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Strictly Confidential (FR) Class II FOMC

January 30, 1992

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 forecast

It now seems more likely than not that overall economic activity will avoid the slight dip that we predicted for the fourth and first quarters in the last Greenbook, but solid gains in output and employment still appear to be at least a few months off. Although lower interest rates seem to be providing some spark in the single-family home market, manufacturing production is being restrained at this point by soft demand for motor vehicles and by a small overhang of wholesale and retail inventories.

We continue to expect, however, that by this spring the incoming data will become more positive. We are anticipating a moderate pickup in growth of real GDP in the second quarter of this year, to about 2 percent at an annual rate. In the second half of 1992, growth is projected to move above a 3 percent pace, and a gain of 3-1/2 percent is projected for 1993. As before, we think that the effects of the monetary policy actions that have been taken to date, along with an anticipated further easing of long-term rates, will be a potent force for expansion in coming quarters. In addition, problems of credit availability should begin to diminish once the economic expansion has progressed somewhat further. The drag on the economy from nonresidential construction is expected to lessen gradually, and the restructuring of household and business balance sheets that currently is under way should help to position those sectors for renewed expansion.

How this scenario of renewed growth might be affected by potential changes in fiscal policy is difficult to assess at the moment. Clearly, the odds favor passage of some fiscal package before midyear, but the composition of that package is still highly uncertain, and the already huge size of the federal budget deficit may limit the dimensions of any initiative. There also is uncertainty about whether substantial fiscal stimulus can be implemented without generating a further negative reaction in the financial markets. Under the circumstances, we have maintained the admittedly artificial assumption of an unchanged fiscal policy, with the one exception of an adjustment for the Administration's action to lower withholding schedules. However, at the end of this section, we do present the results of an analysis based on the alternative assumption of a substantial fiscal package; we hope that this analysis will provide some sense of how such a package might affect the context for monetary policy decisions.

Barring a large and effective fiscal stimulus, we expect that inflationary pressures will continue to ease through 1993. The many steps currently being taken by businesses to boost efficiency, either through fundamental restructurings or other changes in their operations, seem to be enhancing the prospects for larger productivity gains than we have seen in recent years. By the same token, business hiring appears likely to proceed cautiously, and the margin of slack in the labor markets is likely to remain sizable over the next two years. Under those conditions, wage and price increases should trend lower. We expect that by the end of 1993 the rate of increase in the CPI excluding food and energy will have fallen to about 2-1/2 percent and that it will still be headed downward at that point.

Key Assumptions Underlying the Forecast

Money market interest rates are assumed to remain unchanged through 1993 at a level that, reflecting the System's December actions, is 1/2 percentage point below the level assumed in the last Greenbook; given our expectation that inflation will be moving lower, this assumption implies that real short-term rates will be edging up. Long-term interest rates still are expected to decline considerably, more or less along the path that we previously had anticipated. Although bond market participants have been skittish recently, we think that they will be encouraged in coming quarters by an ongoing slowing in core inflation to its lowest level in some time.

We expect that the credit crunch will continue to exert a restraining influence on the economy but that its grip will gradually loosen over time. As the economy improves, many business and real estate assets whose values now seem doubtful will start to look more solid, and lenders will increasingly see the opportunity of gain instead of the possibility of loss. Innovations in finance also may play a role, with new avenues of credit opening up for worthy borrowers denied loans through traditional channels.

Growth of M2 and M3 is projected to pick up a little in 1992, after a very sluggish performance in 1991; the increases this year are expected to be well within the tentative ranges adopted by the FOMC last July but below the midpoints of those ranges. A faster rate of expansion of nominal income this year is expected to boost the demand for money balances. But, at the same time, restraint on the growth of money relative to income likely will continue to come from the restructuring of the depository sector, cautious bank lending, and drawdowns of some money balances by depositors to earn higher returns in the capital markets or to repay debt. An additional moderate step-up in money growth is projected for 1993, when the growth of nominal income also is expected to pick up further; bank credit expansion also is anticipated to strengthen in that year.

Under our maintained assumptions about fiscal policy, the unified budget deficit in the 1992 fiscal year is projected at

$372 billion. This figure is $12 billion lower than the projection in the last Greenbook. The projection of revenues was lowered in response to the change in withholding schedules announced by the President, but the effect of this change on the deficit was more than offset by a downward revision to our estimate of outlays for deposit insurance and a slight reduction in the projection of interest payments on the federal debt. The projection of the 1993 unified budget deficit has been revised up $11 billion to $351 billion; this revision results from the change in withholding schedules, a higher estimate of outlays for medicaid, and some technical adjustments to the estimates of revenues. Excluding outlays for deposit insurance and foreign contributions related to Operation Desert Storm, the deficit is expected to be $301 billion in FY92 and $280 billion in FY93, compared with $246 billion in the 1991 fiscal year.

The anticipated path of the exchange value of the U.S. dollar against currencies of the major industrial countries has not changed in this forecast cycle. The dollar fell in late December, but it since has retraced that decline and is expected to remain around its current level through the end of 1993. The projected rate of economic growth in the rest of the world also is about the same, on balance, as in the last Greenbook; growth is expected to be about 3 percent in 1992 and 4 percent in 1993. The near-term path of crude oil prices has been lowered in this projection, but a second-half firming lifts prices back to the same year-end 1992 levels as previously assumed; prices are then anticipated to hold at those levels through 1993, with West Texas Intermediate a bit above $19 per barrel.

Recent Developments and the Outlook for the First Half of 1992

Real GDP is estimated by the Commerce Department to have risen 0.3 percent at an annual rate in the final quarter of 1991. If this advance estimate holds up, growth of real GDP will have been positive for three consecutive quarters, but more sluggish by far than in the comparable stage of any previous postwar expansion.

Consumer spending for goods was a notable area of weakness in the economy in the latter part of 1991, and it is an area that is important to the economic pickup that we are projecting in the spring (see below). After turning down in midsummer of last year, real consumer outlays for goods declined steadily over the last few months of the year; the rate of contraction for the fourth quarter as a whole was about 5 percent at an annual rate. Our forecast assumes that these outlays will turn up in the first half of 1992, as income growth picks up and consumer confidence firms. Sales of

GROSS DOMESTIC PRODUCT AND ITS COMPONENTS
(Net change from previous period, billions of 1987 dollars)

	1991		1992	
	Q3	Q4	Q1	Q2
			--- projected	---
1. Real GDP	22.0	3.6	5.1	23.2
2. PCE goods	9.3	-19.3	-.8	9.6
3. Nonfarm inventory change	28.0	6.4	-13.2	5.1
4. Merchandise imports	24.5	-3.7	.5	10.1
5. Business equipment	5.8	.5	2.1	4.5
6. Merchandise exports	4.5	17.0	2.8	7.3
7. Residential construction	4.5	4.5	6.4	5.4
8. PCE services	9.6	10.3	9.5	8.2
9. Nonres. construction	-10.5	-3.6	-4.5	-3.7
10. Government purchases	-8.2	-14.2	2.5	-2.2
11. Other*	3.6	-1.8	1.0	-.9

*Net exports of services and farm inventory change.

motor vehicles are expected to rise moderately, and purchases of other goods also are expected to pick up.

Swings in business inventory investment and merchandise imports also play important roles in the near-term forecast. Inventories are expected to be drawn down in the first quarter, as domestic producers restrain output and as merchants limit their imports of goods; by spring, most of the mild overhang of inventories that emerged in the second half of last year likely will have been cleared away. We expect inventories to decline by only a small amount in the second quarter; this slowing of the liquidation will have a positive effect on growth of real GDP. Merchandise imports are likely to move up in the second quarter, thus transmitting to foreign producers a portion of the impetus from increases in domestic demand.

Real outlays for business equipment are expected to rise by a small amount in the first quarter of 1992 and then to grow more rapidly in the second quarter. Spending on office and computing equipment is expected to continue to move up in real terms in the first half of the year, although the gains are not likely to come close to matching the large increase seen in the latter part of 1991, when shipments were propelled by introduction of the new IBM mainframes. Outlays for other types of equipment are projected to grow modestly in the first half of 1992.

Some major components of demand--namely, merchandise exports, residential construction, and consumer spending for services--registered solid gains in the second half of 1991, and we expect them to exhibit a continued uptrend through the first half of 1992. In the case of merchandise exports, the quarterly pattern of growth will likely be uneven; a substantial fourth-quarter gain in exports came partly from a bunching of shipments of aircraft and computing equipment and probably will be followed by a considerably smaller increase in the current period. In residential construction, the increases anticipated for the first half of 1992 in single-family housing are larger than those shown in the previous Greenbook; the many favorable indicators of activity seen recently account for this upward revision. In the services category, the steady gains anticipated in real outlays in the first half of 1992 are of about the same magnitude as the gains during the last three quarters of 1991; increased spending for medical care has been a major contributor to the overall advances in this category.

Nonresidential construction and government purchases were big negatives in the economy in the second half of 1991. We think that nonresidential construction will continue to slide in the first half of this year. Construction of commercial buildings, in particular, is in drastic decline; other major categories of nonresidential construction also are weakening but less dramatically. In the government sector, defense spending clearly is trending down; however, the huge drop in the fourth quarter undoubtedly overstated the slope of the underlying downtrend, and we expect a slower rate of decline in coming quarters. Nondefense purchases, which were depressed in the fourth quarter by a drawdown in the farm stocks held by the Commodity Credit Corporation, are expected to rebound in the first quarter, by enough to yield a short-lived uptick in total federal purchases. Real purchases by state and local governments, which were flat in the second half of 1991, are expected to decline at an annual rate of almost 1 percent in the first half of this year.

After a sharp drop in November, private payroll employment registered only a small decline in December, and the recent data on initial claims for unemployment insurance benefits suggest that there has been no major deterioration since the most recent labor market surveys were taken in mid-December. Our forecast shows payroll employment declining somewhat further, on net, into the spring and then picking up slowly thereafter. The civilian unemployment rate, which was 7.1 percent in December, is expected to rise just a bit further in the near-term and then to flatten out; we are projecting that it will average 7.3 percent in both the second and third quarters of this year.

The projected rate of increase in the CPI in the first quarter has been revised down 1/2 percentage point. This change reflects more favorable near-term prospects for both energy and food prices. With oil production high, and with a warm winter and a sluggish U.S. economy cutting into demand, oil prices have weakened since the autumn; the CPI for energy now is expected to decline in the first quarter, rather than to increase, as we previously had expected. Food prices are projected to rise in the first quarter, but by less than we had been expecting; the effect of the whitefly infestation on the prices of fresh produce has not been as pronounced as we had anticipated.

The projection of the CPI excluding food and energy for the first half of 1992 is about the same as in the last Greenbook. After increasing less than 0.3 percent per month, on average, in the final three months of 1991, this measure is expected to show slightly larger increases, on average, in the first quarter of 1992. This projected pickup is largely a statistical artifact, however, rather than a meaningful acceleration; in particular, the seasonal adjustment of the CPI fails to capture fully the extent to which price increases tend to be concentrated early in the year.

The employment cost index for compensation in private industry rose 4.0 percent at an annual rate in the final quarter of 1991.

The increase in this measure over all of 1991 was 4.4 percent; the 12-month change in the measure has dropped about 3/4 of a percentage point since peaking in the first half of 1990. The rate of increase in the ECI for wages and salaries slowed to 3.7 percent last year; the rise in the cost of employee benefits also slowed a little but remained above 6 percent for the fourth year in a row. We expect to see a gradual deceleration of compensation in the first half of 1992, owing to the continued restraining effects of labor market slack and lower price inflation.

The Longer-Term Outlook for the Economy

Although many uncertainties still are present, we see the next two years shaping up as a period in which the economy will start to move beyond the problems that have inhibited recovery thus far. The 3 to 3-1/2 percent growth rates that we are projecting for the second half of 1992 and for 1993, while distinctly subpar by the

MAJOR INDICATORS OF ECONOMIC PERFORMANCE
(Percent change, fourth quarter to fourth quarter)

	1989	1990	1991	1992	1993
				- projected -	
Real GDP	1.7	-.1	.2	2.1	3.5
Consumer price index	4.6	6.3	2.9	3.4	2.8
Exc. food and energy	4.3	5.3	4.4	3.4	2.8
ECI hourly compensation	4.8	4.6	4.4	3.7	3.3
Memo: Civilian unemployment rate[1]	5.4	6.0	6.9	7.2	6.7

1. Average in the fourth quarter.

standards of past cyclical upswings, are well above the sluggish pace that has prevailed since early 1989. Those rates of expansion should be large enough to tilt the unemployment rate downward; the projection has the unemployment rate falling back to 6-3/4 percent by the fourth quarter of 1993, down about 1/2 percentage point from its expected peak in mid-1992. With this degree of slack likely to be damping wage increases, and with productivity improving, core inflation in 1993 is projected to fall back to around its lowest levels of the past quarter century.

Consumer spending. After a gradual pickup in the first half of 1992, consumer expenditures are expected to start moving up more briskly in the second half of the year and on into 1993. Increases in income and employment, a strengthened household balance sheet, and rising levels of consumer confidence should give rise to a broad firming of real outlays. In addition, we suspect that some backlog of demand is beginning to accumulate for autos and for some other durable goods, in view of the softness in spending in those categories over the past three years. The staff forecast has real outlays for durables rising at an annual rate of nearly 9 percent, on average, from the second quarter of 1992 to the fourth quarter of 1993; although this is a much faster rate of increase than we have seen in recent years, it actually is a fairly subdued pace compared with the rates of increase typically seen in the early phases of economic expansions. Combined spending for nondurables and services is expected to increase at an average rate of a bit more than 2-1/2 percent from mid-1992 to the end of 1993; as is true of durables, the gains here are an improvement from the pace of recent years, but they are not large by previous cyclical standards.

Housing. We are expecting solid gains in this sector from now through the end of 1993, with key support for increased activity coming from enhanced affordability and, later on, increases in household income and employment. Starts of single-family units are projected to climb to an annual rate of about 1.2 million units by the end of 1993, a figure that is at the upper end of the range seen in the 1980s. By contrast, we continue to anticipate only a minuscule rise in the construction of multifamily housing units. Vacancy rates still are high in the multifamily sector, the demographics remain unfavorable, and lenders are likely to remain hesitant. We are projecting that the total starts of multifamily units in 1993 will remain below 200,000 units for a third year; by contrast, more than 600,000 units were built in each year from 1983 to 1986, when the sector was in an extraordinary boom.

Business fixed investment. Although many cross-currents are likely in this sector over the next two years, we think that the overall picture after mid-1992 will be one of moderate, sustained increases in real outlays, gradually accelerating to a pace of 4 percent by the middle part of next year; advances in equipment spending over the period are expected to more than offset declines in nonresidential construction. In the equipment category, outlays for office and computing equipment are expected to rise at an average rate of about 12 percent over the next two years; this rate of gain, while sizable, actually is on the low side of the trend seen over the past decade. Business outlays for other types of equipment, in the aggregate, are expected to move up steadily after mid-1992 as the economy strengthens and corporate cash flow improves, but the overall rate of increase is expected to be only moderate. Nonresidential construction is projected to be nearing a bottom at the end of next year, at which time it will be more than 35 percent below its 1985 peak. Spending for new industrial plants and for the construction and renovation of retail facilities should be tilting back up by the end of next year, and the decline in office building probably will have slowed considerably, with activity in many locales down to extremely low levels.

Business inventories. We expect businesses to begin carrying higher levels of stocks as the economic expansion gains momentum, but we also expect this restocking to proceed rather cautiously. Firms probably will continue to introduce new operating efficiencies that will reduce the volume of stocks that they need to carry in order to support a given level of sales. The aggregate nonfarm inventory-sales ratio declines throughout the projection.

In terms of growth accounting, the impetus to production from inventory change is expected to be greatest in the middle quarters of 1992. In 1993, inventory change is expected to have only a small, but positive, influence on the annual rate of growth of real GDP--about 1/4 percentage point per quarter, on average.

Government purchases. Under the assumption of no new fiscal stimulus, we have basically carried forward the same longer-run downtrend in federal purchases that we have had in recent Greenbooks. Outlays for defense are projected to fall roughly 5 percent in 1992 and 6 percent next year. Nondefense purchases (excluding those by the CCC) are projected to rise nearly 5 percent this year and 3-1/2 percent in 1993; higher outlays for space exploration, law enforcement, and health resources accounts for much of the rise in these purchases.

Nor has there been much change in the outlook for states and localities. Fiscal stress is forcing them to curb spending and likely will continue to do so for some time. Real purchases of goods and services by state and local governments are projected to change little on net in the second half of 1992 and then to rise 1-1/2 percent in 1993. By comparison, increases in these purchases from 1984 to 1990 were in the range of 3 to 5-1/2 percent per year. The restraint on spending, together with tax increases in some states and localities, is expected to lead to a sizable reduction in the state and local budget deficit between now and the end of 1992.

Net exports. Real exports of goods and services are expected to rise appreciably over the next two years, by an amount equal to about one-fourth of the total projected rise in real GDP. At the same time, however, real imports of goods and services are expected to climb by nearly the same amount, in response to stronger domestic demand. In an accounting sense, net exports thus contribute little to the rise of real GDP. A much more detailed discussion of these projections is contained in the International Developments portion of the Greenbook.

Labor markets. We expect the gains in employment to come rather slowly over the next two years. In the forecast, payroll employment does not get back to its 1990 peak until well into 1993. Growth in aggregate demand is projected to fall short of the pace seen at a similar stage of previous expansions, and, as is typically the case during the early phases of cyclical upswings, a large portion of the rise in demand will be met through increases in productivity.

The slow growth of job opportunities likely will be mirrored by relatively slow growth in the number of job seekers. The projection has the labor force participation rate holding around its recent level for the next several quarters; an upturn is projected in the final three quarters of 1993, when job opportunities will be expanding a bit more rapidly.

These labor market conditions are expected to lead to a substantial deceleration in the rate of increase of labor compensation over the next two years. Wages and salaries, especially, will be coming under pressure; we expect the increase in the ECI for wages and salaries to be a bit less than 3 percent in 1992 and only

2-1/2 percent in 1993. The increases in benefits also are expected to slow, but only gradually given the problem of controlling the costs of medical care.[1]

Prices. After the temporary uptick in early 1992, the CPI excluding food and energy is expected to decelerate steadily through the end of 1993, with the slowdown widespread across the various categories of goods and services. The deceleration is expected to be anchored by the anticipated slowing of unit labor costs and an absence of any serious price pressures from abroad. It also will be influenced by the continued presence of a considerable degree of slack in the industrial product markets: We are projecting that capacity utilization in manufacturing will remain below 80 percent through the fourth quarter of 1993, up only moderately from the low in the second quarter of 1991. Increases in energy prices at retail are expected to pick up for a time in the second half of 1992 when oil prices will be rebounding from their current low levels; thereafter, energy price increases are projected to be moderate. In the food area, we are projecting that prices will rise at a pace about in line with the core rate of inflation over the next two years, after an unusually small increase--1-3/4 percent--in 1991. Meat prices, which fell in 1991, are expected to rise somewhat this year and next, as the rate of expansion in meat production gradually begins to slow. Although grain inventories currently are tight, especially for wheat, we expect that situation to ease a little once new supplies from the next harvest start to become available here and abroad.

1. One obvious uncertainty in this forecast is the possibility of significant public policy action on the health insurance front. One proposal--the mandating of medical insurance benefits--could add considerably to employers' costs.

The Economic Effects of Potential Fiscal Actions

In trying to divine how the outlook might be altered in the event of stimulative fiscal action, we have examined the effects of a sizable fiscal package, applying a combination of judgment and econometric modeling. The package bears some obvious relationship to initiatives that have been discussed by the congressional leadership or the Administration, but we certainly do not wish to suggest that it is the most likely outcome of legislative debates; rather, our aim is simply to give the Committee a general idea of how a relatively substantial fiscal stimulus might alter the outlook. Two simulations have been prepared, one that holds short-term interest rates fixed and a second that is based on the alternative assumption of fixed money growth.

The specifics of the fiscal package used in the simulations are these: A permanent cut in personal tax withholding starting in May of 1992 and accumulating to $20 billion by 1993; a one-time $20 billion increase in grants to state and local governments in the second quarter of 1992; a temporary investment tax credit on equipment that is ordered by the end of 1992 and received by the end of 1993; and a phased reduction in defense spending, the magnitude of which would amount to a little more than $3 billion in 1993 and grow larger in subsequent years.[2] The total amount of fiscal stimulus embodied in this package is considerably greater than the stimulus that would result from the proposals put forth by the President in his State of the Union message.

We have made no provision in the simulation for a large number of specific proposals, such as incentives for first-time homebuyers,

2. For purposes of the simulation, we have assumed an investment tax credit roughly one-half the size of that which existed prior to the 1986 tax reform. It should be noted that, although the timing of revenue losses could differ considerably, a temporary accelerated depreciation benefit would have much the same effect on investment spending as a temporary investment tax credit.

changes in IRAs, modification of passive loss provisions, and cuts in capital gains taxes. Clearly, inclusion of any of these proposals could alter substantially the composition of the projected stimulus to aggregate activity. Moreover, reduced tax rates on capital gains and provisions for penalty-free conversion of IRAs to more liquid instruments likely would result in a temporary boost to tax revenues; this could be important in limiting short-run budget deficits and federal borrowing requirements, but because individuals would be undertaking these actions with the notion that they were raising their lifetime after-tax resources, the increased tax payments should not be viewed as exerting a restrictive influence on aggregate demand.

In the simulation with short-term interest rates held fixed, the assumed fiscal package adds significantly to the growth of real GDP in 1992 and 1993 and pulls down the unemployment rate by a full percentage point more than in the baseline forecast. But, it also holds the diminution of inflation to only a fraction of what we now think is likely.[3] Moreover, because the temporary investment tax credit would probably pull an appreciable amount of investment spending from 1994 back into 1993, a good bit of the increment to growth in the next two years would come at the expense of less growth later on. Needless to say, the extent of the shift in investment spending between 1993 and 1994 that would be induced by a temporary incentive is subject to considerable uncertainty and could be larger or smaller than we have built into this simulation. The increment to inflation from the fiscal package still would be rising in 1994, but probably would start to diminish thereafter, as

3. In the simulation, we have assumed that state and local governments use the increased grants to boost spending and lower income taxes. If these governments were to use some of this fiscal relief to lower indirect business taxes relative to the baseline forecast, consumer price inflation might be held down temporarily, before rebounding to a higher underlying trend in subsequent years.

reaction to the ending of the investment tax credit starts to feed through to the economy.

In an alternative simulation, growth in M2 is held to the baseline assumed in the Greenbook. In order to hold growth of the M2 aggregate to the baseline path in the face of considerable fiscal stimulus, the model requires gradual increases in the federal funds rate that would cumulate to more than 150 basis points over the next year. Under this assumption, the stimulus to activity and the increment to inflation in 1992 and 1993 are muted considerably relative to the simulation that holds short-term interest rates constant. Moreover, by 1994, the lagged effects of the past rise in interest rates results in a slump in activity and necessitates a sharp reversal in interest rates.

STAFF SIMULATIONS OF THE EFFECTS OF FISCAL ACTION ON THE ECONOMY
(Percentage change, fourth quarter to fourth quarter)

	1992	1993
----- Simulation with fixed short-term interest rates -----		
1. Growth of real GDP	3.4	4.7
(Baseline)	(2.1)	(3.5)
2. Consumer price index	3.6	3.4
(Baseline)	(3.4)	(2.8)
3. Civilian unemployment rate[1]	6.8	5.7
(Baseline)	(7.2)	(6.7)
--------- Simulation with fixed money growth ---------		
4. Growth of real GDP	3.1	2.8
(Baseline)	(2.1)	(3.5)
5. Consumer price index	3.6	3.1
(Baseline)	(3.4)	(2.8)
6. Civilian unemployment rate[1]	6.9	6.5
(Baseline)	(7.2)	(6.7)

1. Average in the fourth quarter.

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

January 30, 1992

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	12/11/91	1/30/92	12/11/91	1/30/92	12/11/91	1/30/92	12/11/91	1/30/92	12/11/91	1/30/92
ANNUAL										
1989[2]	7.0	7.0	2.5	2.5	n.a.	n.a.	4.8	4.8	5.3	5.3
1990[2]	5.1	5.1	1.0	1.0	n.a.	n.a.	5.4	5.4	5.5	5.5
1991[2]	2.9	2.9	-.8	-.7	n.a.	n.a.	4.2	4.2	6.7	6.7
1992[2]	4.2	4.2	1.1	1.4	n.a.	n.a.	3.4	3.2	7.2	7.2
1993	6.1	5.9	3.3	3.3	n.a.	n.a.	3.1	3.1	6.9	6.9
QUARTERLY										
1990 Q1[2]	6.3	6.3	1.7	1.7	n.a.	n.a.	7.5	7.5	5.3	5.2
Q2[2]	6.2	6.2	1.6	1.6	n.a.	n.a.	3.8	3.8	5.3	5.3
Q3[2]	4.9	4.9	.2	.2	n.a.	n.a.	7.0	7.0	5.6	5.6
Q4[2]	-.9	-.9	-3.9	-3.9	n.a.	n.a.	6.9	6.9	5.9	6.0
1991 Q1[2]	2.3	2.3	-2.5	-2.5	n.a.	n.a.	3.6	3.6	6.5	6.5
Q2[2]	4.6	4.6	1.4	1.4	n.a.	n.a.	2.1	2.1	6.8	6.7
Q3[2]	3.9	4.1	1.7	1.8	n.a.	n.a.	3.0	3.0	6.8	6.8
Q4[2]	2.7	1.9	-.2	.3	n.a.	n.a.	3.4	3.0	6.9	6.9
1992 Q1	3.2	4.3	-.8	.4	n.a.	n.a.	4.0	3.5	7.1	7.1
Q2	5.7	4.9	2.6	1.9	n.a.	n.a.	3.5	3.5	7.2	7.3
Q3	5.4	5.5	2.6	2.9	n.a.	n.a.	3.3	3.4	7.2	7.3
Q4	5.9	5.7	3.2	3.3	n.a.	n.a.	3.2	3.2	7.1	7.2
993 Q1	6.7	6.7	3.4	3.7	n.a.	n.a.	3.2	3.1	7.0	7.1
Q2	6.0	5.9	3.4	3.5	n.a.	n.a.	2.9	2.8	6.9	7.0
Q3	6.0	5.7	3.5	3.4	n.a.	n.a.	2.8	2.8	6.8	6.8
Q4	6.0	5.6	3.5	3.2	n.a.	n.a.	2.8	2.7	6.7	6.7
TWO-QUARTER[3]										
1990 Q2[2]	6.2	6.2	1.7	1.7	n.a.	n.a.	5.6	5.6	.0	-.1
Q4[2]	1.9	1.9	-1.8	-1.8	n.a.	n.a.	6.9	6.9	.6	.7
1991 Q2[2]	3.5	3.5	-.6	-.6	n.a.	n.a.	2.8	2.8	.9	.7
Q4[2]	3.3	3.0	.8	1.1	n.a.	n.a.	3.2	3.1	.1	.2
1992 Q2	4.4	4.6	.9	1.2	n.a.	n.a.	3.7	3.5	.3	.4
Q4	5.7	5.6	2.9	3.1	n.a.	n.a.	3.2	3.3	-.1	-.1
1993 Q2	6.3	6.3	3.4	3.6	n.a.	n.a.	3.0	2.9	-.2	-.2
Q4	6.0	5.7	3.5	3.3	n.a.	n.a.	2.8	2.8	-.2	-.3
FOUR-QUARTER[4]										
1989 Q4[2]	5.9	5.9	1.7	1.7	n.a.	n.a.	4.6	4.6	.0	.1
1990 Q4[2]	4.1	4.1	-.1	-.1	n.a.	n.a.	6.3	6.3	.6	.6
1991 Q4[2]	3.4	3.2	.1	.2	n.a.	n.a.	3.0	2.9	1.0	.9
1992 Q4	5.0	5.1	1.9	2.1	n.a.	n.a.	3.5	3.5	.2	.3
1993 Q4	6.2	6.0	3.5	3.5	n.a.	n.a.	2.9	2.8	-.4	-.5

1. For all urban consumers.
2. Actual.
3. Percent change from two quarters earlier, including unemployment rate.
4. Percent change from four quarters earlier, including unemployment rate.

Strictly Confidential (FR)
Class II FOMC

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

January 30, 1992

Item	Unit[1]	1985	1986	1987	1988	1989	1990	1991	Projected 1992	Projected 1993
EXPENDITURES										
Nominal GDP	Bill. $	4038.7	4268.6	4539.9	4900.4	5244.0	5513.8	5671.9	5908.8	6257.7
Real GDP	Bill. 87$	4279.8	4404.5	4540.0	4718.6	4836.9	4884.9	4848.4	4916.7	5080.4
Real GDP	% change	3.3	2.2	4.5	3.3	1.7	-.1	.2	2.1	3.5
Gross domestic purchases		3.8	2.1	3.9	2.5	1.0	-.9	-.2	2.1	3.3
Final sales		3.8	3.3	2.7	4.2	1.5	1.2	-.5	2.1	3.2
Private dom. final purch.		3.9	3.0	1.9	4.2	.6	-.3	-.7	2.7	3.8
Personal cons. expend.		4.0	4.0	2.1	4.2	1.2	.3	.3	2.4	3.5
Durables		6.3	12.5	-2.6	8.5	-.8	-2.7	-2.8	6.5	8.1
Nondurables		2.7	3.3	1.4	3.2	.8	-1.0	-1.1	1.0	2.3
Services		4.2	2.5	3.7	3.7	2.0	1.9	1.9	2.2	3.2
Business fixed invest.		3.1	-5.7	3.0	5.5	.5	.6	-6.9	1.1	4.0
Producers' dur. equip.		2.2	-.7	2.4	9.1	-.1	3.1	-3.2	5.5	6.8
Nonres. structures		4.6	-14.1	4.4	-1.2	1.7	-4.6	-15.0	-9.7	-4.2
Res. structures		4.3	11.1	-3.1	.9	-7.7	-11.8	-1.3	13.8	8.4
Exports		-.3	9.9	12.6	13.5	10.9	7.6	8.2	4.9	7.1
Imports		5.2	6.7	4.7	3.6	2.7	-.4	3.6	4.9	6.0
Government purchases		5.9	4.1	3.3	.2	1.6	3.2	-1.7	-.8	-.3
Federal		6.4	3.8	3.7	-3.4	-1.2	2.3	-3.2	-1.3	-2.9
Defense		7.0	3.7	4.5	-3.2	-2.0	.8	-4.6	-5.2	-5.7
State and local		5.4	4.4	2.9	2.9	3.6	3.8	-.6	-.5	1.5
Change in bus. invent.	Bill. 87$	22.1	8.6	26.3	19.9	32.6	.2	-15.1	-1.4	15.8
Nonfarm		19.8	10.6	32.7	26.9	33.3	-1.5	-15.3	-1.6	15.2
Net exports		-145.3	-155.1	-143.0	-104.0	-75.7	-51.4	-17.6	-8.8	-4.7
Nominal GDP	% change	7.0	4.7	8.0	7.7	5.9	4.1	3.2	5.1	6.0
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	-.4	3.3	4.7
Capacity util. rate-mfg.	%	79.5	79.0	81.4	83.9	83.9	82.3	78.2	77.9	79.1
Housing starts	Millions	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.22	1.38
Auto sales		11.04	11.45	10.24	10.63	9.91	9.51	8.39	8.66	9.61
Domestic		8.20	8.22	7.07	7.54	7.09	6.90	6.14	6.38	6.97
Foreign		2.84	3.24	3.18	3.09	2.83	2.60	2.25	2.28	2.64
INCOME AND SAVING										
Nominal GNP	Bill. $	4053.6	4277.8	4544.5	4908.2	5248.2	5524.6	5685.4	5926.2	6278.1
Nominal GNP	% change	6.8	4.4	8.1	7.8	5.9	4.3	3.2	5.1	6.0
Nominal personal income		6.6	5.5	7.4	7.1	6.7	6.5	2.7	5.3	6.5
Real disposable income		1.9	2.8	2.1	3.2	1.4	1.0	.4	2.3	3.3
Personal saving rate	%	6.5	6.0	4.3	4.4	4.4	5.1	5.3	5.4	5.2
Corp. profits, IVA&CCAdj	% change	9.0	-7.1	29.7	10.2	-11.5	-11.5	6.5	17.1	10.1
Profit share of GNP	%	6.9	6.4	7.0	7.4	6.7	5.8	5.4	6.0	6.3
Federal surpl./def.	Bill. $	-181.4	-201.1	-151.8	-136.6	-124.2	-165.3	-198.4	-262.2	-250.9
State/local surpl./def.		56.1	54.3	40.1	38.4	41.1	25.7	29.8	48.2	68.3
Ex. social ins. funds		9.2	1.5	-14.7	-18.4	-19.2	-38.1	-35.6	-19.2	-2.8
PRICES AND COSTS										
GDP implicit deflator	% change	3.6	2.6	3.3	4.2	4.2	4.2	3.0	2.9	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.
CPI		3.5	1.3	4.5	4.3	4.6	6.3	2.9	3.5	2.8
Ex. food and energy		4.3	3.9	4.3	4.5	4.3	5.3	4.4	3.4	2.8
ECI, hourly compensation[2]		3.9	3.2	3.3	4.8	4.8	4.6	4.4	3.7	3.3
Nonfarm business sector[3]										
Output per hour		.7	1.2	1.8	.5	-1.6	.0	-.5	2.7	4.2
Compensation per hour		4.7	4.6	3.8	3.7	2.9	6.0	3.1	3.7	3.4
Unit labor cost		3.9	3.4	1.9	3.3	4.5	6.0	2.6	1.5	1.5

1. Percent changes are from fourth quarter to fourth quarter. 2. Private-industry workers.
3. Data for 1991 are staff estimates.

Strictly Confidential (FR)
Class II FOMC

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

January 30, 1992

Item	Unit	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 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	5.2	5.3	5.4	5.2	5.3	5.6	6.0	6.5	6.7
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	9.92	9.53	9.60	9.00	8.33	8.43
Domestic		7.08	7.26	7.36	6.56	7.12	6.82	7.08	6.60	6.09	6.11
Foreign		2.95	3.00	2.84	2.53	2.80	2.71	2.51	2.39	2.25	2.32
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		-2.8	-2.0	-1.3	-.3	1.0	2.1	-2.5	-.3	.1	1.9
Compensation per hour		3.4	1.1	2.5	4.5	6.0	8.1	5.6	4.4	2.7	4.6
Unit labor cost		6.4	3.2	3.8	4.8	5.0	5.9	8.4	4.7	2.7	2.6

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)

January 30, 1992

Item	Units	1991 Q3	1991 Q4	Projected 1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4
EXPENDITURES											
Nominal GDP	Bill. $	5709.2	5736.6	5797.0	5866.2	5944.8	6027.3	6125.8	6214.8	6302.0	6388.0
Real GDP	Bill. 87$	4862.7	4866.3	4871.4	4894.7	4930.3	4970.5	5016.4	5059.7	5102.3	5143.2
Real GDP	% change	1.8	.3	.4	1.9	2.9	3.3	3.7	3.5	3.4	3.2
Gross domestic purchases		3.4	-1.6	.3	2.2	2.9	3.2	3.5	3.5	3.3	3.1
Final sales		-.7	.1	1.4	1.5	2.4	2.9	3.4	3.2	3.2	3.1
Private dom. final purch.		1.9	-.8	1.3	2.4	3.5	3.8	4.1	3.9	3.8	3.6
Personal cons. expend.		2.3	-1.1	1.1	2.2	2.9	3.3	3.8	3.7	3.4	3.3
Durables		9.5	-5.8	-.3	7.3	8.7	10.8	9.7	8.4	7.3	7.1
Nondurables		.0	-4.9	-.2	.9	1.6	1.8	2.3	2.5	2.3	2.2
Services		2.2	2.3	2.1	1.8	2.4	2.5	3.3	3.2	3.1	3.0
Business fixed invest.		-3.7	-2.4	-1.9	.7	2.6	3.3	3.8	4.0	4.0	4.1
Producers' dur. equip.		6.7	.6	2.3	5.0	7.1	7.6	7.6	7.1	6.5	6.0
Nonres. structures		-23.9	-9.4	-11.8	-10.1	-8.8	-8.0	-6.6	-4.7	-3.7	-1.9
Res. structures		10.9	10.6	14.9	12.0	15.0	13.3	9.2	8.0	9.6	6.7
Exports		7.3	13.4	2.1	5.6	5.8	6.2	6.9	7.2	7.1	7.2
Imports		22.3	-2.0	.7	8.2	5.7	5.2	4.8	6.8	6.2	6.2
Government purchases		-3.4	-5.9	1.1	-.9	-1.9	-1.4	-1.0	-.4	.0	.3
Federal		-8.1	-14.1	4.1	-1.2	-3.9	-3.8	-3.8	-2.9	-2.8	-2.2
Defense		-8.9	-15.4	-3.4	-3.3	-7.1	-7.0	-6.9	-5.8	-5.4	-4.7
State and local		-.1	.1	-.9	-.8	-.5	.3	.8	1.3	1.8	2.0
Change in bus. invent.	Bill. 87$	.1	2.7	-9.4	-4.3	1.8	6.3	11.0	15.1	17.7	19.6
Nonfarm		-2.8	3.6	-9.6	-4.5	1.6	6.1	10.2	14.5	17.1	19.2
Net exports		-31.1	-8.3	-6.3	-10.0	-10.1	-8.8	-6.0	-5.5	-4.3	-3.0
Nominal GDP	% change	4.1	1.9	4.3	4.9	5.5	5.7	6.7	5.9	5.7	5.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.0	108.9	108.7	108.6	108.9	109.3	109.8	110.4	111.0	111.5
Unemployment rate[1]	%	6.8	6.9	7.1	7.3	7.3	7.2	7.1	7.0	6.8	6.7
Industrial prod. index	% change	6.6	-.5	-.8	4.0	5.0	5.0	4.7	4.7	4.7	4.7
Capacity util. rate-mfg[1]	%	78.7	78.3	77.5	77.7	78.0	78.4	78.7	79.0	79.3	79.6
Housing starts	Millions	1.04	1.09	1.14	1.20	1.25	1.30	1.34	1.37	1.39	1.41
Auto sales		8.60	8.19	8.08	8.48	8.84	9.25	9.40	9.55	9.68	9.80
Domestic		6.31	6.06	5.97	6.25	6.50	6.80	6.88	6.95	7.00	7.05
Foreign		2.29	2.13	2.11	2.23	2.34	2.45	2.52	2.60	2.68	2.75
INCOME AND SAVING											
Nominal GNP	Bill. $	5720.1	5749.0	5812.9	5883.7	5963.7	6044.4	6145.0	6234.9	6324.3	6408.0
Nominal GNP	% change	4.3	2.0	4.5	5.0	5.6	5.5	6.8	6.0	5.9	5.4
Nominal personal income		2.7	3.3	4.4	4.6	5.4	6.7	7.5	6.1	6.0	6.3
Real disposable income		.3	.5	.3	2.9	2.2	4.0	3.4	3.3	2.9	3.5
Personal saving rate[1]	%	5.0	5.4	5.3	5.4	5.3	5.4	5.3	5.2	5.1	5.2
Corp. profits, IVA&CCAdj	% change	3.5	12.4	30.6	20.8	9.1	9.1	18.8	9.9	4.2	8.2
Profit share of GNP[1]	%	5.4	5.5	5.8	6.0	6.1	6.1	6.3	6.3	6.3	6.3
Federal govt. surpl./def.	Bill. $	-210.2	-230.1	-252.3	-269.4	-261.6	-265.6	-261.2	-254.0	-243.6	-244.9
State/local surpl./def.		31.8	39.2	39.5	44.2	53.2	55.9	63.1	65.3	71.3	73.4
Ex. social ins. funds		-33.8	-26.0	-26.6	-22.8	-14.7	-12.9	-6.6	-5.3	-.2	1.0
PRICES AND COSTS											
GDP implicit deflator	% change	2.1	1.7	3.8	2.9	2.5	2.3	2.9	2.4	2.2	2.3
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	3.0	3.5	3.5	3.4	3.2	3.1	2.8	2.8	2.7
Ex. food and energy		4.0	3.7	4.1	3.4	3.2	3.0	3.1	2.8	2.7	2.6
ECI, hourly compensation[2]		4.1	4.0	4.0	3.8	3.7	3.5	3.4	3.4	3.3	3.2
Nonfarm business sector[3]											
Output per hour		.9	-.5	1.6	2.3	2.5	2.4	2.2	2.0	1.7	1.6
Compensation per hour		2.7	2.5	4.3	3.6	3.6	3.5	3.7	3.4	3.3	3.2
Unit labor cost		1.9	3.0	2.7	1.3	1.1	1.1	1.5	1.4	1.6	1.6

1. Not at an annual rate. 2. Private-industry workers.
3. Data for 1991:Q4 are staff estimates.

Strictly Confidential (FR)
Class II FOMC

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

January 30, 1992

Item	1989				1990				1991					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1988	1989	1990	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	11.2
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	-11.7
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	-22.6
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	-29.5
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	10.4
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	-11.9
Nondurables	.3	-3.8	8.1	3.9	-.9	-4.1	3.4	-9.0	-.8	2.3	32.2	8.5	-10.6	-11.7
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	34.0
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	-37.6
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	-11.9
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	-25.6
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	-2.3
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	33.9
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	29.3
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	4.5
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	22.9
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	42.6
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	19.7
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	-16.0
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	-12.4
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	-13.1
Nondefense	.3	3.3	-2.1	-.2	3.7	1.8	.9	.2	1.7	3.4	-3.9	1.3	6.6	.7
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	-3.6

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)

January 30, 1992

Item	Projected											Projected		
	1991		1992				1993							
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1990	1991	1992	1993
Real GDP	22.0	3.6	5.1	23.2	35.6	40.2	45.9	43.3	42.6	40.9	-4.6	11.2	104.2	172.6
Gross domestic purchases	40.8	-19.2	3.1	26.9	35.7	39.0	43.0	42.9	41.4	39.5	-43.4	-11.7	104.7	166.8
Final sales	-8.6	1.1	17.1	18.1	29.5	35.7	41.2	39.2	40.0	39.0	56.6	-22.6	100.5	159.4
Private dom. final purch.	18.4	-7.5	12.6	24.0	34.0	37.7	40.7	39.7	38.8	36.9	-11.2	-29.5	108.3	156.1
Personal cons. expend.	18.8	-9.0	8.6	17.8	23.9	27.2	31.4	30.4	28.7	28.0	10.2	10.4	77.5	118.4
Durables	9.4	-6.2	-.3	7.3	8.9	11.1	10.3	9.1	8.2	8.1	-11.6	-11.9	27.0	35.6
Nondurables	-.1	-13.1	-.5	2.3	4.1	4.6	6.0	6.5	6.0	5.8	-10.6	-11.7	10.6	24.3
Services	9.6	10.3	9.5	8.2	10.9	11.4	15.1	14.8	14.5	14.1	32.4	34.0	40.0	58.5
Business fixed invest.	-4.8	-3.1	-2.4	.8	3.2	4.1	4.8	5.2	5.1	5.3	3.2	-37.6	5.8	20.4
Producers' dur. equip.	5.8	.5	2.1	4.5	6.3	6.9	7.0	6.7	6.3	5.9	11.3	-11.9	19.8	26.0
Nonres. structures	-10.5	-3.6	-4.5	-3.7	-3.1	-2.7	-2.2	-1.5	-1.2	-.6	-8.2	-25.6	-14.0	-5.5
Res. structures	4.5	4.5	6.4	5.4	6.9	6.3	4.6	4.1	5.0	3.6	-24.6	-2.3	25.0	17.3
Change in bus. invent.	30.5	2.6	-12.1	5.1	6.1	4.5	4.7	4.1	2.6	1.9	-61.2	33.9	3.6	13.3
Nonfarm	28.0	6.4	-13.2	5.1	6.1	4.5	4.1	4.3	2.6	2.1	-63.8	29.3	2.5	13.1
Farm	2.5	-3.9	1.2	.0	.0	.0	.6	-.2	.0	-.2	2.6	4.5	1.2	.2
Net exports	-18.8	22.8	2.0	-3.6	-.1	1.2	2.9	.4	1.2	1.4	38.8	22.9	-.5	5.9
Exports	9.5	19.9	3.0	7.8	8.1	8.9	10.0	10.6	10.6	10.9	36.7	42.6	27.8	42.1
Imports	28.3	-2.9	1.0	11.5	8.2	7.6	7.1	10.2	9.4	9.5	-2.0	19.7	28.3	36.2
Government purchases	-8.2	-14.2	2.5	-2.2	-4.4	-3.2	-2.4	-.9	.0	.7	29.0	-16.0	-7.3	-2.6
Federal	-8.2	-14.3	3.7	-1.1	-3.7	-3.6	-3.5	-2.7	-2.5	-2.0	8.7	-12.4	-4.7	-10.7
Defense	-6.6	-11.5	-2.3	-2.2	-4.8	-4.7	-4.5	-3.7	-3.4	-2.9	2.1	-13.1	-14.0	-14.5
Nondefense	-1.6	-2.8	6.0	1.1	1.1	1.1	1.0	1.0	.9	.9	6.6	.7	9.3	3.8
State and local	-.1	.1	-1.2	-1.1	-.7	.4	1.1	1.8	2.5	2.7	20.4	-3.6	-2.6	8.1

1. Annual changes are from Q4 to Q4.

Strictl_ .fidential (FR)
Class II FOMC

STAFF PROJECTIONS OF FEDER. _CTOR ACCOUNTS AND RELATED ITEMS
(Billions of dollars except as noted)

January 30, 1992

Item	Fiscal year				1991				1992				1993			
	1990[a]	1991[a]	1992	1993	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1031	1054	1094	1171	233	307	264	255	242	328	269	262	260	359	290	273
Outlays[1]	1252	1323	1466	1523	299	333	356	339	369	381	378	397	378	377	371	406
Surplus/deficit[1]	-220	-269	-372	-351	-66	-26	-91	-84	-127	-54	-108	-135	-118	-17	-80	-133
On-budget	-277	-321	-427	-402	-80	-50	-94	-98	-135	-83	-110	-144	-125	-49	-85	-143
Off-budget	57	52	54	51	15	24	3	14	8	30	2	9	6	31	4	10
Surplus excluding deposit insurance[2]	-162	-202	-296	-280	-63	-12	-55	-89	-105	-23	-80	-110	-101	-1	-69	-114
Means of financing																
Borrowing	263	293	362	351	56	43	95	89	82	76	115	129	103	37	82	127
Cash decrease	1	-1	1	0	0	-12	2	-7	37	-18	-10	10	10	-15	-5	10
Other[3]	-44	-23	9	0	9	-6	-6	2	8	-4	3	-4	5	-5	4	-4
Cash operating balance, end of period	40	41	40	40	32	44	41	49	12	30	40	30	20	35	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1093	1116	1161	1241	1115	1114	1125	1132	1168	1165	1180	1196	1239	1256	1274	1292
Expenditures	1246	1305	1415	1497	1262	1321	1335	1362	1420	1434	1442	1462	1500	1510	1518	1536
Purchases	417	446	441	443	452	452	445	432	444	445	442	440	446	444	443	442
Defense	309	326	311	302	332	328	322	311	314	312	308	304	305	302	298	296
Nondefense	109	120	130	141	119	124	123	121	130	132	134	136	141	143	145	146
Other expenditures	828	860	974	1054	810	869	890	930	976	990	1000	1022	1054	1066	1075	1095
Surplus/deficit	-153	-189	-253	-256	-146	-207	-210	-230	-252	-269	-262	-266	-261	-254	-244	-245
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-176	-157	-191	-205	-113	-166	-167	-176	-188	-202	-197	-205	-207	-206	-203	-210
Change in HEB, percent of potential GDP	.4	-.4	.6	.2	-1.3	.9	0	.2	.2	.2	-.1	.1	0	0	-.1	.1
Fiscal impetus (FI), percent, cal. year	-3.3	-4.1	-5.3	-3.5	-2.5	.5	-2.1	-2.5	-2.1	0	-.8	-.7	-1.7	-.6	-.6	-.4

1. CBO's January deficit estimates are $352 billion in FY92 and $327 billion in FY93. OMB's January deficit estimates are $399 billion in FY92 and $352 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. CBO's January deficit estimates, excluding deposit insurance spending, are $285 billion in FY92 and $258 billion in FY93. OMB's January deficit estimates, excluding deposit insurance spending, are $319 billion in FY92 and $276 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

Interest rates fell sharply across a broad front in the weeks immediately following the December 20 cuts in the discount rate and federal funds rate. A few positive signs on the economy and the increased likelihood of stimulative fiscal actions, however, have since pushed most long-term rates back to levels prevailing at the time of the December FOMC meeting. In contrast, money market rates have remained near the lows reached in early January as investors appear to believe monetary policy is on hold. Three- and six-month rates have fallen about 25 to 45 basis points since mid-December, while those of shorter maturity, which were most affected by the anticipation of year-end pressures, have dropped as much as 75 basis points. Following the discount rate reduction, banks cut the prime rate a full percentage point, to 6.5 percent.

Major stock price indexes soared to record highs during the intermeeting period, driven by lower interest rates and hopes of improved corporate earnings. OTC stocks have outperformed those on the NYSE, and share prices of banks and companies in cyclical industries have been particularly strong. With the surge in stock prices, the ratio of the S&P 500 price index to trailing four-quarter earnings of companies in the index has moved to a record high.

The monetary aggregates appear to have remained sluggish in January. According to estimates based upon partial information, M2 has grown at a 2-1/2 percent annual rate this month--little changed from December's figure--as large outflows of small time deposits, prompted by sharply lower deposit rates, have continued to restrain the aggregate. M3 has risen only a bit this month, in reflection of substantial slowing in the growth of institution-only money funds and declining depository credit. Through the first three weeks of January, bank credit growth had been anemic, as banks cut back on purchases of government securities--the only component showing strength last year--while business, consumer, and real estate loans remained weak.

Debt of the domestic nonfinancial sectors expanded at an estimated annual rate of 4-1/2 percent in the fourth quarter, a pace that continued the sluggish pattern evident throughout 1991. Growth in federal sector debt dropped to a 10-1/4 percent annual rate last quarter; the declined reflected a temporary lull in the pace of thrift resolutions, which was forced by a congressional delay in approving funding for the RTC. Debt of the nonfederal sectors grew at a 2-3/4 percent annual rate last quarter, its average pace over the previous three quarters.

In the nonfinancial business sector, debt outstanding was virtually unchanged in the fourth quarter, partly because of the effect of the depressed commercial real estate market on commercial mortgages. In addition, corporations made use of equity capital raised in the stock market to meet external funding needs and to retire debt. To lock in long-term rates, which were at their lowest levels since early 1987, and to enhance liquidity, corporations continued to shift borrowing to longer-term markets. Over the past two years, declining interest rates, together with slower debt growth, has resulted in a decrease in the aggregate ratio of gross interest payments to cash flow. The greater use of equity financing during this period also has produced a drop in the ratio of debt to equity measured at book value.

The process of balance sheet restructuring clearly has some way to go, however, and has shown no signs of abating. Gross public bond issuance and bond calls have been heavy in January, and although gross equity offerings have fallen off some from the hectic pace in the fourth quarter, a large forward calendar points in coming weeks to a resumption of strong issuance, in general, and to a number of major reverse LBOs, in particular.

In the household sector, the paydown of consumer installment debt likely continued last quarter, marking the fifth straight quarterly decline. The decrease largely reflected weakness in consumer spending, which may have been exacerbated by a reluctance to borrow. Over the past two years, the ratios of consumer debt and consumer debt service payments to disposable income have declined, with the desire to ease debt burdens likely reinforced by the relatively high after-tax cost of nonmortgage loans. Meanwhile, reflecting the soft housing market, the growth of home mortgage debt in the fourth quarter remained off the pace of previous years. Refinancing of outstanding loans, however, has been substantial and, in conjunction with lower rates on adjustable rate mortgages, is enabling many households to achieve considerable interest savings.

Debt growth of the state and local government sector was again tepid in the fourth quarter. Revenue shortfalls forced many units to rely on the credit markets to cover capital outlays or budget deficits; refunding activity also was substantial because of low interest rates. However, the retirement of bonds advance-refunded some time ago held down net tax-exempt issuance.[1]

Outlook

The staff projection assumes that short-term interest rates remain near current levels through 1993. Given the decline in inflation and the moderate pace of the economic expansion, long-term

1. In an advance refunding, bonds are issued to retire outstanding bonds that will be called at a much later date, often several years in the future. At the time of the advance refunding, net issuance thus increases; at the time of the call, net issuance decreases.

interest rates are expected to fall gradually to levels below recent lows. This pattern differs from that suggested by the current term structure of interest rates, which points clearly to an expectation of rising nominal interest rates over the next two years. One reason for the market expectation may be a less favorable inflation outlook than that embodied in the staff forecast: the predominant view would appear to be that inflation will turn up even with the moderate economic expansion in 1993.[2] Of course, the market also is undoubtedly anticipating passage of a deficit-expanding fiscal stimulus, which is not included in the staff's baseline forecast.

Debt growth of the nonfederal sectors should strengthen a bit in 1992 and 1993 but remain subdued. Desires to spend are likely to be muted, at least over the near term, by a wariness among households and businesses about taking on new debt. With regard to the supply of credit, banks and insurance companies should remain selective and cautious lenders, especially in the near term, as these institutions are still under pressure to improve asset quality. However, these lending constraints should lessen gradually as the economy firms and the capacity of households and businesses to service debt improves. In these circumstances, nonfederal debt is expected to grow at only a 2-1/4 percent annual rate over the first half of 1992. As the pace of the expansion picks up and as the influence of the restraining factors begins to recede, debt should grow a bit faster, reaching a 5 percent annual rate in the last half of 1993.

In the nonfinancial corporate sector, a significant portion of the external funding is expected to come from equity issuance, thus reducing borrowing needs. Furthermore, below-investment-grade

2. For example, the Blue Chip consensus puts the CPI rise at 3.8 percent with an output level not appreciably different from the staff forecast.

corporations will face a limited supply of credit, particularly from life insurance companies, which have virtually stopped lending to noninvestment-grade corporations in the private placement market. Because no institutions seem willing to fill the gap, capital spending by lower-quality companies is likely to continue to be adversely affected. Credit for investment-grade corporations, however, should be ample.

Although nonfinancial corporations have made some progress in strengthening their balance sheets and reducing interest expenses, the opportunity for further gains is present at current stock prices and interest rates. Consequently, a continued brisk pace in the gross issuance of corporate equity is expected over the near term. Gross bond issuance also should be strong, with businesses continuing to extend debt maturity and to refinance higher cost debt.

In the household sector, outstanding consumer debt is expected to contract over the first half of this year as weak consumer spending and efforts by households to ease debt burdens continue. Although delinquency rates moved up last year, they are not outside the range of recent cyclical experience; thus, no unusual restrictions on the supply of credit to households are expected to develop. In the second half of the year and in 1993, increased spending should reverse the downward trend in consumer credit. A pickup in housing activity this year and next is expected to boost growth in home mortgage debt. With mortgage rates around decade lows, refinancing activity should be robust, at least during the first half of the year. The refinancings are not expected to boost outstanding mortgage debt much, in contrast to what evidently happened often in 1986, when homeowners cashed out equity during the refinancings.

In 1992, state and local governments are expected to borrow once again to cover budget deficits resulting primarily from revenue shortfalls and spending overruns on health and welfare. Refunding volume also should help keep gross issuance high as interest rates drift downward. In 1993, borrowing related to financial stress is expected to subside with improvements in state and local government budgets, but new borrowing is required to finance a significant increase in infrastructure spending. Despite these funding requirements, state and local debt grows slowly over the next two years because of continued heavy retirements of outstanding bonds that were advanced refunded in earlier years.

Huge federal budget deficits ensure a rapid expansion of federal sector debt over the next two years. Borrowing to deal with resolutions of banks and thrift institutions also boosts debt. In 1992, indebtedness is projected to increase 14-1/2 percent, of which nearly 3-1/4 percentage points arises from resolution activity. In 1993, federal debt increases at a 11 percent rate as the pickup in the pace of the economy boosts revenues and slows spending growth. Resolution-related borrowing also falls off, adding only about 1-1/4 percentage point to the growth of federal debt.

Buoyed by federal sector borrowing, total debt growth of the nonfinancial domestic sectors, computed on an FOMC monitoring basis, is projected to be 5-1/2 percent in 1992. Reflecting the moderate pickup in nonfederal debt growth, total debt grows at a 6-1/4 percent rate in 1993. In both years, the growth of debt is a little higher than that of nominal GDP. Resolution activity accounts for about 1 percentage point of the debt growth in 1992 but only 1/2 percentage point in 1993.

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 GDP[4]
1982	9.3	19.6	6.9	5.4	4.5	4.4	7.8	9.3	10.5	3.2
1983	11.7	18.8	9.8	11.0	10.4	12.6	8.7	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.9	11.6	18.7	15.6	9.1	12.8	9.1
1985	14.9	16.5	14.5	14.0	11.8	15.9	11.6	31.4	12.3	7.0
1986	12.5	13.6	12.2	12.6	14.9	9.6	12.2	10.6	8.7	4.7
1987	9.3	8.0	9.7	11.7	14.0	5.1	7.1	13.4	8.4	8.0
1988	9.0	8.0	9.4	11.0	12.2	7.3	8.4	7.0	8.5	7.7
1989	7.7	7.0	8.0	9.0	10.3	5.8	6.8	8.4	7.0	5.9
1990	6.3	11.0	4.9	7.1	8.8	1.8	2.7	5.0	3.8	4.1
1991	4.7	11.1	2.7	4.7	5.6	-1.7	0.4	2.9	0.7	3.2
1992	5.8	14.4	2.9	5.1	6.2	0.4	0.4	2.7	3.3	5.1
1993	6.3	11.0	4.7	7.1	7.3	5.4	2.3	2.4	3.3	6.0
			Seasonally adjusted, annual rates							
1990 -- Q1	7.8	10.4	7.0	9.4	10.8	4.2	4.2	8.7	7.6	6.3
Q2	6.5	10.4	5.3	7.3	8.7	1.8	3.1	5.6	5.0	6.2
Q3	5.6	10.2	4.2	5.8	7.2	1.7	2.7	3.9	1.9	4.9
Q4	4.5	11.2	2.6	4.3	6.2	-0.5	0.9	1.4	0.5	-0.9
1991 -- Q1	4.0	8.0	2.7	4.3	5.5	-2.6	1.0	2.8	3.0	2.3
Q2	4.7	10.6	2.9	4.8	5.8	-0.9	0.9	2.8	0.5	4.6
Q3	5.1	14.0	2.4	4.2	4.9	-3.3	0.1	3.0	-1.0	4.1
Q4	4.5	10.2	2.7	5.3	5.7	-0.3	-0.4	2.9	0.3	1.9
1992 -- Q1	4.4	11.5	2.1	4.5	5.5	-0.9	-0.8	2.8	1.9	4.3
Q2	5.5	14.4	2.5	4.6	5.8	-0.1	-0.0	2.8	3.1	4.9
Q3	6.2	14.8	3.2	5.3	6.2	1.0	1.0	2.5	3.7	5.5
Q4	6.5	14.2	3.8	5.9	6.6	1.8	1.6	2.5	4.4	5.7
1993 -- H1	5.9	10.5	4.3	6.8	7.2	4.1	1.7	2.4	3.5	6.3
H2	6.6	10.8	5.0	7.2	7.2	6.6	2.8	2.4	2.9	5.7

1. Data through 1991 Q3 reflect revisions that will be published later this week; 1991 Q4 and later are projected.
2. Deposit insurance activity raises total debt growth .4, .9, and .4 percentage points in 1991, 1992, and 1993 respectively; the corresponding figures for federal debt growth are 1.6, 3.3, and 1.3 percentage points.
3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.
4. Annual figures are Q4 to Q4.

2.6.3 FOF

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

		Calendar year						----1991----		----------1992----------			
		1988	1989	1990	1991	1992	1993	Q3	Q4	Q1	Q2	Q3	Q4
	Net funds raised by domestic nonfinancial sectors:												
1	Total	637.8	590.6	567.1	520.2	694.6	780.7	582.6	556.5	559.3	667.6	753.0	798.5
2	Net equity issuance	-129.5	-124.2	-63.0	17.5	43.3	23.0	17.0	54.0	61.0	44.0	37.0	31.0
3	Net debt issuance	767.3	714.7	630.1	502.7	651.3	757.7	565.6	502.5	498.3	623.6	716.0	767.5
	Borrowing sectors:												
	Nonfinancial business												
4	Financing gap[2]	10.0	51.9	64.9	29.6	14.3	26.2	52.0	28.4	14.2	10.3	16.4	16.4
5	Net equity issuance	-129.5	-124.2	-63.0	17.5	43.3	23.0	17.0	54.0	61.0	44.0	37.0	31.0
6	Credit market borrowing	247.4	217.9	93.4	14.4	15.8	80.8	3.5	-15.0	-29.7	-0.3	35.6	57.7
	Households												
7	Net borrowing, of which:	315.8	287.3	247.3	184.2	210.0	305.9	169.0	213.5	182.1	188.1	219.9	250.0
8	Home mortgages	230.4	219.2	208.2	151.4	177.2	223.5	136.4	159.7	158.3	168.5	183.7	198.1
9	Consumer credit	50.3	43.1	14.2	-14.1	3.5	43.5	-26.3	-2.0	-7.0	-1.0	8.0	14.0
10	Debt/DPI (percent)[3]	85.5	88.3	91.2	94.6	95.0	95.0	95.1	95.5	95.7	95.3	95.4	95.2
	State and local governments												
11	Net borrowing	48.9	63.2	42.6	26.4	24.6	23.1	27.5	26.9	25.8	25.7	23.5	23.4
12	Current surplus[4]	-24.8	-29.7	-43.9	-26.8	-11.5	3.3	-23.4	-14.9	-22.3	-12.9	-4.2	-6.6
	U.S.government												
13	Net borrowing	155.1	146.4	246.9	277.7	400.9	348.0	365.5	277.1	320.1	410.1	437.0	436.4
14	Net borrowing;quarterly, nsa	155.1	146.4	246.9	277.7	400.9	348.0	95.3	89.1	81.9	75.7	115.0	128.9
15	Unified deficit;quarterly, nsa	141.9	155.0	236.1	266.7	423.6	349.1	91.3	84.1	126.6	53.5	108.3	135.2
	Funds supplied by												
16	depository institutions	275.0	86.1	-32.3	-62.6	-2.3	108.3	-106.6	49.0	-71.8	-21.2	46.0	37.9
	Memoranda: As percent of GDP:												
17	Dom. nonfinancial debt[3]	180.9	183.8	188.9	194.9	196.8	197.1	195.8	197.1	197.2	197.5	197.9	198.4
18	Dom. nonfinancial borrowing	15.7	13.6	11.4	8.9	11.0	12.1	9.9	8.8	8.6	10.6	12.0	12.7
19	U.S. government[5]	3.2	2.8	4.5	4.9	6.8	5.6	6.4	4.8	5.5	7.0	7.4	7.2
20	Private	12.5	10.8	6.9	4.0	4.2	6.5	3.5	3.9	3.1	3.6	4.7	5.5

1. Data through 1991 Q3 reflect revisions that will be published later this week; 1991 Q4 and later are projected.
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.

2.6.4 FOF

Recent Developments

Since the December FOMC meeting, the weighted average foreign exchange value of the dollar, in terms of the other G-10 currencies, has been highly volatile, rising on balance nearly 2 percent. The dollar has risen more than 2-1/2 percent against the German mark while it has declined more than 2 percent against the Japanese yen.

Movements of the dollar against the mark generally mirrored changes in the differential between dollar and mark interest rates. Early in the period, the dollar declined sharply against the mark following the Federal Reserve's easing, which came one day after the Bundesbank raised its official lending rates by 1/2 percentage point. Since early January, the dollar has rebounded as U.S. interest rates have moved back up and German rates have moved down. On balance, since the last meeting of the Committee, the U.S. ten-year bond yield has risen 10 basis points, while the German long-term rate has declined 30 basis points. The dollar weakened against the yen ahead of President Bush's trip to Japan as officials in both countries expressed concern about trade imbalances. The dollar subsequently rebounded, prompting the Desk to intervene on exchange markets on January 17. On balance, the dollar has fallen against the yen even as Japanese long-term rates have declined about 35 basis points. Speculation about G-7 intentions to hold down the dollar and market reaction to the sales of dollars for yen by the Desk and the Bank of Japan have contributed to the strength of the yen. Late in the period the dollar rose somewhat, after the G-7 communique failed to call for a stronger yen.

. The only U.S. intervention was the action on January 17, when the Desk sold $100 million against yen, of which $50 million was equally split between System and Treasury accounts

Growth in the foreign industrial countries appears to have continued weak in the fourth quarter. In Japan, although the unemployment rate remains at a quite low level, it did rise in November, and the ratio of job offers to applicants slipped for the seventh time in eight months. The index of leading indicators fell in November to its lowest level in more than eleven years. Preliminary data for western Germany indicate that real GNP was about unchanged in the fourth quarter, as weaker net exports appear to have offset a moderate increase in domestic demand. Some fourth-quarter indicators, including industrial production, unemployment, and orders are more positive, however, suggesting that the level of economic activity still is fairly robust. Recovery in the eastern German states appears to be continuing at an uneven pace. In France, industrial production declined in November, and evidence suggests that the strong growth experienced in the third quarter was not repeated in the fourth quarter. Recoveries from recession in both the United Kingdom and Canada appear to have stalled.

Output in most major industrial countries has moved closer to or further below levels of potential output with a consequent easing of inflationary pressures. In Japan, where output may still have been slightly above potential in the fourth quarter, inflation in December at a twelve-month rate was just below 3 percent, as declines in import prices during 1991 restrained price pressures. Concerns about intensification of wage pressures in Germany have emerged with the onset of the spring wage negotiation round, beginning with the steel workers' union. Although that union is relatively small, these negotiations in the past have set a precedent for other contracts. Inflation eased slightly in Italy in December, and price pressures have continued to abate in the United Kingdom and Canada as aggregate demand has remained soft.

The U.S. merchandise trade deficit declined to $3.6 billion (seasonally adjusted, Census basis) in November, considerably smaller than the $6.3 billion deficit recorded in October. Nearly all of the change resulted from a sharp decline in imports that generally reversed increases in the previous two months. For October-November combined, the trade balance improved substantially from the third-quarter rate. A rise in exports outweighed that for imports, with the strongest growth in exports recorded for aircraft, machinery, consumer goods, and agricultural products. However, some of these increases are thought to have been associated with a bunching of deliveries.

Non-oil import prices rose again in November. For October-November on average, prices of non-oil imports rose 2.8 percent at an annual rate from the third quarter, following two quarters of price declines that were associated in part with the appreciation of the dollar during the first half of last year. Prices of U.S. exports also rose in November. For October-November combined, export prices increased 3.1 percent at an annual rate, reversing the decline recorded in the third quarter.

Outlook

Real GDP net exports of goods and services this quarter are expected to continue at about the same level as recorded in the fourth quarter, as neither exports nor imports are projected to change significantly. For the remainder of the forecast period, real net exports are expected to fluctuate narrowly, showing slightly less net improvement over the forecast period than in the previous Greenbook.

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 for the dollar is essentially the same as that incorporated in the December Greenbook. 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. Indications of slower growth abroad have caused the staff to lower slightly the level of activity expected in the foreign G-7 countries from the path shown in the December Greenbook, especially in the near term. Average growth abroad still is expected to pick up in the first half of this year (to about 1-3/4 percent, saar) and to move up steadily thereafter to about 3 percent by the end of 1993. Over the forecast period as a whole, average growth abroad, when weighted to reflect shares in U.S. exports, is essentially unchanged from the December Greenbook as changes in the outlook for individual countries have tended to be offsetting. Forecasts for both Germany and Japan have been lowered somewhat from December, but both countries are expected to recover from their present downward adjustments to reach annual growth rates of about 3-1/4 percent by the end of this year. Growth in France has been marked down in the first half of this year by about 1/2 percentage point, in view of signs of weaker investment demand and some spillover of weakness in Germany. Recovery is expected to remain somewhat sluggish in the United Kingdom, while our outlook for Canada has strengthened as its recovery is expected to regain momentum during the second half of this year, bouncing back to near 4 percent growth by the end of 1993.

The inflation forecast for the foreign G-7 countries is nearly unchanged from December, with only marginal downward revisions in 1992 for several countries. On average, consumer-price inflation is expected to continue to decline from about 4 percent last year to 3-1/2 percent in 1993, as all these countries are expected to be at or below potential during the forecast period. Only in the United Kingdom is inflation expected to rise, but the increase is largely the result of special factors that affect measurement of the U.K. CPI; underlying inflation in the United Kingdom is expected to slow steadily.

Monetary policies in the foreign G-7 countries are expected to remain cautious with some additional near-term easing in several countries. The expected average path of foreign short-term interest rates is similar to that in the December Greenbook, although the trajectory has been lowered slightly, in part to reflect changes in market conditions since the previous Greenbook. On balance, average foreign interest rates are expected to move steadily down nearly 1/2 percentage point by the end of 1993. Interest rates in Germany and other key EMS countries now are forecast to edge downward from 1/2 to 3/4 percentage point over the forecast period. In Japan, a small further decline in short-term rates is expected in the near term, but rates are projected to move up as the economy gains momentum over the forecast period. The near-term path for average long-term rates has been lowered almost 1/2 percentage point from December, also to take into account recent changes in market rates. Following a slight further near-term decline, long-term rates are expected to remain about flat to the end of 1993. Fiscal policy will remain about unchanged and close to neutral. Consistent with our understanding of recent international agreements, we expect that most countries will allow automatic fiscal stabilizers to operate and that some discretionary fiscal stimulus may be implemented in Japan and the United Kingdom if those economies weaken further.

Developing countries. The outlook for growth in developing countries that are major U.S. trading partners is about unchanged from the last Greenbook. Growth is estimated to have increased moderately in 1991, to about 5-1/2 percent on average. The effects of expansionary monetary and fiscal policies in several key countries and of lower average oil prices are estimated to have more than offset the negative effects of the decline in growth in industrial countries on exports of developing countries. Real GDP growth is projected to remain nearly unchanged this year and to pick up somewhat next year as external demand improves.

The outlook for developing and industrial countries combined calls for growth, weighted by shares in U.S. exports, to average 3 percent over 1992, up from 2-1/4 percent in 1991, essentially unchanged from the December Greenbook forecast. Total foreign growth is projected to strengthen further during 1993.

U.S. real GDP exports and imports of goods and services. In data released January 29, real exports in the fourth quarter of 1991 were stronger than and real imports about the same as expected in the December Greenbook. We anticipate that the higher level of exports will carry forward into the current quarter and that exports will grow thereafter at 6 to 7 percent annual rate, about the same as projected in the last Greenbook given the little-changed outlook for foreign demand. Imports are expected to increase a bit in the first quarter and to grow more strongly thereafter as U.S. activity recovers.

Real non-oil imports are projected to decline during the current quarter, following a small increase in the fourth quarter. This decrease in import growth over the fourth and first quarters combined reflects both the weakness in U.S. final demand and the anticipated working off of inventories of imported goods that were built up last year during the third quarter and the first part of the fourth quarter. These imports should begin to increase again as the expansion of the U.S. economy picks up later this year and in 1993.

The quantity of oil imports is projected to rise in the current quarter from the low level recorded in the fourth quarter. The projected quantity of oil imports reflects the assumption that the weather, which had been unusually warm, will return to normal. We expect oil imports to resume an uptrend this year as the U.S. economy recovers and domestic oil production continues to decline.

Real nonagricultural exports are expected to continue to expand fairly strongly over the forecast period. The growth of economic activity 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; growth abroad accounts for slightly more of the expansion of exports in 1993. We continue to expect agricultural exports to remain little changed over the forecast period, although a bunching of shipments resulted in an exceptionally strong fourth-quarter figure.

Prices of exports and non-oil imports. After having declined in 1991, prices of U.S. nonagricultural exports are projected to follow a moderate uptrend over the period ahead. The decline in 1991 reflected drops in prices for materials that are not expected to continue. After having declined much of last year, non-oil import prices are projected to rise roughly in line with our forecast for inflation rates abroad.

Oil prices. Current prices in the spot and futures markets for crude oil are consistent with an average U.S. import unit value around $17 per barrel during the current and next quarters; this is somewhat lower than assumed in the December Greenbook. Prices have fallen with mild weather, sluggish demand in the world economy, and strong OPEC production. We continue to assume that as world activity recovers oil prices will return to $18 per barrel by the end of the year and will be held unchanged at that level for the rest of the forecast period.

Net services and investment income. Within the nontrade portions of the current account, net service receipts are projected to grow slightly in nominal terms and to remain little changed in 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 to remain significantly positive. Net payments on U.S. portfolio debt to foreigners should ease a bit, reflecting lower U.S. interest rates. At the same time, net direct investment income receipts are likely to hold fairly steady during 1992; the earnings of foreign companies in the United States should recover with the expected pickup in U.S. economic activity, but they are offset by rising earnings of U.S. companies abroad.

Nominal trade and current account balances. The merchandise trade deficit is projected to be about $65 billion in 1992 and 1993, as exports keep pace with the expansion in imports. The current account deficit (excluding Gulf war cash grants) is projected to narrow to less than $20 billion by the end of 1993, given small improvements in the nontrade portions of the account.

NOMINAL EXTERNAL BALANCES
(Billions of dollars, SAAR)

	1991 Q3	1991 Q4	Projection 1992 Q1	1992 Q2	1992 Q4	1993 Q4
Trade balance	-81.9	-64.5	-59.6	-63.4	-67.6	-66.6
Current acct. ex. gulf war grants	-60.2	-34.4	-24.1	-26.1	-28.2	-17.8
Gulf war grants	18.4	14.8	5.2	0.0	0.0	0.0
Current account	-41.8	-19.6	-18.9	-26.1	-28.2	-17.8

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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	-70.4	53.6	-41.4	35.8	20.6	-1.8
1992-P	-64.2	50.0	-35.3	43.4	-18.7	-24.9
1993-P	-66.9	51.8	-34.2	49.2	-20.0	-20.1
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	-64.5	49.7	-39.9	41.1	-6.0	-19.6
1992-Q1-P	-59.6	49.4	-36.1	42.3	-14.8	-18.9
-Q2-P	-63.4	50.2	-35.4	42.4	-20.0	-26.1
-Q3-P	-66.2	50.3	-34.0	43.7	-20.0	-26.1
-Q4-P	-67.6	50.0	-35.6	45.0	-20.0	-28.2
1993-Q1-P	-66.5	50.0	-33.5	46.9	-20.0	-23.2
-Q2-P	-67.4	52.4	-35.2	48.5	-20.0	-21.7
-Q3-P	-67.1	52.8	-33.2	49.9	-20.0	-17.7
-Q4-P	-66.6	52.2	-35.0	51.6	-20.0	-17.8

P/ Projected; */ Includes cash grants from foreign governments to support the Desert Shield/Storm effort: 1990-Q4 $17.2 billion AR; 1991 year = $42.6 billion when the quarters at annual rates are: Q1=90.8, Q2=46.4, Q3=18.4, Q4=14.8; 1992-Q1 = $5.2 billion AR.

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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	398.3	141.3	539.6	458.7	98.6	557.2	-17.6
1992-p	431.2	149.1	580.2	485.6	103.4	589.0	-8.8
1993-p	464.5	154.3	618.9	515.9	107.7	623.6	-4.7
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	400.3	144.8	545.2	475.7	100.6	576.3	-31.1
4	417.3	147.8	565.1	472.0	101.5	573.4	-8.3
1992-1-p	420.1	148.0	568.1	472.5	101.9	574.4	-6.3
2-p	427.4	148.5	575.9	482.6	103.3	585.9	-10.0
3-p	434.7	149.3	584.0	490.2	103.8	594.1	-10.1
4-p	442.5	150.4	592.9	497.0	104.7	601.7	-8.8
1993-1-p	451.1	151.8	602.9	503.3	105.6	608.9	-6.0
2-p	460.0	153.5	613.5	512.0	107.0	619.0	-5.5
3-p	469.0	155.1	624.1	520.0	108.4	628.4	-4.3
4-p	478.1	156.9	635.0	528.1	109.8	637.9	-3.0
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	4.6	14.8	7.3	23.6	16.7	22.3	
4	18.1	8.5	15.4	-3.1	3.6	-2.0	
1992-1-p	2.7	0.5	2.1	0.4	1.6	0.7	
2-p	7.1	1.4	5.6	8.8	5.6	8.3	
3-p	7.0	2.2	5.7	6.5	2.1	5.7	
4-p	7.4	3.0	6.2	5.6	3.4	5.2	
1993-1-p	8.0	3.8	6.9	5.2	3.5	4.9	
2-p	8.1	4.6	7.2	7.1	5.4	6.8	
3-p	8.1	4.2	7.1	6.4	5.3	6.2	
4-p	7.9	4.7	7.1	6.4	5.3	6.2	
Percent Change Q4/Q4:							
1990/89	6.9	9.2	7.6	-1.3	4.0	-0.4	
1991/90	10.0	3.3	8.2	4.2	0.8	3.6	
1992/91-p	6.0	1.8	4.9	5.3	3.2	4.9	
1993/92-p	8.0	4.3	7.1	6.3	4.9	6.0	

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

			Projection		
Measure and country	1989	1990	1991	1992	1993
REAL GNP					
Canada	2.1	-1.1	0.4	2.2	3.8
France	3.8	1.8	2.1	2.1	2.6
Western Germany	3.2	5.3	1.3	2.7	3.0
Italy	2.9	0.9	1.5	1.9	2.6
Japan	4.9	4.7	3.3	2.6	3.6
United Kingdom	1.6	-0.7	-1.5	1.8	2.1
Average, weighted by 1987-89 GNP	3.5	2.5	1.6	2.3	3.0
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	3.5	2.1	2.1	3.0	3.[illegible]
G-6	2.9	0.9	1.0	2.3	3.3
Developing countries	5.0	4.9	5.7	5.6	6.3
CONSUMER PRICES					
Canada	5.2	4.9	4.1	3.0	2.7
France	3.6	3.6	2.9	3.0	3.0
Western Germany	3.0	3.0	3.9	3.2	3.0
Italy	6.6	6.3	6.1	5.1	5.0
Japan	2.9	3.2	3.2	3.0	2.8
United Kingdom	7.6	10.0	4.2	3.9	4.4
Average, weighted by 1987-89 GNP	4.4	4.8	3.9	3.5	3.4
Average, weighted by share of U.S. non-oil imports	4.2	4.4	3.8	3.2	3.0