's estimate of the unified budget deficit for FY1992 to $385 billion results almost entirely from the weaker economic forecast; the FY1993 deficit is now expected to be $341 billion. Excluding outlays for deposit insurance and foreign contributions related to Operation Desert Storm, the deficit is expected to be $286 billion in FY1992 and $266 billion in FY1993, compared with $246 billion in FY1991.

The foreign exchange value of the dollar in terms of other G-10 currencies is now somewhat below the level forecast in the last Greenbook. The dollar is assumed to remain at about the current

1. We updated our fiscal policy assumptions from those in the October Greenbook by including the recently signed legislation to extend benefits for unemployment insurance; we assume that this program will be reenacted before its expiration in June and will continue throughout the projection period. For FY1992, this program has a neutral effect on the projection of the budget deficit because accelerated tax collections should offset expenditures.

level for the remainder of the projection period. Growth in the foreign industrialized countries now looks to be a little weaker in the near term than previously expected. However, the staff continues to project that growth abroad will increase to more than 2-1/2 percent at an annual rate beginning by the second half of 1992. Prices for crude oil recently have been lower than expected, partly because global demand has been weaker and partly because OPEC production has remained at a high level. The staff expects that prices of crude oil will not change materially through 1993.

Recent Developments and the Outlook through the First Quarter of 1992

The revised NIPA data produced little change in growth trends and recent cyclical movements. The trend rate of increase in real GDP was lowered slightly by the rebasing to 1987 dollars, and the new figures continue to show a distinct slackening in growth beginning in early 1989. The 1990-91 contraction is now estimated to have been somewhat deeper, again principally because of the rebasing. Over the second and third quarters of this year, real GDP grew at a 1.6 percent annual rate; however, that growth reflected almost entirely a less rapid rate of inventory liquidation, and final sales have increased little on balance.

GROWTH OF REAL GDP AND FINAL SALES
(Percent change: annual rate)

| | 1979-1990 | 1989:Q1 to 1990:Q3 | 1990:Q3 to 1991:Q1 | 1991:Q1 to 1991:Q3 | 1991:Q3 to 1992:Q1 -projection- |
|---|---|---|---|---|---|
| Real GDP | 2.3 | 1.3 | -3.2 | 1.6 | -.5 |
| Previous | (2.5) | (1.5) | (-2.6) | (1.4) | (1.5) |
| Final sales | 2.4 | 1.8 | -1.3 | .2 | .3 |

The incoming monthly data suggest that the weakness in final demand has persisted in the current quarter, and the staff expects that it will continue into the opening months of 1992. Ongoing adjustments in nonresidential and multifamily construction and in federal, state, and local government will continue to be a drag on activity; together, declining expenditures in these sectors are projected to reduce growth of real GDP, on average, almost 3/4 percentage point (annual rate) over this quarter and the next. Moreover, demand has softened elsewhere as well.

Most important, consumer spending appears likely to decline this quarter and to grow only a little in early 1992. Growth in real disposable income has been quite slow since mid-year, and labor market conditions are widely perceived to be poor; these developments evidently have contributed to a sharp drop in consumer confidence. Sales of autos and light trucks in October and November were almost 1 million units (annual rate) below the third-quarter average. Real consumption spending apart from motor vehicles is currently estimated to have been unchanged in October at about the third-quarter average.[2] In the next several months, spending is expected to move up only haltingly, supported by underlying growth in outlays for medical and some other services and a small temporary boost to retail sales from holiday discounting.

Housing starts posted a strong advance in October, but sales of single-family homes remain well below their spring levels, and surveys of consumers' and builders' attitudes do not point to a pickup in demand this fall. We anticipate some retracing of the October starts gain over the remainder of this year. However, declines in mortgage interest rates are projected to tilt the trend in housing starts up again in early 1992.

Business spending for capital equipment appears likely to change little in the current quarter. A temporary surge in

2. The monthly estimates of PCE currently available are based on unrevised data in 1982 dollars.

deliveries of computer equipment, principally the new IBM mainframe, should be about offset by an anticipated decline in business purchases of motor vehicles. Apart from these factors, the recovery in orders that occurred into the early summer should sustain shipments of other types of business equipment. Given the evident deterioration in business sentiment, we believe that many firms likely are now deferring orders and expenditures and that equipment outlays will decline somewhat in the first quarter of next year.

For the external sector, reports on export orders suggest that growth in merchandise shipments will be fairly well maintained in the near term, despite signs of weak economic growth abroad. Merchandise imports are expected to drop back in the near term after the outsized bulge that occurred in the third quarter; more generally, the weakness in domestic spending is likely to depress imports.

The projection assumes that a considerable proportion of business inventories that accumulated at the end of the summer was imported. Businesses should be stepping up their liquidation again in coming months, not only by cutting back imports, but also by lowering domestic production. The downswing in nonfarm inventory investment is expected to curb the growth of real GDP by an average of 3/4 percentage point (annual rate) in the current quarter and the next.

Labor market conditions appear to have deteriorated in recent months, and the projection now anticipates that payroll employment will decline appreciably through the first quarter of next year. Even assuming that the weakness in labor demand continues to discourage potential jobseekers more than it has in the past, enough jobs will be lost to move the civilian unemployment rate above 7 percent by early next year.

The consumer price index has jumped around some in recent months, and the staff expects that over the next several months sizable, but temporary, increases in prices of food and energy items will boost the CPI total. Moreover, we have allowed for the bulge in once-a-year price adjustments that typically occurs in January but that is not fully smoothed by seasonal adjustment. On a quarterly average basis, the CPI is expected to rise at a 3-1/2 percent annual rate in the current quarter and at a 4 percent rate in the first quarter of next year.

The monthly data on average hourly earnings of production or nonsupervisory workers, although erratic, continued to show a downtrend in wage inflation through November. The efforts by businesses to rein in wage increases had also been apparent in the third-quarter data on the broader ECI measure. However, the ECI for total compensation showed that employer expenditures for benefits were still rising rapidly. Anecdotal evidence suggests that businesses will be unable to diminish these costs much in the near term, and we project that further substantial increases in benefit costs will limit the deceleration in overall labor costs into 1992.

The Longer-run Outlook

Economic activity is expected to turn upward again next spring, and real GDP is projected to grow at about a 2-1/2 percent annual rate in the second and third quarters of 1992. We expect growth to reach a 3-1/4 percent rate by the fourth quarter of next year and to accelerate a touch further in 1993.

As noted above, the projected acceleration in final demand in 1992 is in good part a response to lower interest rates. Even with cautious inventory management, businesses should increase stocks gradually to support expanding sales. These impetuses to production should be reinforced by an improvement in consumer and business confidence; as the year unfolds, both households and businesses will have made significant progress in adjusting their balance sheets and should be better positioned to step up spending.

PROJECTIONS OF REAL GDP AND RELATED ITEMS
(Percent change; annual rate)

| | 1992 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | 1993 |
| Real GDP | -.8 | 2.6 | 2.6 | 3.2 | 3.5[1] |
| Final sales | .3 | 1.2 | 1.8 | 2.8 | 3.3[1] |
| Memo: | | | | | |
| Change in nonfarm business inventories (billions of 1987 dollars) | -18.5 | -1.3 | 9.0 | 14.2 | 20.5[2] |

1. Percent change, fourth quarter to fourth quarter.
2. 1993 average.

On balance, the pace of real activity over the final three quarters of 1992 is about 3/4 percentage point below the growth rate projected for that period in the October Greenbook. As a result, the civilian unemployment rate is projected to peak at around 7-1/4 percent in the second quarter of next year and then to decline gradually to around 6-3/4 percent by the end of 1993. The factory utilization rate is projected to drop below 77 percent early next year; the subsequent expansion in industrial production should bring the operating rate back to just under 80 percent by the end of 1993.

RECENT AND PROJECTED INFLATION
(Percent change; fourth quarter to fourth quarter)

| | 1990 | 1991 | 1992 | 1993 |
|---|---|---|---|---|
| Consumer price index | 6.3 | 3.0 | 3.5 | 2.9 |
| Excluding food and energy | 5.3 | 4.4 | 3.4 | 2.9 |
| ECI hourly compensation | 4.6 | 4.5 | 3.8 | 3.4 |
| Memo: | | | | |
| Civilian unemployment rate[1] | 5.9 | 6.9 | 7.1 | 6.7 |

1. Level in the fourth quarter.

Thus, with economic slack greater over the period, the downtrend in wage and price inflation now is anticipated to be steeper, and the core inflation rate edges below 3 percent in 1993.

Consumer spending. Growth in real personal consumption expenditures should remain relatively slow until the middle of 1992. However, it is projected to pick up to about 3 percent in the second half when sustained growth in real disposable income will supplement the effects of lower interest rates and reduced debt service obligations on consumer demand. Spending on durable goods, which will probably have fallen short of desired levels over the preceding year or so, accounts for much of the acceleration in consumption. But the rebound in durables outlays falls well short of previous cyclical recoveries, and, notably, sales of motor vehicles--at less than 14 million units in 1993--remain well below the levels of the late 1980s.

Housing. As noted above, the response of the single-family housing sector to lower interest rates is projected to contribute to the firming in building activity in early 1992. As the year progresses, ongoing growth of income and improved consumer confidence should reinforce the rise in housing demand. Single-family construction should gather momentum and move appreciably above 1 million units (annual rate) by year-end. Lower interest rates, however, probably will not offset the negatives in the multifamily sector: high vacancy rates and unfavorable demographic trends. The construction of multifamily units should remain below 200,000 through the end of 1992. In 1993, single-family building should continue to rise, likely with some improvement in credit availability for small and medium-sized builders. Multifamily building may also begin to pick up, partly because, by then, vacancy rates should have turned down, thereby improving the prospects for a firming of real rents.

Business fixed investment. Real business fixed investment is not projected to rise noticeably until late 1992 because the ongoing plunge in office and commercial building should about offset the moderate gains expected for spending on producers' durable equipment. Overall, the contraction in outlays for nonresidential construction, though slower, will remain substantial next year. Office building will still be, by far, the weakest major component; financing for new projects has virtually disappeared, and vacancy rates will stay high. Even in 1993, such construction is likely to be meager and will depend considerably on the demand from corporate "build-to-suit" projects. Outlays for industrial and retail facilities probably will continue to be depressed because of the slack in production and spending; however, outlays for these other categories of construction should turn up during 1993, when credit supply conditions begin to ease and economic activity expands more rapidly.

We expect that growth in spending on business equipment will be damped next year by the lower output path now projected. Although the pickup in overall business activity shows through in a considerable rise in equipment outlays in the second half of 1992, most of the gain is attributable to office and computing machines and motor vehicles; spending on other machinery and equipment probably will lag. Demand for capital goods should rise more rapidly and be more broadly based in 1993, when production is accelerating and corporate cash flow has improved further.

Business inventories. Underlying the pattern of inventory changes in the forecast is the assumption that businesses will be continuing to reshape their operations so as to reduce the stocks that they need to hold relative to their sales. But this assumption does not imply that inventories will be a static factor in the projected upswing in activity. Rather, businesses are projected to slow the liquidation of nonfarm inventories sharply in the second quarter, thereby boosting the annual growth rate of production by almost 1-1/2 percentage points. Some impulse to production from a further swing to a modest accumulation in stocks continues over the next few quarters; by late 1993, inventory change is no longer a significant contributor to growth of real GDP.

Government. Having assumed no new fiscal package, the staff has made little change in the projection for federal purchases. Real purchases are anticipated to decline around 3-1/4 percent next year. Constant-dollar defense spending should drop 6-1/2 percent in real terms over the four quarters of 1992, largely because of the cuts dictated by last year's budget accord. In contrast, real nondefense outlays are projected to rise almost 5 percent, boosted by higher outlays for space exploration, law enforcement, and health research.

For states and localities, fiscal stress will restrain spending through 1992. We also assume that these governmental units will need to raise taxes in order to make noticeable progress in correcting budget imbalances, while maintaining essential services and meeting pressing infrastructure requirements. As real revenues pick up, real spending in the state and local sector should turn up gradually in 1993.

Net exports. We now expect that real net exports will contribute slightly to growth of real GDP through the end of 1993. Compared with that in the last Greenbook, the projection of net exports is higher primarily because of somewhat weaker U.S. spending, which will depress imports. A more detailed discussion of this projection is presented in the International Developments section.

Labor market developments. The staff projects nonfarm payroll employment to begin to grow again by mid-1992, but the gains in the second half of next year will be quite modest--slightly more than 100,000 per month. In the fourth quarter of 1992, the level of payroll employment is anticipated still to be 800,000 below the peak in the second quarter of 1990. Underlying this projection is the assumption that businesses will be aggressive in controlling costs; as a result, output per hour should rise significantly faster than its recent trend. The sluggish pace of rehiring will likely continue to discourage participation in the labor force, which may not expand as fast as the working-age population over the next year. Even so, the unemployment rate is forecast to decline only gradually as the recovery gets under way. With some recovery in labor force participation in 1993, the jobless rate is still at 6-3/4 percent at the end of the year. In the last Greenbook, the unemployment rate was projected to be at that level by the end of 1992.

The additional slack projected in the labor market has contributed to a lower forecast for labor costs in 1992 and 1993. We now expect the ECI for compensation to decelerate from 4-1/2 percent this year to less than 3-1/2 percent in 1993. Most of the slowing in labor costs should continue to result from smaller wage increases; benefit costs, particularly the health care component, are expected to give way only slowly to general disinflation. Obviously, discussion of federal action to address health care issues poses some uncertainties in the later stages of the forecast.

Prices. After the bulge in consumer prices early in 1992, the CPI is expected decelerate to a 3-1/4 percent rate of increase in the second half of the year. This easing of inflation is anticipated to be fairly broadly based and should reflect the further downtrend expected in labor costs as well as the considerable degree of slack in product markets. Without any unexpected shock to supplies, trends in retail food prices should be dominated by the economywide trend in labor costs. With prices of crude oil anticipated to be stable, domestic energy prices are also projected to rise roughly in line with overall inflation. Price increases for consumer commodities other than food and energy should be relatively small while the services component of the CPI excluding food and energy should continue to rise fairly rapidly--at around a 4 percent annual rate--although even these prices are projected to respond, albeit slowly, to disinflation. In 1993, consumer price inflation should unwind somewhat further, with both the total CPI and the index excluding food and energy rising about 3 percent over the year.

Note

The following tables summarize the staff projection. The forecast is based on the revised National Income and Product Account data, including the shift to a 1987 base year for all constant-dollar series. The October 1991 projection is shown on the unrevised (1982) basis, which, because of definitional and statistical changes, is not strictly comparable with the current data. The Bureau of Economic Analysis has not released fixed-weight price indexes, and as a result, no forecast is shown for the GDP fixed-weight price index.

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STAFF PROJECTIONS OF CHANGES IN GDP, PRICES, AND UNEMPLOYMENT
(Percent, annual rate)

December 11, 1991

| Interval | Nominal GDP 10/30/91 | Nominal GDP 12/11/91 | Real GDP 10/30/91 | Real GDP 12/11/91 | GDP fixed-weight price index 10/30/91 | GDP fixed-weight price index 12/11/91 | Consumer price index[1] 10/30/91 | Consumer price index[1] 12/11/91 | Unemployment rate (level except as noted) 10/30/91 | Unemployment rate (level except as noted) 12/11/91 |
|---|---|---|---|---|---|---|---|---|---|---|
| **ANNUAL** | | | | | | | | | | |
| 1989[2] | 6.7 | 7.0 | 2.5 | 2.5 | 4.5 | n.a. | 4.8 | 4.8 | 5.3 | 5.3 |
| 1990[2] | 5.1 | 5.1 | 1.0 | 1.0 | 4.6 | n.a. | 5.4 | 5.4 | 5.5 | 5.5 |
| 1991 | 3.2 | 2.9 | -.5 | -.8 | 4.0 | n.a. | 4.3 | 4.2 | 6.7 | 6.7 |
| 1992 | 5.2 | 4.2 | 2.2 | 1.1 | 3.4 | n.a. | 3.7 | 3.4 | 6.9 | 7.2 |
| 1993 | 6.3 | 6.1 | 3.5 | 3.3 | 3.2 | n.a. | 3.4 | 3.1 | 6.5 | 6.9 |
| **QUARTERLY** | | | | | | | | | | |
| 1990 Q1[2] | 6.7 | 6.3 | 1.7 | 1.7 | 6.6 | n.a. | 7.5 | 7.5 | 5.3 | 5.3 |
| Q2[2] | 5.1 | 6.2 | .4 | 1.6 | 3.9 | n.a. | 3.8 | 3.8 | 5.3 | 5.3 |
| Q3[2] | 5.3 | 4.9 | 1.4 | .2 | 4.2 | n.a. | 7.0 | 7.0 | 5.6 | 5.6 |
| Q4[2] | .9 | -.9 | -1.6 | -3.9 | 4.7 | n.a. | 6.9 | 6.9 | 5.9 | 5.9 |
| 1991 Q1[2] | 2.2 | 2.3 | -2.8 | -2.5 | 5.2 | n.a. | 3.6 | 3.6 | 6.5 | 6.5 |
| Q2[2] | 4.0 | 4.6 | -.5 | 1.4 | 3.1 | n.a. | 2.1 | 2.1 | 6.8 | 6.8 |
| Q3[2] | 4.2 | 3.9 | 2.4 | 1.7 | 2.1 | n.a. | 3.0 | 3.0 | 6.8 | 6.8 |
| Q4 | 3.5 | 2.7 | 1.2 | -.2 | 3.2 | n.a. | 3.8 | 3.4 | 6.9 | 6.9 |
| 1992 Q1 | 5.6 | 3.2 | 1.8 | -.8 | 4.3 | n.a. | 4.5 | 4.0 | 7.0 | 7.1 |
| Q2 | 6.0 | 5.7 | 3.0 | 2.6 | 3.5 | n.a. | 3.6 | 3.5 | 7.0 | 7.2 |
| Q3 | 6.6 | 5.4 | 3.8 | 2.6 | 3.2 | n.a. | 3.3 | 3.3 | 6.9 | 7.2 |
| Q4 | 6.6 | 5.9 | 3.9 | 3.2 | 3.1 | n.a. | 3.5 | 3.2 | 6.7 | 7.1 |
| 1993 Q1 | 6.8 | 6.7 | 3.5 | 3.4 | 3.7 | n.a. | 3.4 | 3.2 | 6.6 | 7.0 |
| Q2 | 5.9 | 6.0 | 3.2 | 3.4 | 3.0 | n.a. | 3.3 | 2.9 | 6.5 | 6.9 |
| Q3 | 5.9 | 6.0 | 3.3 | 3.5 | 2.9 | n.a. | 3.2 | 2.8 | 6.4 | 6.8 |
| Q4 | 5.6 | 6.0 | 3.0 | 3.5 | 2.9 | n.a. | 3.2 | 2.8 | 6.3 | 6.7 |
| **TWO-QUARTER**[3] | | | | | | | | | | |
| 1990 Q2[2] | 5.9 | 6.2 | 1.1 | 1.7 | 5.3 | n.a. | 5.6 | 5.6 | .0 | .0 |
| Q4[2] | 3.1 | 1.9 | -.1 | -1.8 | 4.4 | n.a. | 6.9 | 6.9 | .6 | .6 |
| 1991 Q2[2] | 3.1 | 3.5 | -1.7 | -.6 | 4.3 | n.a. | 2.8 | 2.8 | .9 | .9 |
| Q4 | 3.8 | 3.3 | 1.8 | .8 | 2.6 | n.a. | 3.4 | 3.2 | .1 | .1 |
| 1992 Q2 | 5.8 | 4.4 | 2.4 | .9 | 3.9 | n.a. | 4.1 | 3.7 | .1 | .3 |
| Q4 | 6.6 | 5.7 | 3.9 | 2.9 | 3.1 | n.a. | 3.4 | 3.2 | -.3 | -.1 |
| 1993 Q2 | 6.3 | 6.3 | 3.4 | 3.4 | 3.4 | n.a. | 3.4 | 3.0 | -.2 | -.2 |
| Q4 | 5.8 | 6.0 | 3.2 | 3.5 | 2.9 | n.a. | 3.2 | 2.8 | -.2 | -.2 |
| **FOUR-QUARTER**[4] | | | | | | | | | | |
| 1989 Q4[2] | 5.6 | 5.9 | 1.8 | 1.7 | 4.0 | n.a. | 4.6 | 4.6 | .0 | .0 |
| 1990 Q4[2] | 4.5 | 4.1 | .5 | -.1 | 4.8 | n.a. | 6.3 | 6.3 | .6 | .6 |
| 1991 Q4 | 3.5 | 3.4 | .0 | .1 | 3.4 | n.a. | 3.1 | 3.0 | 1.0 | 1.0 |
| 1992 Q4 | 6.2 | 5.0 | 3.1 | 1.9 | 3.5 | n.a. | 3.7 | 3.5 | -.2 | .2 |
| 1993 Q4 | 6.1 | 6.2 | 3.3 | 3.5 | 3.1 | n.a. | 3.3 | 2.9 | -.4 | -.4 |

1. For all urban consumers.
2. Actual.
3. Percent change from two quarters earlier; first difference for the unemployment rate.
4. Percent change from four quarters earlier; first difference for the unemployment rate.

Note: The October projections are based on the NIPA data that preceeded the December benchmark revisions: Real GDP is expressed in 1982 dollars and the fixed-weight price data refer to the GNP price index.

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REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted, annual rate)

December 11, 1991

| Item | Unit[1] | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | Projected 1991 | Projected 1992 | Projected 1993 |
|---|---|---|---|---|---|---|---|---|---|---|
| **EXPENDITURES** | | | | | | | | | | |
| Nominal GDP | Bill. $ | 4038.7 | 4268.6 | 4539.9 | 4900.4 | 5244.0 | 5513.8 | 5673.6 | 5911.7 | 6269.5 |
| Real GDP | Bill. 87$ | 4279.8 | 4404.5 | 4540.0 | 4718.6 | 4836.9 | 4884.9 | 4846.2 | 4898.5 | 5058.0 |
| Real GDP | % change | 3.3 | 2.2 | 4.5 | 3.3 | 1.7 | -.1 | .1 | 1.9 | 3.5 |
| Gross domestic purchases | | 3.8 | 2.1 | 3.9 | 2.5 | 1.0 | -.9 | -.2 | 1.7 | 3.3 |
| Final sales | | 3.8 | 3.3 | 2.7 | 4.2 | 1.5 | 1.2 | -.5 | 1.5 | 3.3 |
| Private dom. final purch. | | 3.9 | 3.0 | 1.9 | 4.2 | .6 | -.3 | -.8 | 2.0 | 3.9 |
| Personal cons. expend. | | 4.0 | 4.0 | 2.1 | 4.2 | 1.2 | .3 | .3 | 2.1 | 3.6 |
| Durables | | 6.3 | 12.5 | -2.6 | 8.5 | -.8 | -2.7 | -3.7 | 5.7 | 7.3 |
| Nondurables | | 2.7 | 3.3 | 1.4 | 3.2 | .8 | -1.0 | -.2 | .9 | 2.5 |
| Services | | 4.2 | 2.5 | 3.7 | 3.7 | 2.0 | 1.9 | 1.6 | 1.9 | 3.3 |
| Business fixed invest. | | 3.1 | -5.7 | 3.0 | 5.5 | .5 | .6 | -7.4 | -1.0 | 4.5 |
| Producers' dur. equip. | | 2.2 | -.7 | 2.4 | 9.1 | -.1 | 3.1 | -3.5 | 2.0 | 6.8 |
| Nonres. structures | | 4.6 | -14.1 | 4.4 | -1.2 | 1.7 | -4.6 | -16.0 | -8.5 | -1.9 |
| Res. structures | | 4.3 | 11.1 | -3.1 | .9 | -7.7 | -11.8 | -1.4 | 8.2 | 9.2 |
| Exports | | -.3 | 9.9 | 12.6 | 13.5 | 10.9 | 7.6 | 5.9 | 6.4 | 7.8 |
| Imports | | 5.2 | 6.7 | 4.7 | 3.6 | 2.7 | -.4 | 3.4 | 4.3 | 6.7 |
| Government purchases | | 5.9 | 4.1 | 3.3 | .2 | 1.6 | 3.2 | -.3 | -1.6 | -.2 |
| Federal | | 6.4 | 3.8 | 3.7 | -3.4 | -1.2 | 2.3 | -.2 | -3.3 | -2.8 |
| Defense | | 7.0 | 3.7 | 4.5 | -3.2 | -2.0 | .8 | -2.3 | -6.5 | -5.5 |
| State and local | | 5.4 | 4.4 | 2.9 | 2.9 | 3.6 | 3.8 | -.3 | -.5 | 1.5 |
| Change in bus. invent. | Bill. 87$ | 22.1 | 8.5 | 26.3 | 19.9 | 32.6 | .2 | -16.8 | 1.5 | 22.1 |
| Nonfarm | | 19.8 | 10.6 | 32.7 | 26.9 | 33.3 | -1.5 | -17.4 | .8 | 20.5 |
| Net exports | | -145.3 | -155.1 | -143.0 | -104.0 | -75.7 | -51.3 | -20.7 | -10.9 | -4.5 |
| Nominal GDP | % change | 7.0 | 4.7 | 8.0 | 7.7 | 5.9 | 4.1 | 3.4 | 5.0 | 6.2 |
| **EMPLOYMENT AND PRODUCTION** | | | | | | | | | | |
| Nonfarm payroll employ. | Millions | 97.5 | 99.5 | 102.2 | 105.5 | 108.3 | 110.0 | 109.0 | 108.9 | 110.7 |
| Unemployment rate | % | 7.2 | 7.0 | 6.2 | 5.5 | 5.3 | 5.5 | 6.7 | 7.2 | 6.9 |
| Industrial prod. index | % change | 1.9 | 1.4 | 6.5 | 4.5 | 1.1 | .3 | -.7 | 3.4 | 5.1 |
| Capacity util. rate-mfg. | % | 79.5 | 79.2 | 81.4 | 83.9 | 83.9 | 82.3 | 78.2 | 77.6 | 79.2 |
| Housing starts | Millions | 1.74 | 1.81 | 1.62 | 1.49 | 1.38 | 1.19 | 1.01 | 1.18 | 1.34 |
| Auto sales | | 11.04 | 11.45 | 10.24 | 10.63 | 9.91 | 9.51 | 8.40 | 8.65 | 9.37 |
| Domestic | | 8.20 | 8.22 | 7.07 | 7.54 | 7.09 | 6.90 | 6.13 | 6.38 | 6.94 |
| Foreign | | 2.84 | 3.24 | 3.18 | 3.09 | 2.83 | 2.60 | 2.27 | 2.27 | 2.43 |
| **INCOME AND SAVING** | | | | | | | | | | |
| Nominal GNP | Bill. $ | 4053.6 | 4277.8 | 4544.5 | 4908.2 | 5248.2 | 5524.6 | 5688.2 | 5929.9 | 6289.8 |
| Nominal GNP | % change | 6.8 | 4.4 | 8.1 | 7.8 | 5.9 | 4.3 | 3.2 | 5.1 | 6.2 |
| Nominal personal income | | 6.6 | 5.5 | 7.4 | 7.1 | 6.7 | 6.5 | 2.9 | 5.3 | 6.5 |
| Real disposable income | | 1.9 | 2.8 | 2.1 | 3.2 | 1.4 | 1.0 | .3 | 1.3 | 3.6 |
| Personal saving rate | % | 6.5 | 6.0 | 4.3 | 4.4 | 4.4 | 5.1 | 5.2 | 4.6 | 4.9 |
| Corp. profits, IVA&CCAdj | % change | 9.0 | -7.1 | 29.7 | 10.2 | -11.5 | -11.5 | 4.7 | 13.2 | 12.5 |
| Profit share of GNP | % | 6.9 | 6.4 | 7.0 | 7.4 | 6.7 | 5.8 | 5.4 | 5.8 | 6.0 |
| Federal surpl./def. | Bill. $ | -181.4 | -201.1 | -151.8 | -136.6 | -124.2 | -165.3 | -200.1 | -235.1 | -236.2 |
| State/local surpl./def. | | 56.1 | 54.3 | 40.1 | 38.4 | 41.1 | 25.7 | 28.3 | 47.4 | 72.4 |
| Ex. social ins. funds | | 9.2 | 1.5 | -14.7 | -18.4 | -19.2 | -38.1 | -37.4 | -21.4 | .1 |
| **PRICES AND COSTS** | | | | | | | | | | |
| GDP implicit deflator | % change | 3.6 | 2.6 | 3.3 | 4.2 | 4.2 | 4.2 | 3.3 | 3.1 | 2.6 |
| GDP fixed-wt. price index | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| CPI | | 3.5 | 1.3 | 4.5 | 4.3 | 4.6 | 6.3 | 3.0 | 3.5 | 2.9 |
| Ex. food and energy | | 4.3 | 3.9 | 4.3 | 4.5 | 4.3 | 5.3 | 4.4 | 3.4 | 2.9 |
| ECI, hourly compensation[2] | | 3.9 | 3.2 | 3.3 | 4.8 | 4.8 | 4.6 | 4.5 | 3.8 | 3.4 |
| Nonfarm business sector | | | | | | | | | | |
| Output per hour | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 1.9 | 1.7 |
| Compensation per hour | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 3.8 | 3.5 |
| Unit labor cost | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 1.9 | 1.8 |

1. Percent changes are from fourth quarter to fourth quarter. 2. Private-industry workers.

Strictly Confidential (FR)
Class II FOMC

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

December 11, 1991

| Item | Unit | 1989 | | | | 1990 | | | | 1991 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| **EXPENDITURES** | | | | | | | | | | | |
| Nominal GDP | Bill. $ | 5139.9 | 5218.5 | 5277.3 | 5340.4 | 5422.4 | 5504.7 | 5570.5 | 5557.5 | 5589.0 | 5652.6 |
| Real GDP | Bill. 87$ | 4809.8 | 4832.4 | 4845.6 | 4859.7 | 4880.8 | 4900.3 | 4903.3 | 4855.1 | 4824.0 | 4840.7 |
| Real GDP | % change | 2.5 | 1.9 | 1.1 | 1.2 | 1.7 | 1.6 | .2 | -3.9 | -2.5 | 1.4 |
| Gross domestic purchases | | .7 | 1.1 | 1.7 | .3 | .6 | 1.3 | 1.3 | -6.5 | -3.5 | .9 |
| Final sales | | .8 | 2.1 | 2.7 | .4 | 4.6 | -.5 | .9 | -.3 | -2.4 | 1.2 |
| Private dom. final purch. | | -.4 | .4 | 3.1 | -.7 | 2.7 | -1.5 | 2.5 | -4.7 | -4.8 | .8 |
| Personal cons. expend. | | -.2 | 1.0 | 4.1 | .1 | 2.1 | .0 | 2.8 | -3.5 | -1.3 | 1.4 |
| Durables | | -5.0 | 5.9 | 13.8 | -15.5 | 16.7 | -11.8 | 1.5 | -14.0 | -11.9 | -1.8 |
| Nondurables | | .1 | -1.4 | 3.1 | 1.5 | -.3 | -1.5 | 1.3 | -3.4 | -.3 | .9 |
| Services | | .8 | 1.2 | 2.3 | 3.6 | .3 | 4.1 | 4.1 | -.9 | .7 | 2.5 |
| Business fixed invest. | | .9 | 2.7 | .8 | -2.5 | 7.1 | -4.6 | 8.5 | -7.7 | -17.4 | -3.3 |
| Producers' dur. equip. | | -1.0 | 7.3 | -2.5 | -3.9 | 6.4 | -3.2 | 11.5 | -1.6 | -18.1 | .0 |
| Nonres. structures | | 4.9 | -6.2 | 8.0 | .4 | 8.5 | -7.3 | 2.5 | -19.7 | -15.7 | -10.3 |
| Res. structures | | -5.9 | -11.9 | -5.6 | -7.3 | .6 | -15.7 | -16.2 | -15.0 | -24.8 | 3.1 |
| Exports | | 12.4 | 17.2 | .9 | 13.7 | 8.8 | 4.8 | -.4 | 17.7 | -7.4 | 19.4 |
| Imports | | -6.1 | 6.9 | 6.8 | 4.0 | -2.5 | 1.7 | 9.6 | -9.3 | -15.4 | 13.3 |
| Government purchases | | -3.4 | 5.2 | 4.1 | .7 | 6.4 | 2.2 | -.3 | 4.6 | 2.8 | -.1 |
| Federal | | -9.5 | 7.9 | 5.1 | -7.2 | 5.9 | 4.3 | -5.0 | 4.5 | 9.9 | 1.0 |
| Defense | | -12.8 | 5.6 | 10.1 | -9.2 | 2.3 | 3.3 | -7.9 | 5.9 | 10.9 | -3.3 |
| State and local | | 1.3 | 3.4 | 3.3 | 6.6 | 6.7 | .8 | 3.2 | 4.6 | -1.9 | -.7 |
| Change in bus. invent. | Bill. 87$ | 41.2 | 38.9 | 20.2 | 30.0 | -4.0 | 22.1 | 13.9 | -31.2 | -32.8 | -30.4 |
| Nonfarm | | 35.8 | 33.4 | 25.9 | 38.1 | -5.5 | 15.5 | 9.9 | -25.7 | -31.1 | -30.8 |
| Net exports | | -81.2 | -71.9 | -79.8 | -70.0 | -56.0 | -52.5 | -65.7 | -31.2 | -18.6 | -12.3 |
| Nominal GDP | % change | 7.8 | 6.3 | 4.6 | 4.9 | 6.3 | 6.2 | 4.9 | -.9 | 2.3 | 4.6 |
| **EMPLOYMENT AND PRODUCTION** | | | | | | | | | | | |
| Nonfarm payroll employ. | Millions | 107.6 | 108.1 | 108.5 | 109.0 | 109.7 | 110.2 | 110.2 | 109.8 | 109.2 | 108.8 |
| Unemployment rate[1] | % | 5.2 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.6 | 5.9 | 6.5 | 6.8 |
| Industrial prod. index | % change | 2.7 | 2.8 | -1.2 | .2 | .6 | 4.2 | 3.9 | -7.0 | -9.7 | 2.6 |
| Capacity util. rate-mfg.[1] | % | 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 | | 10.03 | 10.26 | 10.20 | 9.09 | 10.01 | 9.53 | 9.68 | 8.93 | 8.25 | 8.46 |
| Domestic | | 7.08 | 7.26 | 7.36 | 6.56 | 7.11 | 6.78 | 7.21 | 6.59 | 6.00 | 6.10 |
| Foreign | | 2.95 | 3.00 | 2.84 | 2.53 | 2.90 | 2.75 | 2.47 | 2.34 | 2.25 | 2.36 |
| **INCOME AND SAVING** | | | | | | | | | | | |
| Nominal GNP | Bill. $ | 5144.3 | 5217.7 | 5279.8 | 5350.9 | 5432.7 | 5505.5 | 5576.8 | 5583.2 | 5611.7 | 5660.6 |
| Nominal GNP | % change | 7.3 | 5.8 | 4.8 | 5.5 | 6.3 | 5.5 | 5.3 | .5 | 2.1 | 3.5 |
| Nominal personal income | | 10.8 | 4.5 | 3.7 | 7.8 | 9.8 | 6.6 | 5.7 | 3.9 | .3 | 4.5 |
| Real disposable income | | 3.6 | -2.6 | 1.9 | 3.0 | 4.5 | 1.6 | .2 | -2.0 | -1.7 | 2.6 |
| Personal saving rate[1] | % | 5.2 | 4.3 | 3.7 | 4.4 | 5.0 | 5.4 | 4.8 | 5.2 | 5.1 | 5.5 |
| Corp. profits, IVA&CCAdj | % change | -12.2 | -5.6 | -16.6 | -11.4 | 6.7 | -.5 | -39.4 | -4.8 | 8.4 | 1.9 |
| Profit share of GNP[1] | % | 7.1 | 6.9 | 6.5 | 6.3 | 6.3 | 6.2 | 5.4 | 5.3 | 5.4 | 5.4 |
| Federal govt. surpl./def. | Bill. $ | -114.5 | -110.5 | -128.4 | -143.3 | -160.8 | -156.9 | -149.7 | -193.6 | -146.4 | -206.7 |
| State/local surpl./def. | | 42.4 | 45.1 | 42.6 | 34.4 | 30.3 | 28.5 | 26.1 | 18.0 | 20.4 | 27.6 |
| Ex. social ins. funds | | -16.4 | -14.8 | -18.3 | -27.4 | -32.2 | -34.9 | -38.2 | -46.9 | -44.7 | -38.0 |
| **PRICES AND COSTS** | | | | | | | | | | | |
| GDP implicit deflator | % change | 5.4 | 4.2 | 3.4 | 3.7 | 4.4 | 4.4 | 4.7 | 3.2 | 5.0 | 3.1 |
| GDP fixed-wt. price index | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| CPI | | 5.1 | 6.0 | 3.3 | 3.9 | 7.5 | 3.8 | 7.0 | 6.9 | 3.6 | 2.1 |
| Ex. 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[2] | | 4.2 | 4.9 | 5.3 | 4.4 | 5.6 | 5.1 | 4.3 | 3.8 | 4.6 | 4.9 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Compensation per hour | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Unit labor cost | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

1. Not at an annual rate. 2. Private-industry workers.

Strictly Confidential (FR)
Class II FOMC

REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES
(Seasonally adjusted, annual rate except as noted)

December 11, 1991

| | | Projected | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 1991 | | 1992 | | | | 1993 | | | |
| Item | Units | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **EXPENDITURES** | | | | | | | | | | | |
| Nominal GDP | Bill. $ | 5707.4 | 5745.4 | 5791.2 | 5871.4 | 5949.2 | 6035.0 | 6132.9 | 6223.1 | 6314.8 | 6407.1 |
| Real GDP | Bill. 87$ | 4861.0 | 4859.1 | 4849.0 | 4880.7 | 4912.6 | 4951.7 | 4993.7 | 5035.8 | 5079.2 | 5123.3 |
| Real GDP | % change | 1.7 | -.2 | -.8 | 2.6 | 2.6 | 3.2 | 3.4 | 3.4 | 3.5 | 3.5 |
| Gross domestic purchases | | 3.4 | -1.2 | -1.3 | 2.4 | 2.7 | 3.0 | 3.2 | 3.3 | 3.4 | 3.4 |
| Final sales | | -.9 | .2 | .3 | 1.2 | 1.8 | 2.8 | 3.1 | 3.2 | 3.3 | 3.5 |
| Private dom. final purch. | | 1.9 | -1.0 | .1 | 1.7 | 2.7 | 3.5 | 3.8 | 3.9 | 4.0 | 4.0 |
| Personal cons. expend. | | 2.3 | -1.0 | .8 | 1.9 | 2.6 | 3.1 | 3.5 | 3.6 | 3.6 | 3.6 |
| Durables | | 9.4 | -9.1 | .4 | 4.8 | 7.7 | 10.0 | 8.8 | 7.6 | 6.4 | 6.4 |
| Nondurables | | .7 | -2.0 | .1 | .8 | 1.2 | 1.6 | 2.1 | 2.5 | 2.7 | 2.7 |
| Services | | 1.6 | 1.6 | 1.3 | 1.8 | 2.2 | 2.5 | 3.0 | 3.3 | 3.4 | 3.4 |
| Business fixed invest. | | -3.5 | -4.6 | -6.4 | -1.1 | 1.0 | 3.0 | 3.6 | 4.2 | 4.9 | 5.2 |
| Producers' dur. equip. | | 6.6 | -.5 | -4.1 | 2.0 | 4.5 | 6.0 | 6.5 | 6.5 | 7.0 | 7.0 |
| Nonres. structures | | -23.3 | -14.0 | -12.0 | -8.9 | -8.0 | -5.0 | -4.2 | -2.1 | -1.2 | .0 |
| Res. structures | | 11.9 | 9.0 | 6.0 | 6.8 | 9.0 | 11.0 | 10.0 | 9.0 | 9.0 | 9.0 |
| Exports | | 6.4 | 6.9 | 5.7 | 6.3 | 6.5 | 7.3 | 7.5 | 7.8 | 7.9 | 7.8 |
| Imports | | 22.4 | -2.5 | 1.0 | 4.5 | 6.6 | 5.3 | 5.6 | 7.1 | 7.4 | 6.7 |
| Government purchases | | -3.8 | .0 | -1.7 | -1.7 | -1.8 | -1.3 | -1.0 | -.3 | .1 | .3 |
| Federal | | -8.5 | -2.3 | -2.8 | -3.0 | -3.8 | -3.7 | -3.6 | -2.8 | -2.5 | -2.2 |
| Defense | | -9.4 | -6.3 | -6.0 | -6.3 | -6.9 | -6.8 | -6.7 | -5.6 | -5.0 | -4.6 |
| State and local | | -.5 | 1.8 | -.9 | -.8 | -.5 | .3 | .8 | 1.3 | 1.8 | 2.0 |
| Change in bus. invent. | Bill. 87$ | .4 | -4.3 | -17.6 | -.8 | 9.7 | 14.8 | 19.0 | 21.5 | 23.7 | 24.1 |
| Nonfarm | | -2.5 | -5.2 | -18.5 | -1.3 | 9.0 | 14.2 | 17.2 | 19.9 | 22.1 | 22.7 |
| Net exports | | -32.3 | -19.4 | -13.1 | -10.9 | -11.2 | -8.5 | -5.9 | -5.0 | -4.4 | -2.8 |
| Nominal GDP | % change | 3.9 | 2.7 | 3.2 | 5.7 | 5.4 | 5.9 | 6.7 | 6.0 | 6.0 | 6.0 |
| **EMPLOYMENT AND PRODUCTION** | | | | | | | | | | | |
| Nonfarm payroll employ. | Millions | 109.0 | 108.9 | 108.6 | 108.7 | 109.0 | 109.4 | 109.9 | 110.4 | 111.0 | 111.5 |
| Unemployment rate[1] | % | 6.8 | 6.9 | 7.1 | 7.2 | 7.2 | 7.1 | 7.0 | 6.9 | 6.8 | 6.7 |
| Industrial prod. index | % change | 6.4 | -1.2 | -2.8 | 5.6 | 5.0 | 5.9 | 5.4 | 5.2 | 5.0 | 5.0 |
| Capacity util. rate-mfg.[1] | % | 78.7 | 78.0 | 76.9 | 77.4 | 77.7 | 78.2 | 78.6 | 79.0 | 79.3 | 79.7 |
| Housing starts | Millions | 1.04 | 1.08 | 1.10 | 1.15 | 1.20 | 1.25 | 1.30 | 1.33 | 1.35 | 1.38 |
| Auto sales | | 8.72 | 8.20 | 8.17 | 8.49 | 8.79 | 9.15 | 9.27 | 9.35 | 9.41 | 9.46 |
| Domestic | | 6.43 | 6.00 | 5.97 | 6.25 | 6.50 | 6.80 | 6.87 | 6.93 | 6.96 | 7.00 |
| Foreign | | 2.28 | 2.20 | 2.20 | 2.24 | 2.29 | 2.35 | 2.40 | 2.42 | 2.45 | 2.46 |
| **INCOME AND SAVING** | | | | | | | | | | | |
| Nominal GNP | Bill. $ | 5720.5 | 5760.1 | 5808.7 | 5889.9 | 5968.7 | 6052.3 | 6152.1 | 6243.2 | 6337.0 | 6427.0 |
| Nominal GNP | % change | 4.3 | 2.8 | 3.4 | 5.7 | 5.5 | 5.7 | 6.8 | 6.1 | 6.1 | 5.8 |
| Nominal personal income | | 2.8 | 4.2 | 3.5 | 4.5 | 5.7 | 7.4 | 7.6 | 6.1 | 6.0 | 6.3 |
| Real disposable income | | .2 | .1 | -1.2 | .5 | 2.0 | 4.0 | 5.4 | 3.1 | 2.6 | 3.4 |
| Personal saving rate[1] | % | 5.0 | 5.3 | 4.9 | 4.6 | 4.5 | 4.7 | 5.1 | 5.0 | 4.8 | 4.8 |
| Corp. profits, IVA&CCAdj | % change | .5 | 8.4 | 18.2 | 37.4 | 1.7 | -.6 | 20.7 | 7.2 | 9.4 | 13.4 |
| Profit share of GNP[1] | % | 5.3 | 5.4 | 5.6 | 5.9 | 5.9 | 5.8 | 6.0 | 6.0 | 6.0 | 6.1 |
| Federal govt. surpl./def. | Bill. $ | -212.6 | -234.5 | -249.6 | -236.4 | -226.7 | -227.6 | -249.0 | -241.1 | -228.3 | -226.3 |
| State/local surpl./def. | | 32.3 | 32.7 | 36.5 | 43.2 | 52.9 | 56.9 | 63.8 | 69.2 | 76.8 | 79.9 |
| Ex. social ins. funds | | -33.3 | -33.8 | -30.9 | -25.1 | -16.3 | -13.2 | -7.2 | -2.7 | 4.0 | 6.2 |
| **PRICES AND COSTS** | | | | | | | | | | | |
| GDP implicit deflator | % change | 2.1 | 2.9 | 4.1 | 2.9 | 2.7 | 2.6 | 3.1 | 2.5 | 2.4 | 2.4 |
| GDP fixed-wt. price index | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| CPI | | 3.0 | 3.4 | 4.0 | 3.5 | 3.3 | 3.2 | 3.2 | 2.9 | 2.8 | 2.8 |
| Ex. food and energy | | 4.0 | 3.4 | 3.9 | 3.5 | 3.3 | 3.2 | 3.2 | 2.9 | 2.8 | 2.7 |
| ECI, hourly compensation[2] | | 4.4 | 4.2 | 4.1 | 3.8 | 3.7 | 3.6 | 3.5 | 3.5 | 3.4 | 3.3 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | n.a. | .2 | .3 | 3.4 | 2.1 | 1.8 | 1.8 | 1.7 | 1.6 | 1.6 |
| Compensation per hour | | n.a. | 3.0 | 4.4 | 3.6 | 3.6 | 3.6 | 3.8 | 3.5 | 3.4 | 3.3 |
| Unit labor cost | | n.a. | 2.8 | 4.1 | .2 | 1.5 | 1.8 | 2.0 | 1.8 | 1.8 | 1.7 |

1. Not at an annual rate. 2. Private-industry workers.

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS[1]
(Billions of 1987 dollars)



| Item | 1989 Q1 | 1989 Q2 | 1989 Q3 | 1989 Q4 | 1990 Q1 | 1990 Q2 | 1990 Q3 | 1990 Q4 | 1991 Q1 | 1991 Q2 | 1988 | 1989 | 1990 | Proj. 1991 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Real GDP | 30.1 | 22.6 | 13.2 | 14.1 | 21.1 | 19.5 | 3.0 | -48.2 | -31.1 | 16.7 | 154.2 | 80.0 | -4.6 | 4.0 |
| Gross domestic purchases | 8.6 | 13.3 | 21.1 | 4.3 | 7.1 | 16.0 | 16.2 | -82.7 | -43.7 | 10.4 | 120.9 | 47.3 | -43.4 | -7.8 |
| Final sales | 9.8 | 25.0 | 31.9 | 4.3 | 55.1 | -6.7 | 11.3 | -3.1 | -29.5 | 14.4 | 193.1 | 71.0 | 56.6 | -22.9 |
| Private dom. final purch. | -4.1 | 4.3 | 30.7 | -7.0 | 27.0 | -15.3 | 25.1 | -48.0 | -48.7 | 8.3 | 158.3 | 23.9 | -11.2 | -32.1 |
| Personal cons. expend. | -2.0 | 7.7 | 32.5 | .5 | 17.2 | -.2 | 22.6 | -29.4 | -10.7 | 11.3 | 128.2 | 38.7 | 10.2 | 10.7 |
| Durables | -5.6 | 6.3 | 14.4 | -18.7 | 17.1 | -14.0 | 1.6 | -16.3 | -13.2 | -1.9 | 34.5 | -3.6 | -11.6 | -15.7 |
| Nondurables | .3 | -3.8 | 8.1 | 3.9 | -.9 | -4.1 | 3.4 | -9.0 | -.8 | 2.3 | 32.2 | 8.5 | -10.6 | -1.9 |
| Services | 3.4 | 5.1 | 10.0 | 15.3 | 1.1 | 17.8 | 17.7 | -4.2 | 3.2 | 10.9 | 61.4 | 33.8 | 32.4 | 28.3 |
| Business fixed invest. | 1.2 | 3.6 | 1.1 | -3.4 | 9.4 | -6.4 | 11.2 | -11.0 | -25.4 | -4.3 | 28.2 | 2.5 | 3.2 | -40.3 |
| Producers' dur. equip. | -.9 | 6.4 | -2.3 | -3.6 | 5.7 | -3.0 | 10.1 | -1.5 | -18.2 | .0 | 30.4 | -.4 | 11.3 | -13.0 |
| Nonres. structures | 2.1 | -2.8 | 3.4 | .2 | 3.7 | -3.4 | 1.1 | -9.6 | -7.1 | -4.4 | -2.2 | 2.9 | -8.2 | -27.2 |
| Res. structures | -3.4 | -6.9 | -3.1 | -4.0 | .3 | -8.7 | -8.6 | -7.6 | -12.6 | 1.3 | 2.0 | -17.4 | -24.6 | -2.5 |
| Change in bus. invent. | 20.3 | -2.3 | -18.7 | 9.8 | -34.0 | 26.1 | -8.2 | -45.1 | -1.6 | 2.4 | -39.0 | 9.1 | -61.2 | 26.9 |
| Nonfarm | 5.3 | -2.4 | -7.5 | 12.2 | -43.6 | 21.0 | -5.6 | -35.6 | -5.4 | .3 | -31.6 | 7.6 | -63.8 | 20.5 |
| Farm | 15.1 | .0 | -11.2 | -2.4 | 9.6 | 5.2 | -2.7 | -9.5 | 3.8 | 2.1 | -7.4 | 1.5 | 2.6 | 6.4 |
| Net exports | 21.5 | 9.3 | -7.9 | 9.8 | 14.0 | 3.5 | -13.2 | 34.5 | 12.6 | 6.3 | 33.3 | 32.7 | 38.8 | 11.8 |
| Exports | 13.0 | 18.3 | 1.0 | 15.3 | 10.4 | 5.9 | -.5 | 20.9 | -10.0 | 23.2 | 52.1 | 47.6 | 36.7 | 30.8 |
| Imports | -8.5 | 8.9 | 9.0 | 5.4 | -3.5 | 2.3 | 12.9 | -13.7 | -22.6 | 16.9 | 18.8 | 14.8 | -2.0 | 19.0 |
| Government purchases | -7.6 | 11.4 | 9.1 | 1.5 | 14.1 | 5.1 | -.6 | 10.4 | 6.6 | -.2 | 1.5 | 14.4 | 29.0 | -2.6 |
| Federal | -9.3 | 7.1 | 4.7 | -7.0 | 5.4 | 4.0 | -4.9 | 4.2 | 9.1 | 1.0 | -13.2 | -4.5 | 8.7 | -.7 |
| Defense | -9.6 | 3.8 | 6.8 | -6.8 | 1.6 | 2.3 | -5.8 | 4.0 | 7.4 | -2.4 | -9.3 | -5.8 | 2.1 | -6.5 |
| Nondefense | .3 | 3.3 | -2.1 | -.2 | 3.7 | 1.8 | .9 | .2 | 1.7 | 3.4 | -3.9 | 1.3 | 6.6 | 5.8 |
| State and local | 1.7 | 4.3 | 4.3 | 8.5 | 8.8 | 1.1 | 4.3 | 6.2 | -2.6 | -1.0 | 14.7 | 18.8 | 20.4 | -1.9 |

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS[1]
(Billions of 1987 dollars)

December 11, 1991

| Item | Projected | | | | | | | | | | | Projected | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1991 | | 1992 | | | | 1993 | | | | | | | |
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 1990 | 1991 | 1992 | 1993 |
| Real GDP | 20.3 | -1.9 | -10.0 | 31.6 | 31.9 | 39.1 | 42.1 | 42.0 | 43.4 | 44.1 | -4.6 | 4.0 | 92.6 | 171.6 |
| Gross domestic purchases | 40.3 | -14.8 | -16.3 | 29.4 | 32.2 | 36.4 | 39.5 | 41.1 | 42.8 | 42.5 | -43.4 | -7.8 | 81.7 | 165.9 |
| Final sales | -10.6 | 2.8 | 3.2 | 14.8 | 21.4 | 34.0 | 37.9 | 39.5 | 41.2 | 43.7 | 56.6 | -22.9 | 73.5 | 162.3 |
| Private dom. final purch. | 18.5 | -10.2 | .9 | 16.6 | 26.0 | 34.4 | 37.6 | 39.4 | 40.4 | 41.3 | -11.2 | -32.1 | 78.0 | 158.7 |
| Personal cons. expend. | 18.2 | -8.1 | 6.5 | 15.0 | 20.8 | 25.7 | 28.4 | 29.8 | 29.9 | 30.1 | 10.2 | 10.7 | 68.0 | 118.3 |
| Durables | 9.3 | -9.9 | .4 | 4.8 | 7.7 | 10.2 | 9.2 | 8.1 | 7.0 | 7.1 | -11.6 | -15.7 | 23.1 | 31.5 |
| Nondurables | 1.9 | -5.3 | .3 | 2.1 | 3.1 | 4.2 | 5.5 | 6.6 | 7.1 | 7.2 | -10.6 | -1.9 | 9.6 | 26.3 |
| Services | 7.1 | 7.1 | 5.9 | 8.1 | 10.0 | 11.4 | 13.7 | 15.2 | 15.7 | 15.9 | 32.4 | 28.3 | 35.3 | 60.5 |
| Business fixed invest. | -4.6 | -6.0 | -8.2 | -1.4 | 1.2 | 3.6 | 4.4 | 5.2 | 6.1 | 6.6 | 3.2 | -40.3 | -4.8 | 22.4 |
| Producers' dur. equip. | 5.7 | -.5 | -3.7 | 1.8 | 4.0 | 5.3 | 5.8 | 5.9 | 6.5 | 6.6 | 11.3 | -13.0 | 7.4 | 24.9 |
| Nonres. structures | -10.2 | -5.5 | -4.5 | -3.2 | -2.8 | -1.7 | -1.4 | -.7 | -.4 | .0 | -8.2 | -27.2 | -12.2 | -2.5 |
| Res. structures | 4.9 | 3.9 | 2.7 | 3.0 | 4.1 | 5.0 | 4.7 | 4.4 | 4.5 | 4.5 | -24.6 | -2.5 | 14.8 | 18.1 |
| Change in bus. invent. | 30.8 | -4.7 | -13.3 | 16.8 | 10.5 | 5.1 | 4.2 | 2.5 | 2.2 | .4 | -61.2 | 26.9 | 19.1 | 9.3 |
| Nonfarm | 28.3 | -2.7 | -13.3 | 17.2 | 10.3 | 5.2 | 3.0 | 2.7 | 2.2 | .6 | -63.8 | 20.5 | 19.4 | 8.5 |
| Farm | 2.5 | -2.0 | .0 | -.4 | .2 | -.1 | 1.2 | -.2 | .0 | -.2 | 2.6 | 6.4 | -.3 | .8 |
| Net exports | -20.0 | 12.9 | 6.3 | 2.2 | -.3 | 2.7 | 2.6 | .9 | .6 | 1.6 | 38.8 | 11.8 | 10.9 | 5.7 |
| Exports | 8.4 | 9.2 | 7.7 | 8.6 | 9.0 | 10.3 | 10.8 | 11.4 | 11.7 | 11.8 | 36.7 | 30.8 | 35.6 | 45.7 |
| Imports | 28.4 | -3.7 | 1.4 | 6.4 | 9.3 | 7.6 | 8.2 | 10.5 | 11.1 | 10.2 | -2.0 | 19.0 | 24.7 | 40.0 |
| Government purchases | -9.1 | .1 | -4.0 | -4.0 | -4.3 | -3.1 | -2.3 | -.8 | .2 | .8 | 29.0 | -2.6 | -15.4 | -2.1 |
| Federal | -8.6 | -2.2 | -2.7 | -2.9 | -3.6 | -3.5 | -3.4 | -2.6 | -2.3 | -2.0 | 8.7 | -.7 | -12.7 | -10.3 |
| Defense | -7.0 | -4.5 | -4.2 | -4.4 | -4.7 | -4.6 | -4.4 | -3.6 | -3.2 | -2.9 | 2.1 | -6.5 | -17.9 | -14.1 |
| Nondefense | -1.5 | 2.2 | 1.5 | 1.5 | 1.1 | 1.1 | 1.0 | 1.0 | .9 | .9 | 6.6 | 5.8 | 5.2 | 3.8 |
| State and local | -.7 | 2.4 | -1.3 | -1.1 | -.7 | .4 | 1.1 | 1.8 | 2.5 | 2.8 | 20.4 | -1.9 | -2.7 | 8.2 |

1. Annual changes are from Q4 to Q4.

STAFF PROJECTIONS OF FEDERAL SECTOR ACCOUNTS AND RELATED ITEMS
(Billions of dollars except as noted)

December 11, 1991

| Item | Fiscal year 1990[a] | Fiscal year 1991[a] | Fiscal year 1992 | Fiscal year 1993 | 1991 Q1[a] | 1991 Q2[a] | 1991 Q3[a] | 1991 Q4 | 1992 Q1 | 1992 Q2 | 1992 Q3 | 1992 Q4 | 1993 Q1 | 1993 Q2 | 1993 Q3 | 1993 Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **UNIFIED BUDGET** | | | | | Not seasonally adjusted | | | | | | | | | | | |
| Receipts[1] | 1031 | 1054 | 1106 | 1180 | 233 | 307 | 264 | 248 | 247 | 336 | 275 | 267 | 259 | 356 | 297 | 279 |
| Outlays[1] | 1252 | 1323 | 1491 | 1521 | 299 | 333 | 356 | 353 | 376 | 384 | 378 | 397 | 378 | 376 | 370 | 394 |
| Surplus/deficit[1] | -220 | -269 | -385 | -341 | -66 | -26 | -91 | -105 | -129 | -47 | -103 | -130 | -119 | -20 | -72 | -115 |
| On-budget | -277 | -321 | -444 | -404 | -80 | -50 | -94 | -117 | -139 | -79 | -110 | -142 | -128 | -54 | -80 | -129 |
| Off-budget | 57 | 52 | 60 | 64 | 15 | 24 | 3 | 11 | 11 | 31 | 7 | 12 | 10 | 35 | 8 | 14 |
| Surplus excluding deposit insurance[2] | -162 | -202 | -282 | -268 | -63 | -12 | -55 | -101 | -99 | -13 | -70 | -104 | -101 | -3 | -60 | -106 |
| Means of financing | | | | | | | | | | | | | | | | |
| Borrowing | 263 | 293 | 372 | 339 | 56 | 43 | 95 | 83 | 111 | 76 | 102 | 122 | 107 | 40 | 71 | 108 |
| Cash decrease | 1 | -1 | 1 | 0 | 0 | -12 | 2 | 15 | 16 | -24 | -5 | 10 | 10 | -15 | -5 | 10 |
| Other[3] | -44 | -23 | 11 | 1 | 9 | -6 | -6 | 7 | 2 | -5 | 6 | -2 | 2 | -5 | 6 | -2 |
| Cash operating balance, end of period | 40 | 41 | 40 | 40 | 32 | 44 | 41 | 27 | 11 | 35 | 40 | 30 | 20 | 35 | 40 | 30 |
| **NIPA FEDERAL SECTOR** | | | | | Seasonally adjusted, annual rate | | | | | | | | | | | |
| Receipts | 1093 | 1117 | 1189 | 1267 | 1115 | 1114 | 1127 | 1147 | 1182 | 1206 | 1222 | 1240 | 1257 | 1275 | 1296 | 1317 |
| Expenditures | 1246 | 1307 | 1426 | 1504 | 1262 | 1321 | 1339 | 1382 | 1432 | 1442 | 1448 | 1467 | 1506 | 1516 | 1524 | 1544 |
| Purchases | 417 | 446 | 447 | 447 | 452 | 452 | 445 | 444 | 449 | 448 | 446 | 444 | 449 | 448 | 447 | 446 |
| Defense | 309 | 326 | 316 | 305 | 332 | 328 | 322 | 318 | 319 | 315 | 311 | 307 | 308 | 305 | 302 | 299 |
| Nondefense | 109 | 120 | 131 | 142 | 119 | 124 | 123 | 126 | 130 | 133 | 135 | 137 | 141 | 143 | 145 | 147 |
| Other expenditures | 827 | 856 | 979 | 1057 | 803 | 862 | 895 | 938 | 983 | 994 | 1002 | 1024 | 1057 | 1068 | 1078 | 1098 |
| Surplus/deficit | -153 | -190 | -237 | -236 | -146 | -207 | -213 | -235 | -250 | -236 | -227 | -228 | -249 | -241 | -228 | -226 |
| **FISCAL INDICATORS[4]** | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -177 | -158 | -169 | -177 | -112 | -166 | -168 | -178 | -177 | -164 | -155 | -160 | -187 | -185 | -179 | -184 |
| Change in HEB, percent of potential GDP | .4 | -.4 | .2 | .1 | -1.3 | .9 | 0 | .2 | 0 | -.2 | -.1 | .1 | .4 | 0 | -.1 | .1 |
| Fiscal impetus (FI), percent, cal. year | -3.4 | -3.6 | -4.8 | -3.5 | -2.6 | .5 | -1.9 | -.8 | -2.5 | -.6 | -.8 | -.7 | -1.7 | -.6 | -.5 | -.4 |

1. OMB's July deficit estimates are $348 billion in FY92 and $246 billion in FY93. CBO's August deficit estimates are $362 billion in FY92 and $278 billion in FY93. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. 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 FY90.

2. OMB's July deficit estimates, excluding deposit insurance spending, are $230 billion in FY92 and $197 billion in FY93. CBO's August deficit estimates, excluding deposit insurance spending, are $248 billion in FY92 and $220 billion in FY93.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.1 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in 1987 dollars), scaled by real federal purchases. For change in HEB and FI, negative values indicate restraint.

a--Actual.

Recent Developments

Accumulating evidence of a faltering economic recovery and further monetary easing measures have led to appreciable declines in interest rates during the intermeeting period. The decline has been most pronounced at the short end of the yield curve, where Treasury rates have come down more than 1/2 percentage point in association with the System's policy actions in early November and December. Rates on some private short-term obligations have fallen less than those on Treasury bills, at least partly because of year-end pressures. The prime rate was reduced 1/2 percentage point to 7-1/2 percent in response to the discount rate cut in early November, but was not changed after the most recent System action, leaving lending margins quite wide on prime-based loans.

Rates on intermediate-term Treasury securities have declined 35 to 55 basis points over the intermeeting period, while Treasury bond yields have fallen about 25 basis points. Some of the drop in bond rates occurred in response to Secretary Brady's indication that the Treasury is considering a reduction in bond issuance. Rates on investment-grade corporate bonds have declined about in line with those on Treasuries, preserving fairly tight spreads even as concerns about prospects for the economy mounted. In contrast, mortgage rates have fallen less than benchmark Treasury yields, owing to concerns about reinvestment risk as refinancing activity has surged. In the stock market, evidence of further economic weakness has contributed to a drop in share prices, with banking firms hit particularly hard by concerns about a proposed cap on credit-card interest rates.

The broad monetary aggregates expanded for the second month in a row in November, after registering an unprecedented contraction in the third quarter, and M2 and M3 returned to around the lower bounds of their target ranges. Bank credit growth was close to the 6-3/4 percent pace registered in October, up considerably from the small increase during the third quarter. Part of the acceleration of the broad monetary aggregates over the past two months may have been due to the increase in bank funding needs and, in November, to a low level of RTC activity. In addition, some reflected a pickup of M1 growth to double-digit rates. Demand deposits and other checkable deposits expanded especially sharply, likely owing in large part to the effects of lower interest rates on opportunity costs and compensating balance requirements; seasonal adjustment difficulties associated with the late Thanksgiving holiday also appear to have played a role.

But growth of household M2 (M2 excluding demand deposits and overnight RPs and Eurodollars), at about 1 percent, remained quite depressed over the past two months. Weak income undoubtedly has contributed to the recent sluggishness of household M2. Also, in response to interest rate patterns, households probably continued to shift funds from deposits into longer-term mutual funds, which reportedly expanded strongly again last month, and some may have used M2 assets to pay down consumer debt.

Growth in consumer installment credit resumed expanding in October, but only at a 1-1/4 percent rate; and consumer loans declined again at commercial banks in November, even after an adjustment for securitization. Available evidence suggests that the pace of residential mortgage originations has picked up in recent months, and a further strengthening appears to be underway, given a surge in mortgage applications in response to declining mortgage rates. Refinancing, however, accounts for much of the increase in demand for new loans.

In the business sector, bank loans, which had expanded on balance over September and October, resumed their decline in November, despite a boost from rebookings of loans by foreign banks. Although commercial paper increased for the first time since July, the sum of bank borrowing and paper issuance rose just slightly as firms continued to concentrate borrowing in longer-term markets. In November, most public bond issues again were investment-grade obligations, but issuance of junk bonds doubled to nearly $2 billion. Rate spreads of both investment-grade and junk issues over Treasuries narrowed, apparently at least partly because of strong demand by life insurance companies and mutual funds, respectively. Equity issuance also continued at a strong pace, although volume slackened a bit after stock prices peaked in mid-November.

Many state and local governments remain under financial stress and are taking steps to reduce deficits by cutting services or raising taxes. However, a large number are borrowing to cope with budgetary shortfalls and to maintain capital spending programs, helping propel gross issuance of long-term municipal securities in November to the highest monthly rate in five years. With relatively low long-term yields, refunding issuance also has picked up sharply.

In the federal sector, a fourth-quarter deficit estimated at $100 billion (not seasonally adjusted) is expected to be financed mainly by $80 billion of marketable borrowing. Borrowing this quarter is down appreciably from that in the third quarter, as lagging appropriations have forced a temporary lull in deposit insurance outlays.

Outlook

As noted in the previous section, the staff projection assumes that short-term interest rates remain close to their current levels through 1993. Continued weakness in economic activity and a downtrend in inflation are expected to encourage further declines in long-term interest rates, especially during 1992. Private credit growth is likely to remain damped. With delinquency rates indicating difficulties in servicing debt at current levels and with evident concern about prospects for the economy, households and firms are expected to remain cautious in taking on debt obligations. In addition, financial intermediaries are under considerable pressure and, in the circumstances, are unlikely to ease their lending terms and standards in the near term. With supply and demand for credit restrained, growth of nonfederal debt is expected to average about 2-1/2 percent at a annual rate in the current and next quarters. By contrast, federal debt issuance should stay robust, bringing total debt growth to about a 5 percent annual rate on average over that period. Over the rest of 1992 and 1993, nonfederal and total debt growth should accelerate as the economy recovers.

In the nonfinancial corporate sector, the financing gap is expected to be relatively small over the next two quarters, as fixed capital spending remains subdued and inventories contract. Investment by unrated and lower-rated firms probably will be restrained somewhat by difficulties in obtaining credit; these firms may have to rely to an unusual degree on internally generated funds and loans from nonbank sources, such as finance companies. Financing for commercial real estate should remain in extremely short supply. Outside of the real-estate sector, however, larger, well-rated firms should experience little difficulty in obtaining credit. With long-term rates seen by corporate treasurers as near their cyclical lows, bond issuance in public markets, especially that by investment-grade firms, is likely to remain strong, and still-high price-earnings ratios should encourage firms to tap the stock market in volume. Proceeds of bond and stock issues likely will be used in part to pay down short-term debt, and C&I loans and commercial paper are expected to remain weak. External financing needs are projected to increase gradually in the second half of 1992 and during 1993 as capital spending rises.

Credit should continue to be fairly readily available to the household sector. Lenders may tighten terms a bit at the margin, however, especially in view of the elevated level of delinquencies on consumer credit and mortgages, worsening prospects for the economy, and the slightly wider spreads on credit-card securities in the wake of the proposed cap on credit-card rates. Households are expected to remain cautious in their purchases of durable goods and their use of consumer debt. In these circumstances, consumer credit may contract over the next quarter or two before turning up modestly later in 1992 and in 1993. Growth of home mortgage debt, however, is expected to firm a bit in coming months as declining mortgage interest rates entice more buyers into the housing market.

Spending plans of state and local governments have been trimmed substantially as revenue projections have been marked down, and this pattern is likely to persist in the coming year. Some entities will continue to borrow to finance deficits and spending on infrastructure. However, an appreciable volume of high-coupon municipal bonds, many of which already have been refunded, could be called over the next several years. On balance the state and local sector is expected to expand debt at a modest pace in 1992 and 1993. By contrast, federal government borrowing will again be heavy next year and through 1993, as revenue growth remains damped and deposit insurance outlays continue heavy.

Buoyed by federal sector borrowing, total nonfinancial debt is projected to expand at about a 6-1/4 percent rate next year, exceeding growth in nominal GDP by a sizable margin, and to expand at about a 6 percent pace in 1993, in line with GDP growth.

Confidential FR Class II
December 11, 1991

GROWTH RATES OF . .T 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 GDP[4] |
| 1982 | 9.3 | 19.4 | 6.9 | 5.4 | 4.5 | 4.4 | 7.8 | 9.1 | 10.3 | 3.2 |
| 1983 | 11.5 | 18.8 | 9.6 | 11.4 | 11.0 | 12.6 | 8.3 | 7.1 | 11.7 | 11.0 |
| 1984 | 14.4 | 16.9 | 13.7 | 12.9 | 11.7 | 18.7 | 15.6 | 7.9 | 13.3 | 9.1 |
| 1985 | 14.2 | 16.2 | 13.6 | 14.1 | 11.9 | 15.9 | 11.4 | 23.7 | 11.9 | 7.0 |
| 1986 | 12.3 | 13.4 | 12.0 | 12.8 | 14.9 | 9.6 | 12.0 | 7.6 | 9.1 | 4.7 |
| 1987 | 9.0 | 8.0 | 9.3 | 11.6 | 14.0 | 5.1 | 7.0 | 9.6 | 7.9 | 8.0 |
| 1988 | 9.1 | 8.0 | 9.4 | 10.9 | 12.2 | 7.2 | 8.2 | 8.2 | 8.7 | 7.7 |
| 1989 | 7.5 | 7.2 | 7.5 | 8.9 | 10.5 | 5.3 | 6.7 | 4.9 | 7.4 | 5.9 |
| 1990 | 6.5 | 12.0 | 4.9 | 7.2 | 9.1 | 1.8 | 2.8 | 2.7 | 4.7 | 4.1 |
| 1991 | 4.9 | 10.8 | 3.0 | 4.7 | 5.9 | -1.9 | 0.9 | 3.9 | 1.6 | 3.4 |
| 1992 | 6.2 | 14.4 | 3.4 | 5.2 | 6.3 | 0.3 | 1.2 | 3.6 | 4.2 | 5.0 |
| 1993 | 6.0 | 10.0 | 4.5 | 5.9 | 6.7 | 2.1 | 3.0 | 3.4 | 3.1 | 6.2 |
| | | | | Seasonally adjusted, annual rates | | | | | | |
| 1990 -- Q1 | 8.2 | 10.9 | 7.4 | 10.8 | 12.8 | 3.8 | 4.8 | 2.5 | 7.3 | 6.3 |
| Q2 | 5.9 | 9.7 | 4.7 | 7.0 | 8.8 | 0.3 | 2.7 | 2.7 | 4.7 | 6.2 |
| Q3 | 6.4 | 11.8 | 4.7 | 5.9 | 7.0 | 2.7 | 3.4 | 4.4 | 4.2 | 4.9 |
| Q4 | 4.8 | 13.2 | 2.2 | 3.9 | 5.6 | 0.3 | 0.4 | 1.2 | 2.5 | -0.9 |
| 1991 -- Q1 | 4.5 | 8.0 | 3.4 | 4.8 | 6.1 | -2.9 | 2.0 | 3.0 | 5.1 | 2.3 |
| Q2 | 4.3 | 9.2 | 2.7 | 4.6 | 5.9 | -2.5 | 0.5 | 2.9 | -0.3 | 4.6 |
| Q3 | 5.8 | 14.8 | 2.8 | 4.7 | 5.4 | -1.8 | 0.2 | 5.6 | 2.5 | 3.9 |
| Q4 | 4.6 | 9.7 | 2.9 | 4.3 | 5.6 | -0.3 | 1.0 | 4.0 | -1.1 | 2.7 |
| 1992 -- Q1 | 5.6 | 14.7 | 2.5 | 4.6 | 5.7 | -0.9 | -0.2 | 3.7 | 3.7 | 3.2 |
| Q2 | 5.5 | 12.8 | 3.0 | 4.8 | 5.9 | -0.1 | 0.7 | 3.6 | 3.4 | 5.7 |
| Q3 | 6.3 | 13.8 | 3.6 | 5.3 | 6.4 | 0.8 | 1.6 | 3.6 | 4.4 | 5.4 |
| Q4 | 6.8 | 13.5 | 4.3 | 5.7 | 6.6 | 1.3 | 2.6 | 3.5 | 4.9 | 5.9 |
| 1993 -- H1 | 5.7 | 9.7 | 4.2 | 5.7 | 6.5 | 1.9 | 2.5 | 3.5 | 3.2 | 6.3 |
| H2 | 6.1 | 9.8 | 4.7 | 6.0 | 6.8 | 2.2 | 3.4 | 3.4 | 3.0 | 6.0 |

1. Estimates for recent years are tentative and will be revised to reflect NIPA revisions.
2. Deposit insurance activity raises total debt growth .5, 1, and .3 percentage points in 1991, 1992, and 1993 respectively; the corresponding figures for federal debt growth are 1.9, 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.

# 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 | 575.4 | 533.6 | 713.0 | 732.8 | 469.2 | 472.7 | 643.8 | 548.9 | 647.7 | 649.1 | 745.6 | 809.7 |
| 2 | Net equity issuance | -63.0 | 15.0 | 23.0 | 23.0 | -12.0 | 11.0 | 17.0 | 44.0 | 23.0 | 23.0 | 23.0 | 23.0 |
| 3 | Net debt issuance | 638.4 | 518.6 | 690.0 | 709.8 | 481.2 | 461.7 | 626.8 | 504.9 | 624.7 | 626.1 | 722.6 | 786.7 |
| | Borrowing sectors: | | | | | | | | | | | | |
| | Nonfinancial business | | | | | | | | | | | | |
| 4 | Financing gap[2] | 77.7 | 20.1 | 25.4 | 33.5 | 13.6 | 14.7 | 28.0 | 24.0 | 20.0 | 22.0 | 25.7 | 33.7 |
| 5 | Net equity issuance | -63.0 | 15.0 | 23.0 | 23.0 | -12.0 | 11.0 | 17.0 | 44.0 | 23.0 | 23.0 | 23.0 | 23.0 |
| 6 | Credit market borrowing | 96.8 | 33.0 | 41.8 | 105.4 | 69.9 | 18.3 | 8.1 | 35.5 | -7.7 | 25.7 | 56.1 | 93.1 |
| | Households | | | | | | | | | | | | |
| 7 | Net borrowing, of which: | 251.9 | 182.1 | 212.5 | 255.3 | 186.9 | 182.4 | 186.3 | 172.9 | 188.5 | 197.0 | 221.5 | 243.0 |
| 8 | Home mortgages | 213.2 | 159.8 | 180.6 | 206.0 | 166.3 | 162.1 | 151.0 | 159.7 | 163.7 | 171.7 | 188.5 | 198.5 |
| 9 | Consumer credit | 14.3 | -15.1 | 2.0 | 16.5 | -23.5 | -20.3 | -14.4 | -2.0 | -7.0 | -1.0 | 6.0 | 10.0 |
| 10 | Debt/DPI (percent)[3] | 91.2 | 94.6 | 95.5 | 94.6 | 95.1 | 94.9 | 95.3 | 95.4 | 95.9 | 96.1 | 96.1 | 95.8 |
| | State and local governments | | | | | | | | | | | | |
| 11 | Net borrowing | 17.2 | 25.6 | 24.6 | 24.1 | 19.7 | 19.2 | 36.7 | 26.9 | 24.8 | 24.7 | 24.5 | 24.4 |
| 12 | Current surplus[4] | -40.2 | -28.4 | -3.9 | 10.0 | -38.8 | -30.1 | -23.5 | -21.4 | -13.5 | -6.8 | 2.9 | 1.9 |
| | U.S.government | | | | | | | | | | | | |
| 13 | Net borrowing | 272.5 | 277.9 | 411.1 | 325.0 | 204.7 | 241.8 | 395.7 | 269.6 | 419.1 | 378.7 | 420.5 | 426.2 |
| 14 | Net borrowing;quarterly, nsa | 272.5 | 277.9 | 411.1 | 325.0 | 55.8 | 43.0 | 95.7 | 83.5 | 111.1 | 76.0 | 101.8 | 122.2 |
| 15 | Unified deficit;quarterly, nsa | 236.1 | 288.0 | 409.1 | 326.1 | 65.6 | 25.7 | 91.3 | 105.4 | 128.7 | 47.5 | 103.0 | 129.9 |
| | Funds supplied by | | | | | | | | | | | | |
| 16 | depository institutions | -34.8 | -65.4 | 28.1 | 167.8 | -25.3 | -127.4 | -100.4 | -8.6 | -57.4 | 5.1 | 83.1 | 81.5 |
| | Memoranda: As percent of GDP: | | | | | | | | | | | | |
| 17 | Dom. nonfinancial debt[3] | 185.1 | 191.6 | 194.1 | 194.2 | 192.0 | 191.9 | 192.8 | 193.7 | 194.9 | 194.9 | 195.4 | 195.9 |
| 18 | Dom. nonfinancial borrowing | 11.6 | 9.1 | 11.7 | 11.3 | 8.6 | 8.2 | 11.0 | 8.8 | 10.8 | 10.7 | 12.1 | 13.0 |
| 19 | U.S. government[5] | 4.9 | 4.9 | 7.0 | 5.2 | 3.7 | 4.3 | 6.9 | 4.7 | 7.2 | 6.4 | 7.1 | 7.1 |
| 20 | Private | 6.6 | 4.2 | 4.7 | 6.1 | 4.9 | 3.9 | 4.0 | 4.1 | 3.6 | 4.2 | 5.1 | 6.0 |

1. Estimates for recent years are tentative and will be revised to reflect NIPA revisions.
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 GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

Recent Developments

Since the November FOMC meeting, the weighted average foreign exchange value of the dollar in terms of other G-10 currencies has fallen about 2-3/4 percent; the drop includes declines of about 4 percent against the mark and 1/2 percent against the yen. The dollar has been depressed generally by signs of weakness in the U.S. economy and by actual and anticipated easing by the Federal Reserve. The mark was influenced negatively during the period by ongoing developments in the former Soviet Union. However, in the wake of news that German wage and price inflation had risen further, the mark has strengthened considerably on expectations that the Bundesbank would tighten policy. German three-month interest rates have risen about 10 basis points since the November meeting, while Japanese rates have eased about 10 basis points. The mark's strength has prompted monetary tightening in France, Italy, and Sweden.

. The desk has not intervened.

Real GDP growth in the major foreign industrial countries slowed on balance in the third quarter, as activity in the stronger countries decelerated and the pace of recovery elsewhere was sluggish. Following extremely strong growth in Germany and Japan early in the year, Germany recorded its second consecutive quarter of negative growth, and Japanese growth, at about 1-1/2 percent (s.a.a.r.), was the slowest recorded in more than two years. Partial data for the third quarter suggest that the United Kingdom registered its first positive GDP growth since mid-1990 in the third quarter -- 1 percent at an annual rate -- but the increase in output was attributable entirely to increased oil and gas production in the North Sea. Recovery in Canada lost momentum as GDP growth decelerated to a 1 percent rate in the third quarter, and the Italian economy appears to have stalled. The main bright spot has been France where, according to preliminary data, GDP growth seems to have continued at about a 3 percent rate in the third quarter.

Limited evidence for the fourth quarter reveals no sign of a pickup in growth abroad. In Japan, industrial production continued to slump through October, and previously tight labor-market conditions have eased somewhat. In western Germany, industrial production appears to have been about flat in October, and orders declined slightly after increasing in the third quarter. U.K. retail sales fell in October, and the labor market remains sluggish.

Twelve-month inflation rates in foreign industrial countries have continued to ease on average, with rates in France, the United Kingdom, and Canada showing declines. A slight increase in Japanese inflation in November was entirely because of weather-related factors. German inflation returned to above 4 percent in November, however, and wage pressures in that country appear to have intensified.

The U.S. merchandise trade deficit widened somewhat further in September, and pushed the figure for the third quarter above $80 billion at an annual rate. The deficit in the third quarter was somewhat above its average rate in the first half of the year but still well below its rate in 1990. The quantity of imports advanced strongly for the second quarter in a row, led by automotive products, consumer goods, and computers. Much of the expansion of imports in the third quarter appears to have been reflected in the unexpectedly strong buildup of U.S. retail inventories, particularly of consumer goods. Exports grew only moderately in the third quarter, and reached a level about 10 percent above that of a year earlier.

The growth rates of real imports and exports of goods and services on a national income accounts basis were revised up for the third quarter, largely on the basis of new data on merchandise trade for September and service transactions for the third quarter. Despite a number of data and definitional revisions to the accounts, however, the third-quarter decline in GDP real net exports of goods and services was not altered appreciably.

The 1/2 percent rise in non-oil import prices in October was the second monthly increase after five months of decline. Led by a surge in wheat prices, export prices rose 1/2 percent in October after having declined for much of the year as well.

Outlook

The current projection for real imports of goods and services has declined considerably compared with that in the October Greenbook, largely because of the weaker outlook for U.S. GDP. The forecast also incorporates somewhat lower economic growth abroad and a somewhat lower path for the dollar, changes that have nearly offsetting effects on the outlook for exports.

The Dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain around current levels through the forecast period. This path of the dollar is somewhat below that incorporated in the October Greenbook, reflecting the recent decline in U.S. interest rates. Against the currencies of key developing countries on average, the dollar is expected to show a moderate depreciation on a CPI-adjusted basis over the next two years.

Foreign Industrial Countries. Recent evidence of slower output growth in the major foreign industrial countries, along with the weaker outlook for U.S. GDP, has prompted us to revise downward the outlook for foreign activity in the near term. We now project GDP growth in the other G-7 countries to average 1-1/4 percent (annual rate) in the current quarter and 2 percent in the first quarter of 1992, about 1/2 to 3/4 percentage point below the previous forecast. The most significant downward revisions to near-term growth are for Canada, Japan, and the United Kingdom. The negative surprise on German output in the third quarter is expected to be partially reversed in the fourth quarter.

Beyond the first quarter of 1992, we still see growth in these countries accelerating, to more than 2-1/2 percent on average in the second half of next year, and about 3 percent in 1993. The main factor underlying the projected recovery is the expected positive response of interest-sensitive components of domestic demand to recent monetary easing, particularly in Japan, Canada, and the United Kingdom. West German growth is expected to be supported by continued strong demand for housing and the elimination of temporary tax increases, as well as by increasing investment demand in the eastern states.

Consumer price inflation in the other G-7 countries on average is projected to decline from about 4 percent over the four quarters of 1991 to a little under 3-3/4 percent during 1992 and 3-1/2 percent during 1993. Canada should improve the most, but the other major countries (except France, whose inflation rate is already below 3 percent) should show moderate gains as well.

Short-term interest rates in the major foreign industrial countries on average are expected to decline about 1/2 percentage point further over the year ahead. We expect Canadian, Japanese, and U.K. interest rates to show the largest declines, particularly in the near term, reflecting anticipated policy responses to the recent sluggishness of growth and expected improvements in inflation in those countries. Interest rates in Germany could rise somewhat in coming months as the Bundesbank strives to blunt near-term inflationary pressures, but they should move back down later in 1992. The level of interest rates in other key continental EMS countries will be held up as authorities work to maintain their currencies' parities with the DM. We expect foreign long-term interest rates to decline moderately on average over the year ahead, along a path slightly below that in the October forecast.

Developing Countries. The growth of real GDP in developing countries that are major U.S. trading partners is estimated to have increased moderately in 1991 to 5-1/2 percent on average. The increase has been generated largely internally by expansionary monetary or fiscal policies (Korea, Taiwan, and Hong Kong) and strong investment demand (Mexico). Lower growth in industrial countries has depressed exports of developing countries this year, but the recovery of that growth over the next two years should contribute to increases in the average rate of expansion in developing countries. Compared with the previous forecast, our outlook for real growth in key developing countries, especially Mexico and Korea, is slightly lower than in the previous forecast because of weaker external demand.

Combining the outlook for developing countries with that for industrial countries, we expect foreign growth weighted by shares in U.S. exports to average 3 percent over 1992, up from 2-1/4 percent in 1991, but down from the October Greenbook forecast of a little over 3-1/4 percent. Total foreign growth is projected to increase somewhat further in 1993.

U.S. Real Net Exports of Goods and Services. We project real net exports, after having worsened during the second and third quarters of 1991, to improve significantly in the current quarter and the first quarter of 1992. Only small further improvements are expected thereafter through 1993.

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

| | 1991 | | | | ------ Projection ------ | |
|---|---|---|---|---|---|---|
| | | | | | 1992 | 1993 |
| | Q1 | Q2 | Q3 | Q4 | Q4 | Q4 |
| Nonag. exports | -0.1 | 21.6 | 2.6 | 8.2 | 8.6 | 9.1 |
| Agric. exports | 7.2 | -15.1 | 36.2 | 3.6 | -1.2 | 2.1 |
| Non-oil imports | -17.2 | 9.3 | 25.7 | -2.0 | 3.6 | 6.5 |
| Oil imports | 16.7 | 73.3 | 3.9 | -12.0 | 11.7 | 9.5 |

* NIPA basis, 1987 dollars.

Real non-oil imports are projected to decline slightly during the current quarter and in the first quarter of 1992, after their unexpectedly rapid growth in the third quarter of 1991. The slowing of imports in the near term reflects both the expected weakness in U.S. final demand and the anticipated working off of inventories of imported goods that were built up in the third quarter. Imports should expand again as the economy recovers later next year and in 1993. The projected growth of real non-oil imports is significantly lower than in the October Greenbook, largely because of the lower path of U.S. GDP. In addition, the outlook for continued rapid growth of real imports of computers contributes less to overall import growth in 1987 dollars than it had in 1982 dollars.

The quantity of oil imports is also projected to decline in the current quarter with the slowing of the U.S. economy and some anticipated rundown of domestic stocks. We expect oil imports to resume an uptrend next year as demand recovers and domestic production continues to trend down.

Indicators of export orders point to some strengthening of growth in real nonagricultural exports through the fourth quarter despite the recent slowing of GDP growth abroad. These exports are projected to continue expanding at a fairly strong pace during 1992 and 1993. The growth of income in our export markets and the positive effects of past gains in U.S. price competitiveness contribute about equally to the export forecast for 1992; the pickup in growth abroad accounts for a slightly faster expansion of exports in 1993. Changes in the outlook for foreign growth and the dollar since the last Greenbook, on balance, have had only a small negative effect on the export forecast: the depressing effects of weaker GDP growth abroad have been largely offset by additional stimulus from the lower dollar. Export growth for 1992 and 1993 has also been revised down somewhat as a result of the move to 1987-base deflators, with less weight now given to rapidly growing computer exports in real terms. We continue to expect agricultural exports to remain little changed over the forecast period, although the recent pattern of Soviet purchases suggests a shift in the composition of these exports in favor of wheat and soybeans rather than corn.

Prices of Exports and Non-oil Imports. Prices of U.S. nonagricultural exports are projected to follow 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. After having declined much of this year, non-oil import prices are projected to rise more in line with our forecast for inflation rates abroad, especially in light of the recent further decline in the dollar.

Oil Prices. Current prices in the spot and futures markets for crude oil are consistent with an average U.S. import unit value of about $19 per barrel during the fourth quarter and $18 per barrel in the first quarter, about $1.00 and $2.50 per barrel, respectively, below the near-term projection in the October Greenbook. Prices have fallen largely because of weaker demand in the world economy and strong OPEC production. We continue to assume that oil prices will remain at $18 per barrel beyond mid-1992 as Kuwaiti production continues to rise during 1992 and as Iraq again begins to produce for the world oil market by 1993.

Net Services and Investment Income. Within the nontrade portions of the international accounts, net service receipts are projected to grow slightly in nominal terms and real terms as both receipts and payments for services are expected to pick up with the projected recoveries of activity at home and abroad. 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 over the forecast period as U.S. economic growth picks up and the earnings of foreign companies in the United States recover.

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to narrow to a little more than $75 billion at an annual rate in the fourth quarter, and to about $70 billion by the fourth quarter of 1992. The current account deficit (excluding Gulf war cash grants) is projected to narrow to a little more than $45 billion in the fourth quarter as the trade balance improves and to decline a further $20 billion more over the next two years largely as a result of the improvement in the nontrade portions of the current account improve.

NOMINAL EXTERNAL BALANCES
(Billions of dollars, SAAR)

| | 1991 | | | | ------ Projection ------ | |
|---|---|---|---|---|---|---|
| | | | | | 1992 | 1993 |
| | Q1 | Q2 | Q3 | Q4 | Q4 | Q4 |
| Trade balance | -73.6 | -61.6 | -81.9 | -75.9 | -70.0 | -69.9 |
| Current acct. ex. gulf war grants | -48.8 | -33.6 | -60.2 | -46.2 | -33.3 | -23.9 |
| Gulf war grants | 90.8 | 46.4 | 18.4 | 16.0 | 0.0 | 0.0 |
| Current account | 42.0 | 12.8 | -41.8 | -30.2 | -33.3 | -23.9 |

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## U.S. Current Account Summary

(In Billions of Dollars, Seasonally Adjusted Annual Rates)

| | Trade Balance | Invest. Income, Net: Direct Invest. | Invest. Income, Net: Portfolio | Services, Net | Transfers, Net */ | Current Account Balance */ |
|---|---|---|---|---|---|---|
| YEARS | | | | | | |
| 1975 | 8.9 | 14.4 | -1.6 | 3.5 | -7.1 | 18.1 |
| 1976 | -9.5 | 15.9 | 0.1 | 3.4 | -5.7 | 4.2 |
| 1977 | -31.1 | 16.8 | 1.1 | 3.8 | -5.2 | -14.5 |
| 1978 | -33.9 | 21.2 | -1.1 | 4.2 | -5.8 | -15.4 |
| 1979 | -27.5 | 31.8 | -1.7 | 3.0 | -6.6 | -1.0 |
| 1980 | -25.5 | 28.5 | 0.3 | 6.1 | -8.3 | 1.1 |
| 1981 | -28.0 | 25.7 | 5.7 | 11.9 | -8.3 | 6.9 |
| 1982 | -36.4 | 21.6 | 6.7 | 12.1 | -9.8 | -5.9 |
| 1983 | -67.1 | 21.2 | 6.2 | 9.5 | -10.0 | -40.1 |
| 1984 | -112.5 | 20.8 | 2.6 | 2.7 | -12.6 | -99.0 |
| 1985 | -122.1 | 22.2 | -6.1 | -0.9 | -15.5 | -122.3 |
| 1986 | -145.1 | 25.5 | -14.6 | 4.7 | -16.0 | -145.4 |
| 1987 | -159.5 | 33.4 | -25.8 | 6.3 | -14.7 | -160.2 |
| 1988 | -127.0 | 36.8 | -31.5 | 10.3 | -14.9 | -126.2 |
| 1989 | -115.9 | 42.5 | -39.8 | 22.4 | -15.5 | -106.3 |
| 1990 | -108.1 | 52.7 | -40.7 | 26.4 | -22.3 | -92.1 |
| 1991-P | -73.2 | 53.7 | -41.5 | 35.6 | 20.9 | -4.5 |
| 1992-P | -68.9 | 50.5 | -37.1 | 43.7 | -18.8 | -30.5 |
| 1993-P | -69.7 | 51.9 | -36.4 | 49.6 | -18.8 | -23.2 |
| QUARTERS | | | | | | |
| 1990-Q1 | -110.1 | 51.9 | -39.8 | 23.6 | -16.1 | -90.7 |
| -Q2 | -96.4 | 43.6 | -43.6 | 26.4 | -18.8 | -88.7 |
| -Q3 | -115.0 | 53.5 | -42.3 | 25.6 | -17.3 | -95.5 |
| -Q4 | -110.9 | 61.7 | -37.2 | 29.9 | -37.1 | -93.6 |
| 1991-Q1 | -73.6 | 61.3 | -41.8 | 28.3 | 67.8 | 42.0 |
| -Q2 | -61.6 | 52.2 | -42.8 | 35.8 | 28.5 | 12.1 |
| -Q3 | -81.9 | 51.1 | -41.1 | 37.8 | -7.7 | -41.8 |
| -Q4-P | -75.9 | 50.2 | -40.2 | 40.7 | -5.0 | -30.2 |
| 1992-Q1-P | -67.6 | 50.1 | -37.3 | 42.5 | -18.0 | -30.2 |
| -Q2-P | -67.3 | 50.9 | -37.1 | 42.8 | -18.0 | -28.8 |
| -Q3-P | -70.6 | 50.8 | -36.1 | 44.1 | -18.0 | -29.8 |
| -Q4-P | -70.0 | 50.2 | -37.8 | 45.4 | -21.0 | -33.3 |
| 1993-Q1-P | -68.9 | 50.1 | -35.7 | 47.4 | -18.0 | -25.1 |
| -Q2-P | -69.6 | 52.6 | -37.3 | 48.9 | -18.0 | -23.4 |
| -Q3-P | -70.3 | 52.8 | -35.3 | 50.3 | -18.0 | -20.5 |
| -Q4-P | -69.9 | 52.1 | -37.1 | 51.9 | -21.0 | -23.9 |

P/ Projected; */ Includes cash grants from foreign governments to support the Desert Shield/Storm effort: 1990-Q4 $17.2 billion AR; 1991 year = $42.9 billion when the quarters at annual rates are: Q1=90.8, Q2=46.4, Q3=18.4, Q4=16.0.

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GDP Real Net Exports of Goods and Services
Billions of 1987 dollars, SAAR

| | Exports of Goods & Services | | | Imports of Goods & Services | | | Net |
|---|---|---|---|---|---|---|---|
| | Merchandise | Services | G&S | Merchandise | Services | G&S | G&S |
| Years: | | | | | | | |
| 1989 | 343.8 | 125.4 | 469.2 | 450.4 | 94.5 | 544.9 | -75.7 |
| 1990 | 369.4 | 136.2 | 505.7 | 458.5 | 98.5 | 557.0 | -51.3 |
| 1991-p | 396.2 | 140.2 | 536.4 | 458.4 | 98.6 | 557.0 | -20.6 |
| 1992-p | 427.3 | 147.2 | 574.5 | 482.3 | 103.2 | 585.5 | -10.9 |
| 1993-p | 463.1 | 154.0 | 617.0 | 512.9 | 108.6 | 621.6 | -4.6 |
| Quarters: | | | | | | | |
| 1990-1 | 364.9 | 131.3 | 496.2 | 455.9 | 96.3 | 552.2 | -56.0 |
| 2 | 368.0 | 134.1 | 502.1 | 457.2 | 97.4 | 554.5 | -52.5 |
| 3 | 365.1 | 136.5 | 501.6 | 467.9 | 99.5 | 567.4 | -65.7 |
| 4 | 379.4 | 143.1 | 522.5 | 453.0 | 100.7 | 553.7 | -31.2 |
| 1991-1 | 379.9 | 132.6 | 512.5 | 435.9 | 95.3 | 531.1 | -18.6 |
| 2 | 395.8 | 139.9 | 535.7 | 451.2 | 96.8 | 548.0 | -12.3 |
| 3 | 400.8 | 143.3 | 544.1 | 475.2 | 101.2 | 576.4 | -32.3 |
| 4-p | 408.4 | 144.9 | 553.3 | 471.5 | 101.2 | 572.7 | -19.4 |
| 1992-1-p | 415.3 | 145.7 | 561.0 | 472.5 | 101.6 | 574.1 | -13.0 |
| 2-p | 423.1 | 146.5 | 569.6 | 477.9 | 102.6 | 580.5 | -10.9 |
| 3-p | 431.0 | 147.5 | 578.5 | 486.1 | 103.6 | 589.8 | -11.2 |
| 4-p | 439.9 | 149.0 | 588.9 | 492.7 | 104.8 | 597.4 | -8.6 |
| 1993-1-p | 448.9 | 150.8 | 599.7 | 499.4 | 106.1 | 605.6 | -5.9 |
| 2-p | 458.2 | 152.9 | 611.1 | 508.4 | 107.7 | 616.1 | -5.1 |
| 3-p | 467.8 | 155.0 | 622.8 | 517.7 | 109.5 | 627.2 | -4.4 |
| 4-p | 477.3 | 157.2 | 634.5 | 526.2 | 111.2 | 637.4 | -2.9 |
| Percent Change from Preceding Quarter, Annual Rate: | | | | | | | |
| 1991-1 | 0.5 | -26.3 | -7.4 | -14.3 | -19.8 | -15.4 | |
| 2 | 17.8 | 23.9 | 19.4 | 14.8 | 6.4 | 13.3 | |
| 3 | 5.1 | 10.1 | 6.4 | 23.0 | 19.5 | 22.4 | |
| 4-p | 7.8 | 4.5 | 6.9 | -3.1 | 0.0 | -2.6 | |
| 1992-1-p | 6.9 | 2.4 | 5.7 | 0.9 | 1.6 | 1.0 | |
| 2-p | 7.8 | 2.0 | 6.2 | 4.7 | 4.1 | 4.6 | |
| 3-p | 7.7 | 2.8 | 6.4 | 7.1 | 4.1 | 6.5 | |
| 4-p | 8.4 | 4.1 | 7.3 | 5.5 | 4.5 | 5.3 | |
| 1993-1-p | 8.5 | 4.9 | 7.6 | 5.6 | 5.3 | 5.6 | |
| 2-p | 8.5 | 5.7 | 7.8 | 7.4 | 6.1 | 7.2 | |
| 3-p | 8.6 | 5.7 | 7.9 | 7.5 | 6.6 | 7.4 | |
| 4-p | 8.4 | 5.7 | 7.8 | 6.7 | 6.6 | 6.7 | |
| Percent Change Q4/Q4: | | | | | | | |
| 1990/89 | 6.9 | 9.2 | 7.6 | -1.3 | 4.0 | -0.4 | |
| 1991/90-p | 7.6 | 1.2 | 5.9 | 4.1 | 0.5 | 3.4 | |
| 1992/91-p | 7.7 | 2.8 | 6.4 | 4.5 | 3.5 | 4.3 | |
| 1993/92-p | 8.5 | 5.5 | 7.8 | 6.8 | 6.1 | 6.7 | |

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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 | 0.6 | 2.0 | 3.7 |
| France | 3.9 | 1.9 | 2.1 | 2.3 | 2.6 |
| Western Germany | 3.2 | 5.3 | 2.0 | 2.7 | 3.0 |
| Italy | 2.9 | 1.3 | 1.1 | 1.9 | 2.6 |
| Japan | 4.9 | 4.7 | 3.3 | 2.9 | 3.8 |
| United Kingdom | 1.6 | -1.1 | -1.0 | 1.9 | 2.2 |
| Average, weighted by 1987-89 GNP | 3.5 | 2.5 | 1.7 | 2.4 | 3.1 |
| Average, weighted by share of U.S. nonagricultural exports | | | | | |
| Total foreign | 3.5 | 2.1 | 2.3 | 3.3 | 3.9 |
| G-6 | 2.9 | 0.9 | 1.2 | 2.2 | 3.3 |
| Developing countries | 5.0 | 4.9 | 5.9 | 5.6 | 6.2 |
| CONSUMER PRICES | | | | | |
| Canada | 5.2 | 4.9 | 4.4 | 3.1 | 2.7 |
| France | 3.6 | 3.6 | 2.5 | 3.0 | 3.0 |
| Western Germany | 3.0 | 3.0 | 4.0 | 3.4 | 3.0 |
| Italy | 6.6 | 6.3 | 6.2 | 5.4 | 5.0 |
| Japan | 2.9 | 3.2 | 3.3 | 3.1 | 2.8 |
| United Kingdom | 7.6 | 10.0 | 4.0 | 4.1 | 4.4 |
| Average, weighted by 1987-89 GNP | 4.4 | 4.8 | 3.9 | 3.6 | 3.4 |
| Average, weighted by share of U.S. non-oil imports | 4.2 | 4.4 | 3.9 | 3.3 | 3.0 |