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March 25, 1992

## **SUMMARY AND OUTLOOK**

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Prepared for the Federal Open Market Committee

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

Overview of the Forecast

The information received since the last meeting of the FOMC suggests that domestic final demand has been much stronger in the current quarter than we--or others--had anticipated. Although production indicators have yet to reveal corresponding strength, we now believe that real GDP has been rising at around a 1-1/2 percent annual rate--about a percentage point above the pace projected in the January Greenbook. The growth rates for the next couple of quarters also have been revised up, but the projected pace of expansion thereafter is somewhat slower than previously indicated.

The recent data could be signaling the onset of a sharper pickup in business activity than we are forecasting--as some in the financial markets evidently fear. But several fundamental considerations have led us to exercise caution in marking up our forecast in response to the spate of strong--but statistically shaky--numbers. Importantly, commercial real estate is still troubled, budgetary pressures on state and local governments remain intense, and sizable defense cutbacks are under way. In addition, the recent back-up in long-term interest rates, while perhaps reflecting in part higher expected returns on investments in light of the better economic news, may take some toll on the growth of demand later this year. The dollar also has moved higher, and economic activity abroad has been weaker than expected; both developments have adverse implications for the prospects for U.S. net exports.

All told, we now expect that real GDP growth will be about 2-3/4 percent in both 1992 and 1993. This moderate expansion in activity--and the lingering slack in labor and product markets--

should be consistent with a significant further diminution in underlying inflation pressures. The rate of increase in the CPI excluding food and energy, which is expected to be a bit less than 4 percent at an annual rate in the first half of this year, is projected to drop to less than 3 percent in the second half of 1993.

#### Key Assumptions

We continue to assume that the federal funds rate will remain around 4 percent through 1993. The path for long-term interest rates has been shifted up in light of recent developments in bond markets; nonetheless, rates are still expected to decline appreciably over the next several quarters as the economy grows only moderately and longer-range inflation expectations are lowered.

We expect that the problems of financial intermediaries will continue to exert a restraining influence on the supply of credit. However, there are some indications that as banks' capital positions and access to capital markets have improved, their reluctance to lend may have begun to diminish. With the economy projected to be on a solid growth track, and with asset quality improving further, that trend should be sustained. Moreover, innovations in finance--for example, the securitization of commercial mortgages--should continue to open new funding channels for some borrowers currently disadvantaged in the marketplace.

Growth of M2 and M3 is expected to pick up a little in 1992, after a very sluggish performance in 1991. The demand for money balances is expected to be boosted this year by the faster rate of expansion of nominal income. At the same time, however, velocity likely will continue to be bolstered by 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. As a result, the increases in the

monetary aggregates are expected to be below the midpoints of the ranges adopted by the FOMC in February. Money growth is projected to pick up moderately in 1993--as is the expansion of depository credit, owing in part to the diminishing pace of thrift liquidations.

With respect to fiscal policy, we continue to assume that no major budget initiatives will be enacted.<sup>1</sup> However, we have lowered defense outlays in FY1993 to a level that is \$5 billion below the cap established in the 1990 budget agreement, thereby matching the President's proposal in the FY1993 budget; the budget resolution passed by the House in early March called for an even larger reduction in defense spending. In addition, we have made some technical adjustments to our budget estimates, including another downward revision to outlays for deposit insurance this year. However, there also is a sizable downward revision to FY1992 receipts in response to incoming data suggesting that net final settlements for individual income taxes this year will be below expectations; the shortfall in tax payments is anticipated to extend into FY1993. On balance, the unified budget deficit is now projected to reach \$362 billion in FY1992, \$10 billion less than anticipated in the January Greenbook, and to remain at that level in FY1993. Excluding deposit insurance, the deficit is projected to narrow from \$299 billion in FY1992 to \$291 billion in FY1993.

The exchange value of the U.S. dollar, which has risen in recent weeks, is anticipated to remain little changed from current levels through 1993. The projected path of the dollar is now about 3-1/2 percent higher than that in the January forecast. Information on economic conditions in the major industrial countries has pointed

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1. We have assumed that several expiring tax provisions will be extended. However, the revenue loss is small and is assumed to be offset by changes in other taxes or in mandatory spending, consistent with the PAYGO budget constraints.

to greater weakness in the near term than we had anticipated, while the outlook for growth in the developing countries is virtually unchanged. As a result, we have shaved the forecast for overall foreign economic growth this year to 2-3/4 percent (U.S. export weights), and the level of activity in the fourth quarter of 1992 is now expected to be 1/2 percent lower than projected in the last Greenbook. Activity abroad still is projected to expand nearly 4 percent in 1993. The price of crude oil has recently been a little lower than anticipated in the last forecast, but it still is expected to move back up from a little under \$18 per barrel (WTI posted price) in the current quarter to the neighborhood of \$19 per barrel by the end of this year, and to remain at that level in 1993.

#### The Current Quarter

As noted above, we now estimate that real GDP has been rising at about a 1-1/2 percent annual rate in the current quarter. The recent data suggest that final sales are growing appreciably faster.

#### REAL GDP AND SELECTED COMPONENTS

|  | 1991            | 1992  |       |
|--|-----------------|-------|-------|
|  | Q4 <sup>P</sup> | Q1    | Q2    |
| ---Percent change, annual rate---      |                 |       |       |
| GDP                                    | .8              | 1.6   | 2.9   |
| (previous)                             | (.3)            | (.4)  | (1.9) |
| Domestic final sales (ex. CCC)         | -.9             | 3.7   | 2.2   |
| Consumer spending                      | -.2             | 4.3   | 2.4   |
| Residential structures                 | 13.1            | 17.9  | 20.1  |
| Business fixed investment              | -4.5            | 2.2   | .6    |
| ---Levels, billions of 1987 dollars--- |                 |       |       |
| Net exports                            | -17.6           | -11.2 | -18.7 |
| Change in nonfarm inventories          | 12.5            | -23.0 | -9.8  |
| ---Percent change, annual rate---      |                 |       |       |
| Memo:                                  |                 |       |       |
| Industrial production                  | -.7             | -3.0  | 6.0   |
| Manufacturing                          | .2              | -2.2  | 6.0   |

p Preliminary. (Final estimate to be released on March 26.)

but our assessment is that much of the rise in final demand is being met out of inventories. Among other things, industrial production is expected to be down 3 percent (annual rate) on a quarterly average basis, and labor market indicators point to only a slight firming in labor demand. To be sure, aggregate hours jumped 1-1/2 percent last month; but this series has been extremely erratic since mid-1990, and the January-February average was only a little above the fourth-quarter level. In addition, the unemployment rate moved up again in February, and initial claims for unemployment insurance, which are available through early March, have yet to show a reduced flow of layoffs.

Among the key components of final demand, consumer spending is projected to rise at more than a 4 percent annual rate, which would be the strongest quarterly gain in several years. Were it not for our assumption that there will be either a big downward revision to retail sales for January and February or some "pay back" in March, our estimate of the first-quarter spending increase would have been even larger. The apparently more moderate increase in labor income and the still widespread worry about employment conditions have led us to this discounting of the sales figures--although it is possible that such favorable factors as enhanced net worth, low interest rates, and perhaps some pent-up demand are producing a drop in the saving rate of the sort that has occurred in some prior cyclical upswings.

Similarly, we have been cautious in interpreting developments in the housing sector. While we had anticipated some rise in single-family starts over the past two months, the reported increase has been surprisingly sharp and, we suspect, may reflect in part the unusually warm winter weather or simply statistical noise. Be that as it may, residential construction expenditures, which have been on

a steep uptrend since mid-1991, clearly will post another substantial rise this quarter.

Business fixed investment is expected to increase slightly in the current quarter--the first gain since mid-1990. Real outlays for equipment appear to be growing at roughly a 7 percent annual rate, largely because of another strong advance in real spending on office and computing equipment and an apparent rebound in deliveries of aircraft to domestic airlines from a low fourth-quarter level. However, shipments of other types of capital equipment remained lackluster through February. Indicators for nonresidential construction, especially in the office sector, are also very weak.

Real net exports are expected to increase this quarter, partly because of a drop in nonpetroleum merchandise imports. Exports, which had been boosted in the fourth quarter by a bulge in shipments of aircraft and computing equipment, are anticipated to post only a small rise.

We now project that nonfarm businesses will liquidate inventories at a \$23 billion annual rate (in 1987 dollars) in the current quarter, after a greater-than-expected accumulation in the fourth quarter. Our forecast implies that stocks continued to run off after the big drop in January--an assumption driven in part by the need to reconcile the available spending and production indicators, but one that seems reasonable in light of the high inventory-sales ratios for much of the trade sector at the end of January and the likelihood that the surge in retail sales was a surprise to many firms.

The projected rate of increase in the CPI in the first quarter has been lowered to about 2-1/2 percent at an annual rate, a percentage point less than that in the last Greenbook. The downward revision largely reflects a smaller-than-expected rise in food

prices and a bigger drop for energy items. Core inflation, as proxied by prices for items other than food and energy, has bounced around somewhat in recent months but has been pretty much in line with our expectations. The twelve-month change in the core CPI has continued to fall, and the February reading, at 3-3/4 percent, was the lowest in several years. The limited new information we have received on wages remains consistent with a disinflationary trend.

The Outlook for the Economy: 1992:Q2 to 1993:Q4

Real GDP growth is projected to rise about 3 percent at an annual rate in the second quarter. Consumer spending is expected to moderate after the first-quarter burst, but expenditures on residential construction are anticipated to post another large gain. In addition, the pace of nonfarm inventory liquidation is expected to slow, thereby making a significant positive contribution to real GDP growth in the second quarter--on the order of a percentage point. Net exports, however, are expected to fall back, partly because of a rebound in petroleum imports.

PROJECTIONS OF REAL GDP AND DOMESTIC FINAL SALES  
(Percent change, annual rate)

|                                | 1992 |     |     | 1993 |
|--------------------------------|------|-----|-----|------|
|                                | Q1   | Q2  | H2  |      |
| Real GDP                       | 1.6  | 2.9 | 3.2 | 2.8  |
| (previous)                     | .4   | 1.9 | 3.1 | 3.5  |
| Domestic final sales (ex. CCC) | 3.7  | 2.2 | 2.6 | 2.7  |
| (previous)                     | .9   | 1.8 | 2.6 | 3.1  |

Real GDP growth is expected to be a shade above 3 percent in the second half of 1992 and to drop to a bit below 3 percent in 1993. The forecast for 1993 growth is about 3/4 percentage point lower than that in the January Greenbook, with the higher dollar and the prospect of bigger cuts in defense spending accounting for much of the revision. Nonetheless, the broad contours of the forecast

are little changed. As before, we expect that the monetary policy actions taken to date, and the easing of credit supply restraints, will provide considerable impetus to activity. In addition, the restructuring of household and business balance sheets that is currently under way should better position those sectors for sustained spending growth than was the case in 1991.

The staff continues to anticipate that an ample margin of slack in resource utilization will result in an appreciable slowing in wage and price inflation through 1993. Rising productivity should accommodate much of the increase in output in the near term, and the unemployment rate is not expected to fall below 7 percent this year. And, with labor force participation increasing somewhat as employment opportunities improve, the jobless rate is expected to fall only to 6-3/4 percent by the end of 1993. As a result of this slack and further reductions in inflation expectations, increases in hourly compensation are expected to diminish steadily. Slow increases in unit labor costs should contribute to a combination of lower price inflation and higher profits.

Consumer spending. Consumer outlays are expected to expand moderately over coming quarters, roughly in line with increases in employment and income. Prospects for sustained growth in spending have been enhanced by the progress made to date in repairing many household balance sheets. And--if the recovery proceeds along the lines of the staff forecast--the recent upturn in consumer confidence should continue. On the whole, however, we see little reason for spending to deviate significantly from the path for real disposable income, and the saving rate is expected to remain near 5 percent.

Among the components of PCE, real outlays for durables are projected to rise at about a 7 percent annual rate, on average.

between now and the end of 1993; sales of motor vehicles should be bolstered by some deferred demand that has emerged over the past few years, and the step-up in housing activity is likely to lift purchases of furniture and appliances. Meanwhile, spending for nondurables and services is expected to rise at an average rate of about 2-1/2 percent.

Housing. Homebuilding is expected to continue to rise steadily through next year. Single-family starts, which totaled only 840,000 units in 1991, are projected to reach 1-1/4 million units for 1993 as a whole. Demand for new single-family homes is expected to be boosted by increases in household income; moreover, affordability remains at attractive levels despite the back-up in mortgage rates, and it should improve somewhat in coming quarters if rates decline as we have anticipated. House prices are expected to rise only moderately, but the firming evidently occurring in some markets that have been very weak in the past few years should help to allay homebuyers' lingering concerns about the riskiness of investing in real estate. In contrast, multifamily starts are expected to rise a little over the projection period, but to remain at an extraordinarily low level. The overhang of vacant units should diminish somewhat, but vacancy rates will remain historically high, in part because of the relatively slow growth in the population of young adults. Also, traditional lenders are likely to remain hesitant to fund the construction of new income properties.

Business fixed investment. Real BFI is projected to rise moderately through the end of 1993, but with considerable divergence among its major components. The strongest growth is projected for outlays on office and computing equipment, which are expected to increase at only a bit less than the robust pace of the past three years, when gains in real terms averaged 17 percent per year. We

also are looking for a firming in outlays for other types of equipment in coming quarters as the economy strengthens, capacity utilization increases, and corporate cash flow continues to improve. Purchases of aircraft, however, are likely to be relatively subdued in light of the large number of deferrals and cancellations of orders from domestic airlines, which have been grounding underutilized planes.

Outlays for nonresidential structures are projected to decrease significantly further over the next several quarters and then to bottom out. Office construction likely will continue to fall appreciably through next year. But contracts and permits for other commercial projects, which tend to be smaller and have shorter lags than those for office buildings, show signs of stabilizing. In addition, spending for new industrial plants and for utilities should tilt back up next year, in part because of the pollution-control mandates in the Clean Air Act.

Business inventories. We expect businesses to slow their liquidation of inventories markedly this spring and to begin building stocks in the second half of the year. However, we expect the pace of stocking to remain modest even as the expansion in sales proceeds. Firms probably will continue to implement measures that reduce the volume of stocks needed to support a given level of sales. Accordingly, the aggregate nonfarm inventory-sales ratio is expected to decline throughout the projection period.

Government purchases. Real federal purchases of goods and services are expected to contract further through next year. Outlays for defense are expected to fall only a little, on net, over the first half of 1992, after an extremely sharp drop in the fourth quarter of 1991, but a steep downtrend is expected to resume thereafter. In fact, given the additional cuts we have built into

the current forecast, the declines in real defense outlays between 1992:Q2 and 1993:Q4 now are expected to average about 8 percent at an annual rate. In contrast, nondefense purchases (excluding CCC outlays), which account for only about one-fourth of total federal purchases, are projected to rise moderately both this year and next, boosted by higher outlays for space exploration, law enforcement, and health.

States and localities continue to face fiscal strains. Tax increases are likely to be part of the necessary adjustment, but given the numerous and unpopular tax hikes last year, expenditure restraint is evidently a political imperative. We expect purchases of goods and services to fall a little in real terms in 1992 for a second year. In 1993, purchases are projected to rise only 1-1/2 percent, despite continued strong pressures for increases in public services and for improvements in infrastructure. The fiscal restraint, in combination with the recovery in economic activity, is expected to bring the sector's budget--as measured by the NIPA operating and capital accounts (excluding social insurance)--into approximate balance next year.

Net exports. The external sector now is expected to impart a small damping influence on the economic expansion, given the higher assumed path of the dollar and the revisions to the forecasts of economic activity here and abroad. Nonagricultural merchandise exports are expected to be restrained in the first half of 1992 by the weakness in foreign activity, and they are now expected to rise at about a 7 percent annual rate thereafter. The rise in non-oil merchandise imports over this period is expected to be somewhat larger than that in exports, and the external balance is projected to worsen in real terms. A detailed discussion of these projections

is contained in the International Developments portion of the Greenbook.

Labor markets. The staff expects employment growth to resume in the spring, but the gains over the next several quarters are likely to be rather modest. We assume that businesses will continue to emphasize cost control and, thus, that productivity will increase about 2-1/4 percent this year--well in excess of its recent trend. In 1993, employment is anticipated to expand more rapidly, while productivity growth slows to 1-1/2 percent.

The cautious pace of rehiring likely will damp the growth in the number of job seekers. The employment reports for the past few months show a considerable spurt in labor force participation; this spurt could be the start of a sustained rise, but we have not built significant further increases into the forecast until next year. The unemployment rate is expected to retreat only gradually to 6-3/4 percent by the end of 1993.

These labor market conditions are expected to lead to a substantial deceleration in compensation over the next two years. The employment cost index for workers in private industry is expected to slow from about 4-1/2 percent in 1991 to 3-1/4 percent by the end of 1993. Wages and salaries, in particular, will be coming under pressure. The increases in benefit costs also are expected to slow, but improvement will be limited by the difficulty of controlling the costs of medical care.

Prices. Underlying price pressures are expected to ease broadly over the next two years. The most important factor will be the further downtrend in labor costs. In addition, prices will come under downward pressure from the considerable amount of slack in markets for industrial products: At the end of 1993, capacity utilization in manufacturing is expected to be only a few points

above its current rate. We foresee no serious upward price pressures from abroad or from the food and energy areas. Food prices, which have been little changed in recent quarters, are expected to rise about in line with core inflation. Retail energy prices are anticipated to pick up in the second half of this year, as the projected rebound in crude oil prices feeds through to product prices; but increases thereafter are expected to be moderate. All told, CPI inflation is expected to slow to 2-3/4 percent in the second half of 1993.

PROJECTIONS OF INFLATION  
(Percent change from end of preceding period, annual rate)

|  | 1992 |     |     | 1993 |     |
|--|------|-----|-----|------|-----|
|  | Q1   | Q2  | H2  | H1   | H2  |
| Consumer price index                                   | 2.6  | 3.6 | 3.4 | 3.1  | 2.8 |
| Ex. food and energy                                    | 3.8  | 3.8 | 3.2 | 3.0  | 2.8 |
| ECI hourly compensation                                | 3.8  | 3.7 | 3.6 | 3.4  | 3.3 |
| Memo:  |      |     |     |      |     |
| Civilian unemployment rate<br>(final quarter, percent) | 7.2  | 7.3 | 7.1 | 7.0  | 6.7 |

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

March 25, 1992

| Interval                        | Nominal GDP |         | Real GDP |         | GDP fixed-weight price index |         | Consumer price index <sup>1</sup> |         | Unemployment rate (level except as noted) |         |
|---------------------------------|-------------|---------|----------|---------|------------------------------|---------|-----------------------------------|---------|---|---------|
|                                 | 1/30/92     | 3/25/92 | 1/30/92  | 3/25/92 | 1/30/92                      | 3/25/92 | 1/30/92                           | 3/25/92 | 1/30/92                                   | 3/25/92 |
| <b>ANNUAL</b>                   |             |         |          |         |                              |         |                                   |         |   |         |
| 1989 <sup>2</sup>               | 7.0         | 7.0     | 2.5      | 2.5     | n.a.                         | 4.3     | 4.8                               | 4.8     | 5.3                                       | 5.3     |
| 1990 <sup>2</sup>               | 5.1         | 5.1     | 1.0      | 1.0     | n.a.                         | 4.3     | 5.4                               | 5.4     | 5.5                                       | 5.5     |
| 1991 <sup>2</sup>               | 2.9         | 2.9     | -.7      | -.7     | n.a.                         | 4.0     | 4.2                               | 4.2     | 6.7                                       | 6.7     |
| 1992                            | 4.2         | 4.6     | 1.4      | 2.0     | n.a.                         | 2.7     | 3.2                               | 3.1     | 7.2                                       | 7.2     |
| 1993                            | 5.9         | 5.7     | 3.3      | 3.0     | n.a.                         | 2.9     | 3.2                               | 3.1     | 6.9                                       | 6.9     |
| <b>QUARTERLY</b>                |             |         |          |         |                              |         |                                   |         |   |         |
| 1990 Q1 <sup>2</sup>            | 6.3         | 6.3     | 1.7      | 1.7     | n.a.                         | 5.0     | 7.5                               | 7.2     | 5.2                                       | 5.2     |
| Q2 <sup>2</sup>                 | 6.2         | 6.2     | 1.6      | 1.6     | n.a.                         | 4.6     | 3.8                               | 4.1     | 5.3                                       | 5.3     |
| Q3 <sup>2</sup>                 | 4.9         | 4.9     | .2       | .2      | n.a.                         | 4.8     | 7.0                               | 7.0     | 5.6                                       | 5.6     |
| Q4 <sup>2</sup>                 | -.9         | -.9     | -3.9     | -3.9    | n.a.                         | 3.2     | 6.9                               | 6.9     | 6.0                                       | 6.0     |
| 1991 Q1 <sup>2</sup>            | 2.3         | 2.3     | -2.5     | -2.5    | n.a.                         | 5.4     | 3.6                               | 3.3     | 6.5                                       | 6.5     |
| Q2 <sup>2</sup>                 | 4.6         | 4.6     | 1.4      | 1.4     | n.a.                         | 3.3     | 2.1                               | 2.4     | 6.7                                       | 6.7     |
| Q3 <sup>2</sup>                 | 4.1         | 4.1     | 1.8      | 1.8     | n.a.                         | 2.6     | 3.0                               | 2.7     | 6.8                                       | 6.8     |
| Q4 <sup>2</sup>                 | 1.9         | 2.7     | .3       | .8      | n.a.                         | 2.2     | 3.2                               | 3.6     | 6.9                                       | 6.9     |
| 1992 Q1                         | 4.3         | 4.7     | .4       | 1.6     | n.a.                         | 2.9     | 3.5                               | 2.6     | 7.1                                       | 7.2     |
| Q2                              | 4.9         | 5.6     | 1.9      | 2.9     | n.a.                         | 2.9     | 3.5                               | 3.6     | 7.3                                       | 7.3     |
| Q3                              | 5.5         | 5.8     | 2.9      | 3.1     | n.a.                         | 2.9     | 3.4                               | 3.4     | 7.3                                       | 7.2     |
| Q4                              | 5.7         | 5.9     | 3.3      | 3.2     | n.a.                         | 2.8     | 3.2                               | 3.3     | 7.2                                       | 7.1     |
| 1993 Q1                         | 6.7         | 6.1     | 3.7      | 3.0     | n.a.                         | 3.2     | 3.1                               | 3.2     | 7.1                                       | 7.1     |
| Q2                              | 5.9         | 5.3     | 3.5      | 2.9     | n.a.                         | 2.6     | 2.8                               | 2.9     | 7.0                                       | 7.0     |
| Q3                              | 5.7         | 5.2     | 3.4      | 2.8     | n.a.                         | 2.6     | 2.8                               | 2.8     | 6.8                                       | 6.8     |
| Q4                              | 5.6         | 5.0     | 3.2      | 2.7     | n.a.                         | 2.5     | 2.7                               | 2.7     | 6.7                                       | 6.7     |
| <b>TWO-QUARTER<sup>3</sup></b>  |             |         |          |         |                              |         |                                   |         |   |         |
| 1990 Q2 <sup>2</sup>            | 6.2         | 6.2     | 1.7      | 1.7     | n.a.                         | 4.8     | 5.6                               | 5.6     | -.1                                       | -.1     |
| Q4 <sup>2</sup>                 | 1.9         | 1.9     | -1.8     | -1.8    | n.a.                         | 3.9     | 6.9                               | 7.0     | .7  | .7      |
| 1991 Q2 <sup>2</sup>            | 3.5         | 3.5     | -.6      | -.6     | n.a.                         | 4.4     | 2.8                               | 2.9     | .7  | .7      |
| Q4 <sup>2</sup>                 | 3.0         | 3.4     | 1.1      | 1.3     | n.a.                         | 2.2     | 3.1                               | 3.1     | .2  | .2      |
| 1992 Q2                         | 4.6         | 5.2     | 1.2      | 2.2     | n.a.                         | 2.9     | 3.5                               | 3.1     | .4  | .4      |
| Q4                              | 5.6         | 5.8     | 3.1      | 3.2     | n.a.                         | 2.9     | 3.3                               | 3.4     | -.1                                       | -.2     |
| 1993 Q2                         | 6.3         | 5.7     | 3.6      | 2.9     | n.a.                         | 2.9     | 2.9                               | 3.0     | -.2                                       | -.1     |
| Q4                              | 5.7         | 5.1     | 3.3      | 2.8     | n.a.                         | 2.6     | 2.8                               | 2.8     | -.3                                       | -.3     |
| <b>FOUR-QUARTER<sup>4</sup></b> |             |         |          |         |                              |         |                                   |         |   |         |
| 1989 Q4 <sup>2</sup>            | 5.9         | 5.9     | 1.7      | 1.7     | n.a.                         | 4.2     | 4.6                               | 4.6     | .1  | .1      |
| 1990 Q4 <sup>2</sup>            | 4.1         | 4.1     | -.1      | -.1     | n.a.                         | 4.4     | 6.3                               | 6.3     | .6  | .6      |
| 1991 Q4 <sup>2</sup>            | 3.2         | 3.4     | .2       | .4      | n.a.                         | 3.3     | 2.9                               | 3.0     | .9  | .9      |
| 1992 Q4                         | 5.1         | 5.5     | 2.1      | 2.7     | n.a.                         | 2.9     | 3.5                               | 3.2     | .3  | .2      |
| 1993 Q4                         | 6.0         | 5.4     | 3.5      | 2.8     | n.a.                         | 2.7     | 2.8                               | 2.9     | -.5                                       | -.4     |

1. For all urban consumers.

2. Actual.

3. Percent change from two quarters earlier, for unemployment rate, change in percentage points.

4. Percent change from four quarters earlier, for unemployment rate, change in percentage points.

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

March 25, 1992

| Item                                  | Units <sup>1</sup> | 1985   | 1986   | 1987   | 1988   | 1989   | 1990   | 1991   | Projected |        |
|---------------------------------------|--------------------|--------|--------|--------|--------|--------|--------|--------|-----------|--------|
|                                       |                    |        |        |        |        |        |        |        | 1992      | 1993   |
| <b>EXPENDITURES</b>                   |                    |        |        |        |        |        |        |        |           |        |
| Nominal GDP                           | Bill. \$           | 4038.7 | 4268.6 | 4539.9 | 4900.4 | 5244.0 | 5513.8 | 5674.4 | 5936.5    | 6272.4 |
| Real GDP                              | Bill. 87¢          | 4279.8 | 4404.5 | 4540.0 | 4718.6 | 4836.9 | 4884.9 | 4849.9 | 4947.0    | 5094.6 |
| Real GDP                              | % change           | 3.3    | 2.2    | 4.5    | 3.3    | 1.7    | -.1    | .4     | 2.7       | 2.8    |
| Gross domestic purchases              |                    | 3.8    | 2.1    | 3.9    | 2.5    | 1.0    | -.9    | .1     | 2.8       | 3.0    |
| Final sales                           |                    | 3.6    | 3.3    | 2.7    | 4.2    | 1.5    | 1.2    | -.5    | 2.8       | 2.6    |
| Private dom. final purch.             |                    | 3.9    | 3.0    | 1.9    | 4.2    | .6     | -.3    | -.6    | 3.7       | 3.5    |
| Personal cons. expend.                |                    | 4.0    | 4.0    | 2.1    | 4.2    | 1.2    | .3     | .5     | 3.4       | 3.0    |
| Durables                              |                    | 6.3    | 12.5   | -2.6   | 8.5    | -.8    | -2.7   | -2.9   | 9.2       | 6.3    |
| Nondurables                           |                    | 2.7    | 3.3    | 1.4    | 3.2    | .8     | -1.0   | -.7    | 2.5       | 2.0    |
| Services                              |                    | 4.2    | 2.5    | 3.7    | 3.7    | 2.0    | 1.9    | 2.1    | 2.5       | 2.8    |
| Business fixed invest.                |                    | 3.1    | -5.7   | 3.0    | 5.5    | .5     | .6     | -7.4   | 2.5       | 4.8    |
| Producers' dur. equip.                |                    | 2.2    | -.7    | 2.4    | 9.1    | -.1    | 3.1    | -4.2   | 6.4       | 6.7    |
| Nonres. structures                    |                    | 4.6    | -14.1  | 4.4    | -1.2   | 1.7    | -4.6   | -14.3  | -7.2      | -6.9   |
| Res. structures                       |                    | 4.3    | 11.1   | -3.1   | .9     | -7.7   | -11.8  | -.7    | 14.0      | 8.7    |
| Exports                               |                    | -.3    | 9.9    | 12.6   | 13.5   | 10.9   | 7.6    | 7.6    | 4.2       | 5.7    |
| Imports                               |                    | 5.2    | 6.7    | 4.7    | 3.6    | 2.7    | -.4    | 4.7    | 5.0       | 6.5    |
| Government purchases                  |                    | 5.9    | 4.1    | 3.3    | .2     | 1.6    | 3.2    | -1.6   | -.9       | -1.1   |
| Federal                               |                    | 6.4    | 3.8    | 3.7    | -3.4   | -1.2   | 2.3    | -3.4   | -1.1      | -4.9   |
| Defense                               |                    | 7.0    | 3.7    | 4.5    | -3.2   | -2.0   | .8     | -4.6   | -4.9      | -8.3   |
| State and local                       |                    | 5.4    | 4.4    | 2.9    | 2.9    | 3.6    | 3.8    | -.3    | -.8       | 1.5    |
| Change in bus. invent.                | Bill. 87¢          | 22.1   | 8.6    | 26.3   | 19.9   | 32.6   | .2     | -13.1  | -5.7      | 18.3   |
| Nonfarm                               |                    | 19.8   | 10.6   | 32.7   | 26.9   | 33.3   | -1.5   | -13.1  | -5.7      | 17.8   |
| Net exports                           |                    | -145.3 | -155.1 | -143.0 | -104.0 | -75.7  | -51.4  | -19.9  | -18.3     | -27.7  |
| Nominal GDP                           | % change           | 7.0    | 4.7    | 8.0    | 7.7    | 5.9    | 4.1    | 3.4    | 5.5       | 3.4    |
| <b>EMPLOYMENT AND PRODUCTION</b>      |                    |        |        |        |        |        |        |        |           |        |
| Nonfarm payroll employ.               | Millions           | 97.5   | 99.5   | 102.2  | 105.5  | 108.3  | 110.0  | 109.0  | 109.2     | 110.9  |
| 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     | -.5    | 3.3       | 4.0    |
| Capacity util. rate-mfg.              | %                  | 79.5   | 79.0   | 81.4   | 83.9   | 83.9   | 82.3   | 78.2   | 78.2      | 79.8   |
| Housing starts                        | Millions           | 1.74   | 1.81   | 1.62   | 1.49   | 1.38   | 1.19   | 1.01   | 1.29      | 1.43   |
| Auto sales in U.S.                    |                    | 11.04  | 11.45  | 10.24  | 10.63  | 9.91   | 9.51   | 8.39   | 8.78      | 9.59   |
| North American produced               |                    | 8.20   | 8.22   | 7.07   | 7.54   | 7.09   | 6.90   | 6.14   | 6.51      | 7.19   |
| Other                                 |                    | 2.84   | 3.24   | 3.18   | 3.09   | 2.83   | 2.60   | 2.25   | 2.28      | 2.40   |
| <b>INCOME AND SAVING</b>              |                    |        |        |        |        |        |        |        |           |        |
| Nominal GNP                           | Bill. \$           | 4053.6 | 4277.8 | 4544.5 | 4908.2 | 5248.2 | 5524.6 | 5687.9 | 5953.9    | 6291.2 |
| Nominal GNP                           | % change           | 6.8    | 4.4    | 8.1    | 7.8    | 5.9    | 4.3    | 3.2    | 5.6       | 5.4    |
| Nominal personal income               |                    | 6.6    | 5.5    | 7.4    | 7.1    | 6.7    | 6.5    | 2.8    | 5.7       | 6.1    |
| Real disposable income                |                    | 1.9    | 2.8    | 2.1    | 3.2    | 1.4    | 1.0    | .6     | 2.9       | 3.0    |
| Personal saving rate                  | %                  | 6.5    | 6.0    | 4.3    | 4.4    | 4.4    | 5.1    | 5.2    | 5.1       | 4.9    |
| Corp. profits, IVASCCAdj              | % change           | 9.0    | -7.1   | 29.7   | 10.2   | -11.5  | -11.5  | 8.7    | 17.9      | 3.2    |
| 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 | -200.5 | -278.4    | -261.3 |
| State/local surpl./def.               |                    | 56.1   | 54.3   | 40.1   | 38.4   | 41.1   | 25.7   | 29.8   | 52.5      | 69.1   |
| Ex. social ins. funds                 |                    | 9.2    | 1.5    | -14.7  | -18.4  | -19.2  | -38.1  | -35.6  | -15.0     | -1.9   |
| <b>PRICES AND COSTS</b>               |                    |        |        |        |        |        |        |        |           |        |
| GDP implicit deflator                 | % change           | 3.6    | 2.6    | 3.3    | 4.2    | 4.2    | 4.2    | 3.0    | 2.8       | 2.5    |
| GDP fixed-wt. price index             |                    | 3.6    | 2.5    | 3.4    | 4.2    | 4.2    | 4.4    | 3.3    | 2.9       | 2.7    |
| CPI                                   |                    | 3.5    | 1.3    | 4.5    | 4.3    | 4.6    | 6.3    | 3.0    | 3.2       | 2.9    |
| Ex. food and energy                   |                    | 4.3    | 3.9    | 4.3    | 4.5    | 4.4    | 5.3    | 4.5    | 3.5       | 2.9    |
| ECI, hourly compensation <sup>2</sup> |                    | 3.9    | 3.2    | 3.3    | 4.8    | 4.8    | 4.6    | 4.4    | 3.6       | 3.3    |
| <b>Nonfarm business sector</b>        |                    |        |        |        |        |        |        |        |           |        |
| Output per hour                       |                    | .7     | 1.2    | 1.8    | .5     | -1.6   | .0     | 1.1    | 2.2       | 1.5    |
| Compensation per hour                 |                    | 4.7    | 4.6    | 3.8    | 3.7    | 2.9    | 6.0    | 3.2    | 3.6       | 3.4    |
| Unit labor cost                       |                    | 3.9    | 3.4    | 1.9    | 3.3    | 4.5    | 6.0    | 2.0    | 1.4       | 1.9    |

1. Percent changes are from fourth quarter to fourth quarter.

2. Private-industry workers.

Strictly Confidential (FR)  
Class II FOMCREAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, QUARTERLY VALUES  
(Seasonally adjusted, annual rate except as noted)

March 25, 1992

| Item                                  | Units      | 1989   |        |        |        | 1990   |        |        |        | 1991   |        |
|---------------------------------------|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                       |            | Q1     | Q2     | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     | Q1     | Q2     |
| <b>EXPENDITURES</b>                   |            |        |        |        |        |        |        |        |        |        |        |
| 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    |
| <b>EMPLOYMENT AND PRODUCTION</b>      |            |        |        |        |        |        |        |        |        |        |        |
| 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 <sup>1</sup>        | %          | 5.2    | 5.2    | 5.3    | 5.3    | 5.3    | 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. <sup>1</sup> | %          | 84.7   | 84.5   | 83.7   | 82.9   | 82.7   | 82.8   | 82.9   | 80.8   | 78.0   | 77.9   |
| Housing starts                        | Millions   | 1.49   | 1.36   | 1.35   | 1.34   | 1.46   | 1.20   | 1.13   | 1.03   | .92    | 1.00   |
| Auto sales in U.S.                    |            | 10.03  | 10.26  | 10.20  | 9.09   | 9.92   | 9.53   | 9.60   | 9.00   | 8.33   | 8.43   |
| North American produced               |            | 7.08   | 7.26   | 7.36   | 6.56   | 7.12   | 6.82   | 7.08   | 6.60   | 6.09   | 6.11   |
| Other                                 |            | 2.95   | 3.00   | 2.84   | 2.53   | 2.80   | 2.71   | 2.51   | 2.39   | 2.25   | 2.32   |
| <b>INCOME AND SAVING</b>              |            |        |        |        |        |        |        |        |        |        |        |
| 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 <sup>1</sup>     | %          | 5.2    | 4.3    | 3.7    | 4.4    | 4.9    | 5.4    | 4.8    | 5.2    | 5.1    | 5.5    |
| Corp. profits, IVA&CCMI <sup>2</sup>  | % change   | -12.2  | -5.6   | -26.6  | -11.4  | 6.7    | -.5    | -39.4  | -4.8   | 8.4    | 1.9    |
| Profit share of GNP <sup>1</sup>      | %          | 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  |
| <b>PRICES AND COSTS</b>               |            |        |        |        |        |        |        |        |        |        |        |
| 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             |            | 4.8    | 4.5    | 3.5    | 3.7    | 5.0    | 4.6    | 4.8    | 3.2    | 5.4    | 3.3    |
| CPI                                   |            | 4.7    | 6.4    | 3.3    | 3.9    | 7.2    | 4.1    | 7.0    | 6.9    | 3.3    | 2.4    |
| Ex. food and energy                   |            | 4.9    | 4.2    | 3.8    | 4.7    | 5.6    | 5.5    | 5.8    | 4.2    | 6.5    | 3.8    |
| ECI, hourly compensation <sup>2</sup> |            | 4.6    | 4.1    | 5.3    | 4.8    | 5.6    | 4.7    | 4.7    | 3.8    | 4.9    | 4.5    |
| 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)

March 25, 1992

| Item                                  | Units     | Projected |        |        |        |        |        |        |        |        |        |
|---------------------------------------|-----------|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                       |           | 1991      |        | 1992   |        |        |        | 1993   |        |        |        |
|                                       |           | Q3        | Q4     | Q1     | Q2     | Q3     | Q4     | Q1     | Q2     | Q3     | Q4     |
| <b>EXPENDITURES</b>                   |           |           |        |        |        |        |        |        |        |        |        |
| Nominal GDP                           | Bill. \$  | 5709.2    | 5746.7 | 5812.9 | 5893.1 | 5977.1 | 6062.9 | 6152.7 | 6233.0 | 6312.9 | 6391.0 |
| Real GDP                              | Bill. 87¢ | 4862.7    | 4872.2 | 4891.8 | 4926.7 | 4964.9 | 5004.5 | 5041.6 | 5077.3 | 5112.8 | 5146.8 |
| Real GDP                              | % change  | 1.8       | .8     | 1.6    | 2.9    | 3.1    | 3.2    | 3.0    | 2.9    | 2.8    | 2.7    |
| Gross domestic purchases              |           | 3.4       | -.3    | 1.1    | 3.5    | 3.3    | 3.4    | 3.2    | 3.1    | 2.9    | 2.7    |
| Final sales                           |           | -.7       | -.1    | 4.6    | 1.6    | 2.1    | 2.7    | 2.6    | 2.6    | 2.6    | 2.5    |
| Private dom. final purch.             |           | 1.9       | -.2    | 4.6    | 2.9    | 3.4    | 4.0    | 3.8    | 3.7    | 3.5    | 3.2    |
| Personal cons. expend.                |           | 2.3       | -.2    | 4.3    | 2.4    | 3.1    | 3.7    | 3.4    | 3.1    | 2.9    | 2.8    |
| Durables                              |           | 9.5       | -6.0   | 12.3   | 5.2    | 8.2    | 11.2   | 7.5    | 6.1    | 5.7    | 5.8    |
| Nondurables                           |           | .0        | -3.2   | 4.5    | 1.6    | 1.9    | 2.2    | 2.1    | 2.1    | 2.0    | 1.9    |
| Services                              |           | 2.2       | 2.9    | 2.5    | 2.2    | 2.6    | 2.8    | 3.1    | 2.9    | 2.7    | 2.5    |
| Business fixed invest.                |           | -3.7      | -4.5   | 2.2    | .6     | 2.8    | 4.5    | 4.5    | 4.7    | 5.0    | 4.8    |
| Producers' dur. equip.                |           | 6.7       | -3.7   | 6.9    | 4.3    | 6.5    | 8.0    | 7.5    | 7.0    | 6.5    | 6.0    |
| Nonres. structures                    |           | -23.9     | -6.3   | -8.9   | -8.6   | -6.4   | -4.7   | -3.5   | -1.6   | .6     | 1.1    |
| Res. structures                       |           | 10.9      | 13.1   | 17.9   | 20.1   | 10.7   | 7.9    | 8.4    | 10.6   | 10.0   | 5.7    |
| Exports                               |           | 7.3       | 13.1   | 1.3    | 3.9    | 5.8    | 6.1    | 5.8    | 5.3    | 5.7    | 5.9    |
| Imports                               |           | 22.3      | 2.5    | -3.1   | 9.3    | 7.1    | 7.1    | 7.1    | 6.9    | 6.6    | 5.4    |
| Government purchases                  |           | -3.4      | -5.4   | 1.6    | -.9    | -2.4   | -1.9   | -1.6   | -1.2   | -.8    | -.7    |
| Federal                               |           | -8.1      | -14.6  | 7.2    | -1.2   | -5.0   | -5.0   | -5.0   | -4.9   | -4.8   | -4.7   |
| Defense                               |           | -8.9      | -15.4  | .6     | -3.1   | -8.4   | -8.4   | -8.5   | -8.4   | -8.2   | -8.1   |
| State and local                       |           | -.1       | 1.4    | -1.9   | -.8    | -.6    | .2     | .8     | 1.3    | 1.8    | 2.0    |
| Change in bus. invent.                | Bill. 87¢ | .1        | 10.9   | -24.7  | -9.3   | 2.6    | 8.6    | 13.5   | 17.2   | 20.1   | 22.5   |
| Nonfarm                               |           | -2.8      | 12.5   | -23.0  | -9.8   | 2.1    | 8.1    | 13.0   | 16.7   | 19.6   | 22.0   |
| Net exports                           |           | -31.1     | -17.6  | -11.2  | -18.7  | -20.8  | -22.6  | -24.8  | -27.5  | -29.2  | -29.0  |
| Nominal GDP                           | % change  | 4.1       | 2.7    | 4.7    | 5.6    | 5.8    | 5.9    | 6.1    | 5.3    | 5.2    | 5.0    |
| <b>EMPLOYMENT AND PRODUCTION</b>      |           |           |        |        |        |        |        |        |        |        |        |
| Nonfarm payroll employ.               | Millions  | 109.0     | 108.9  | 108.8  | 109.0  | 109.3  | 109.7  | 110.1  | 110.7  | 111.2  | 111.7  |
| Unemployment rate <sup>1</sup>        | %         | 6.8       | 6.9    | 7.2    | 7.3    | 7.2    | 7.1    | 7.1    | 7.0    | 6.8    | 6.7    |
| Industrial prod. index                | % change  | 6.6       | -.7    | -3.0   | 6.0    | 5.5    | 5.1    | 4.7    | 4.2    | 3.7    | 3.5    |
| Capacity util. rate-mfg. <sup>1</sup> | %         | 78.7      | 78.2   | 77.3   | 77.9   | 78.5   | 79.1   | 79.5   | 79.8   | 79.9   | 79.9   |
| Housing starts                        | Millions  | 1.04      | 1.10   | 1.25   | 1.27   | 1.30   | 1.34   | 1.39   | 1.43   | 1.45   | 1.46   |
| Auto sales in U.S.                    |           | 8.60      | 8.19   | 8.33   | 8.60   | 8.90   | 9.30   | 9.40   | 9.52   | 9.65   | 9.80   |
| North American produced               |           | 6.31      | 6.06   | 6.13   | 6.35   | 6.60   | 6.95   | 7.00   | 7.12   | 7.25   | 7.40   |
| Other                                 |           | 2.29      | 2.13   | 2.20   | 2.25   | 2.30   | 2.35   | 2.40   | 2.40   | 2.40   | 2.40   |
| <b>INCOME AND SAVING</b>              |           |           |        |        |        |        |        |        |        |        |        |
| Nominal GNP                           | Bill. \$  | 5720.1    | 5759.1 | 5829.2 | 5910.2 | 5995.8 | 6080.3 | 6171.8 | 6251.6 | 6332.3 | 6408.9 |
| Nominal GNP                           | % change  | 4.3       | 2.8    | 5.0    | 5.7    | 5.9    | 5.8    | 6.2    | 5.3    | 5.3    | 4.9    |
| Nominal personal income               |           | 2.7       | 3.8    | 5.5    | 4.9    | 5.5    | 6.8    | 7.1    | 5.9    | 5.5    | 5.9    |
| Real disposable income                |           | .3        | 1.1    | 3.4    | 2.6    | 2.2    | 3.5    | 3.1    | 3.0    | 2.6    | 3.1    |
| Personal saving rate <sup>1</sup>     | %         | 5.0       | 5.3    | 5.2    | 5.2    | 5.0    | 5.0    | 5.0    | 4.9    | 4.9    | 5.0    |
| Corp. profits, IVA&CCAdj              | % change  | 3.5       | 22.1   | 15.1   | 32.3   | 12.2   | 13.1   | 11.6   | 2.2    | -.3    | 7.9    |
| Profit share of GNP <sup>1</sup>      | %         | 5.4       | 5.6    | 5.7    | 6.0    | 6.1    | 6.2    | 6.3    | 6.3    | 6.2    | 6.2    |
| Federal govt. surpl./def.             | Bill. \$  | -210.2    | -230.2 | -278.1 | -285.8 | -274.8 | -274.9 | -271.4 | -264.0 | -253.8 | -255.9 |
| State/local surpl./def.               |           | 31.8      | 39.4   | 43.8   | 48.4   | 57.2   | 60.5   | 66.4   | 67.6   | 70.9   | 71.6   |
| Ex. social ins. funds                 |           | -33.8     | -25.7  | -22.3  | -18.6  | -10.7  | -8.3   | -3.3   | -3.0   | -.6    | -.8    |
| <b>PRICES AND COSTS</b>               |           |           |        |        |        |        |        |        |        |        |        |
| GDP implicit deflator                 | % change  | 2.1       | 1.7    | 3.2    | 2.7    | 2.6    | 2.5    | 3.0    | 2.4    | 2.3    | 2.3    |
| GDP fixed-wt. price index             |           | 2.6       | 2.2    | 2.9    | 2.9    | 2.9    | 2.8    | 3.2    | 2.6    | 2.6    | 2.5    |
| CPI                                   |           | 2.7       | 3.6    | 2.6    | 3.6    | 3.4    | 3.3    | 3.2    | 2.9    | 2.8    | 2.7    |
| Ex. food and energy                   |           | 4.0       | 3.7    | 3.8    | 3.8    | 3.3    | 3.1    | 3.1    | 2.9    | 2.8    | 2.7    |
| ECI, hourly compensation <sup>2</sup> |           | 4.1       | 4.0    | 3.8    | 3.7    | 3.6    | 3.5    | 3.4    | 3.4    | 3.3    | 3.2    |
| Nonfarm business sector               |           |           |        |        |        |        |        |        |        |        |        |
| Output per hour                       |           | .9        | 1.7    | 1.3    | 2.8    | 2.5    | 2.2    | 2.0    | 1.5    | 1.2    | 1.2    |
| Compensation per hour                 |           | 2.6       | 2.7    | 4.0    | 3.5    | 3.5    | 3.5    | 3.7    | 3.4    | 3.3    | 3.2    |
| Unit labor cost                       |           | 1.8       | .9     | 2.7    | .7     | 1.0    | 1.3    | 1.7    | 1.9    | 2.1    | 2.0    |

1. Not at an annual rate.

2. Private-industry workers.

Strictly Confidential (FR)  
Class II FOMC

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS<sup>1</sup>  
(Billions of 1987 dollars)

March 25, 1992

| Item                      | 1989 |      |       |       | 1990  |       |       |       | 1991  |      | 1988  | 1989  | 1990  | 1991  |
|---------------------------|------|------|-------|-------|-------|-------|-------|-------|-------|------|-------|-------|-------|-------|
|                           | Q1   | Q2   | Q3    | Q4    | Q1    | Q2    | Q3    | Q4    | Q1    | Q2   |       |       |       |       |
| 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  | 17.1  |
| 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 | 3.5   |
| 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  | -25.0 |
| 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 | -23.9 |
| 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  | 17.7  |
| 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 | -12.1 |
| Nondurables               | .3   | -3.8 | 8.1   | 3.9   | -.9   | -4.1  | 3.4   | -9.0  | -.8   | 2.3  | 32.2  | 8.5   | -10.6 | -7.0  |
| 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  | 36.8  |
| 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   | -40.4 |
| 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  | -15.8 |
| 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  | -24.4 |
| 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 | -1.3  |
| 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 | 42.1  |
| 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 | 38.2  |
| 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   | 3.9   |
| 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  | 13.6  |
| 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  | 39.7  |
| 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  | 26.1  |
| 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  | -14.7 |
| 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   | -13.0 |
| 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   | .2    |
| 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  | -1.8  |

1. Annual changes are from Q4 to Q4.

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS<sup>1</sup>  
(Billions of 1987 dollars)

March 25, 1992

| Item                      | Projected |       |       |      |      |      |      |      |      |      | Projected |       |       |       |      |
|---------------------------|-----------|-------|-------|------|------|------|------|------|------|------|-----------|-------|-------|-------|------|
|                           | 1991      |       | 1992  |      |      |      | 1993 |      |      |      | 1990      | 1991  | 1992  |       | 1993 |
|                           | Q3        | Q4    | Q1    | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   |           |       |       |       |      |
| Real GDP                  | 22.0      | 9.5   | 19.6  | 34.9 | 38.2 | 39.6 | 37.1 | 35.7 | 35.5 | 34.0 | -4.6      | 17.1  | 132.3 | 142.3 |      |
| Gross domestic purchases  | 40.8      | -4.0  | 13.2  | 42.4 | 40.3 | 41.5 | 39.3 | 38.3 | 37.2 | 33.8 | -43.4     | 3.5   | 137.3 | 148.7 |      |
| Final sales               | -8.6      | -1.3  | 55.2  | 19.5 | 26.3 | 33.6 | 32.2 | 32.0 | 32.6 | 31.6 | 56.6      | -25.0 | 134.6 | 128.4 |      |
| Private dom. final purch. | 18.4      | -1.9  | 45.1  | 29.2 | 34.0 | 39.9 | 38.0 | 37.3 | 36.2 | 32.9 | -11.2     | -23.9 | 148.1 | 144.5 |      |
| Personal cons. expend.    | 18.8      | -1.7  | 34.8  | 19.6 | 25.3 | 30.4 | 28.0 | 25.9 | 24.5 | 23.6 | 10.2      | 17.7  | 110.1 | 102.0 |      |
| Durables                  | 9.4       | -6.4  | 12.1  | 5.4  | 8.5  | 11.8 | 8.2  | 6.8  | 6.5  | 6.7  | -11.6     | -12.1 | 37.8  | 28.2  |      |
| Nondurables               | -.1       | -8.4  | 11.5  | 4.2  | 5.0  | 5.8  | 5.5  | 5.6  | 5.3  | 5.1  | -10.6     | -7.0  | 26.4  | 21.5  |      |
| Services                  | 9.6       | 13.1  | 11.3  | 10.0 | 11.9 | 12.8 | 14.3 | 13.5 | 12.7 | 11.8 | 32.4      | 36.8  | 45.9  | 52.2  |      |
| Business fixed invest.    | -4.8      | -5.9  | 2.7   | .7   | 3.6  | 5.6  | 5.8  | 6.1  | 6.5  | 6.3  | 3.2       | -40.4 | 12.6  | 24.5  |      |
| Producers' dur. equip.    | 5.8       | -3.4  | 6.0   | 3.9  | 5.8  | 7.3  | 7.0  | 6.6  | 6.3  | 5.9  | 11.3      | -15.8 | 23.0  | 25.7  |      |
| Nonres. structures        | -10.5     | -2.4  | -3.4  | -3.2 | -2.3 | -1.6 | -1.2 | -.5  | .2   | .4   | -8.2      | -24.4 | -10.5 | -1.2  |      |
| Res. structures           | 4.5       | 5.5   | 7.6   | 8.9  | 5.1  | 3.9  | 4.2  | 5.4  | 5.2  | 3.1  | -24.6     | -1.3  | 25.5  | 18.0  |      |
| Change in bus. invent.    | 30.5      | 10.8  | -35.6 | 15.4 | 11.9 | 6.0  | 4.9  | 3.7  | 2.9  | 2.4  | -61.2     | 42.1  | -2.3  | 13.9  |      |
| Nonfarm                   | 28.0      | 15.3  | -35.5 | 13.2 | 11.9 | 6.0  | 4.9  | 3.7  | 2.9  | 2.4  | -63.8     | 38.2  | -4.4  | 13.9  |      |
| Farm                      | 2.5       | -4.5  | -.1   | 2.2  | .0   | .0   | .0   | .0   | .0   | .0   | 2.6       | 3.9   | 2.1   | .0    |      |
| Net exports               | -18.8     | 13.5  | 6.4   | -7.5 | -2.1 | -1.9 | -2.2 | -2.6 | -1.7 | .2   | 38.8      | 13.6  | -5.0  | -6.4  |      |
| Exports                   | 9.5       | 17.0  | 1.8   | 5.4  | 8.0  | 8.6  | 8.3  | 7.7  | 8.4  | 8.7  | 36.7      | 39.7  | 23.8  | 33.2  |      |
| Imports                   | 28.3      | 3.5   | -4.6  | 12.9 | 10.1 | 10.4 | 10.5 | 10.4 | 10.2 | 8.5  | -2.0      | 26.1  | 28.9  | 39.6  |      |
| Government purchases      | -8.2      | -12.9 | 3.7   | -2.2 | -5.6 | -4.4 | -3.6 | -2.7 | -1.9 | -1.5 | 29.0      | -14.7 | -8.5  | -9.7  |      |
| Federal                   | -8.2      | -14.9 | 6.5   | -1.1 | -4.8 | -4.7 | -4.7 | -4.5 | -4.4 | -4.2 | 8.7       | -13.0 | -4.1  | -17.8 |      |
| Defense                   | -6.6      | -11.5 | .4    | -2.1 | -5.8 | -5.7 | -5.6 | -5.4 | -5.2 | -5.0 | 2.1       | -13.1 | -13.2 | -21.2 |      |
| Nondefense                | -1.6      | -3.3  | 6.0   | 1.0  | 1.0  | 1.0  | .9   | .9   | .8   | .8   | 6.6       | .2    | 9.0   | 3.4   |      |
| State and local           | -.1       | 1.9   | -2.7  | -1.1 | -.8  | .3   | 1.1  | 1.8  | 2.5  | 2.7  | 20.4      | -1.8  | -4.3  | 8.1   |      |

1. Annual changes are from Q4 to Q4.

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

March 25, 1992

| Item   | Fiscal year       |                   |      |      | 1991            |                 |                 |                 | 1992 |      |      |      | 1993 |      |      |      |
|--|-------------------|-------------------|------|------|-----------------|-----------------|-----------------|-----------------|------|------|------|------|------|------|------|------|
|  | 1990 <sup>a</sup> | 1991 <sup>a</sup> | 1992 | 1993 | Q1 <sup>a</sup> | Q2 <sup>a</sup> | Q3 <sup>a</sup> | Q4 <sup>a</sup> | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   |
| UNIFIED BUDGET                                   |                   |                   |      |      |                 |                 |                 |                 |      |      |      |      |      |      |      |      |
| Not seasonally adjusted                          |                   |                   |      |      |                 |                 |                 |                 |      |      |      |      |      |      |      |      |
| Receipts <sup>1</sup>                            | 1031              | 1054              | 1084 | 1157 | 233             | 307             | 264             | 255             | 236  | 325  | 268  | 261  | 255  | 353  | 289  | 270  |
| Outlays <sup>1</sup>                             | 1252              | 1324              | 1446 | 1519 | 299             | 333             | 356             | 338             | 360  | 371  | 377  | 393  | 378  | 377  | 371  | 391  |
| Surplus/deficit <sup>1</sup>                     | -220              | -269              | -362 | -362 | -66             | -26             | -91             | -83             | -124 | -45  | -108 | -133 | -123 | -24  | -83  | -122 |
| On-budget  | -277              | -322              | -417 | -419 | -81             | -50             | -94             | -97             | -130 | -77  | -112 | -142 | -131 | -58  | -88  | -133 |
| Off-budget                                       | 57                | 52                | 55   | 56   | 15              | 24              | 3               | 14              | 6    | 32   | 4    | 10   | 8    | 33   | 5    | 11   |
| Surplus excluding deposit insurance <sup>2</sup> | -162              | -203              | -299 | -291 | -63             | -12             | -55             | -88             | -107 | -24  | -80  | -107 | -105 | -8   | -71  | -110 |
| Means of financing                               |                   |                   |      |      |                 |                 |                 |                 |      |      |      |      |      |      |      |      |
| Borrowing  | 263               | 293               | 353  | 363  | 56              | 43              | 95              | 89              | 80   | 87   | 97   | 126  | 108  | 50   | 79   | 115  |
| Cash decrease                                    | 1                 | -1                | 1    | 0    | 0               | -12             | 2               | -7              | 37   | -36  | 9    | 10   | 10   | -20  | 0    | 10   |
| Other <sup>3</sup>                               | -44               | -23               | 7    | -1   | 9               | -6              | -6              | 1               | 8    | -5   | 3    | -3   | 5    | -6   | 4    | -3   |
| Cash operating balance, end of period            | 40                | 41                | 40   | 40   | 32              | 44              | 41              | 49              | 12   | 49   | 40   | 30   | 20   | 40   | 40   | 30   |
| NIPA FEDERAL SECTOR                              |                   |                   |      |      |                 |                 |                 |                 |      |      |      |      |      |      |      |      |
| Seasonally adjusted, annual rate                 |                   |                   |      |      |                 |                 |                 |                 |      |      |      |      |      |      |      |      |
| Receipts   | 1093              | 1116              | 1159 | 1239 | 1115            | 1114            | 1125            | 1134            | 1157 | 1164 | 1181 | 1200 | 1237 | 1252 | 1266 | 1282 |
| Expenditures                                     | 1245              | 1305              | 1426 | 1505 | 1262            | 1321            | 1335            | 1364            | 1435 | 1450 | 1455 | 1475 | 1509 | 1516 | 1520 | 1538 |
| Purchases  | 417               | 446               | 442  | 440  | 452             | 452             | 445             | 432             | 447  | 447  | 444  | 440  | 443  | 439  | 436  | 432  |
| Defense  | 309               | 326               | 313  | 300  | 332             | 328             | 322             | 311             | 317  | 316  | 310  | 305  | 304  | 298  | 293  | 288  |
| Nondefense                                       | 109               | 120               | 129  | 140  | 119             | 124             | 123             | 121             | 130  | 132  | 134  | 135  | 139  | 141  | 143  | 144  |
| Other expenditures                               | 828               | 860               | 984  | 1065 | 810             | 869             | 890             | 933             | 988  | 1003 | 1012 | 1035 | 1066 | 1077 | 1084 | 1106 |
| Surplus/deficit                                  | -153              | -189              | -267 | -266 | -146            | -207            | -210            | -231            | -278 | -286 | -275 | -275 | -271 | -264 | -254 | -256 |
| FISCAL INDICATORS <sup>4</sup>                   |                   |                   |      |      |                 |                 |                 |                 |      |      |      |      |      |      |      |      |
| High-employment (HEB) surplus/deficit            | -177              | -158              | -213 | -225 | -113            | -167            | -167            | -179            | -221 | -230 | -223 | -228 | -228 | -224 | -218 | -224 |
| Change in HEB, percent of potential GDP          | .4                | -.4               | 1    | .2   | -1.3            | .9              | 0               | .2              | .7   | .2   | -.1  | .1   | 0    | -.1  | -.1  | .1   |
| Fiscal impetus (FI), percent, cal. year          | -3.3              | -4.1              | -5   | -4.8 | -2.5            | .5              | -2.1            | -2.3            | -1.7 | 0    | -1.1 | -1   | -2   | -1   | -1   | -1   |

1. OMB's February deficit estimates are \$400 billion in FY92 and \$350 billion in FY93. CBO's January deficit estimates are \$352 billion in FY92 and \$327 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 February deficit estimates, excluding deposit insurance spending, are \$320 billion in FY92 and \$274 billion in FY93. CBO's January deficit estimates, excluding deposit insurance spending, are \$285 billion in FY92 and \$258 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 generally have moved higher since the February FOMC meeting, in response mainly to stronger-than-expected economic data. While federal funds have continued to trade around 4 percent, yields on money market instruments and on Treasury and corporate bonds have risen from 20 to 40 basis points. Rates on conventional fixed-rate mortgages have increased another 35 basis points to put them about 80 basis points above their January lows. At the same time, quality spreads in the lower investment grade and junk sectors of the corporate bond market have narrowed further as concerns about default risk appear to have diminished and as investors have continued to reach for yield.

Broad-based stock price indexes are down slightly on balance over the intermeeting period, owing at least in part to higher interest rates. Nonetheless, the S&P 500 price-earnings ratio remains near its record level of late February. High share prices and strong incentives to deleverage continue to prompt a heavy volume of equity issuance, including a number of reverse LBOs.

The monetary aggregates jumped sharply in February, largely because of a further speedup in growth in other checkable deposits and a burst in demand deposits. In addition to higher compensating balance requirements and the low opportunity cost of holding liquid deposits, the higher growth in transaction accounts may partly reflect earlier-than-usual tax refunds to individuals using electronic filing and a surge in mortgage refinancings in January and February. The acceleration in M2 last month did not show through fully to M3, as depository credit remained weak. Growth in all of the monetary aggregates appears to have slowed appreciably in early March.

Bank credit was flat in February; net purchases of securities remained low compared with last year's second-half pace, while total loans contracted a bit. Real estate loans, however, strengthened; it is conceivable that banks that originated mortgages at lower yields in January and February are holding them for now, to avoid realizing the capital loss in a secondary market transaction. Although survey data on bank lending terms in February suggest that banks may have become a little less stringent in making business loans, demand remains soft and C&I loans continued to contract last month.

Indeed, it appears that overall net borrowing by nonfinancial businesses has remained weak in the current quarter. Since year-end, the outstanding commercial paper of nonfinancial corporations has expanded, but the increase has been less than the decline in bank loans; and while gross public issuance of bonds has remained heavy, much of it has been for refinancing purposes. Debt growth also has been damped by the availability of cheap equity capital: new stock offerings have been marketed at a near-record pace.

Although investment-grade firms have accounted for most of the volume, new bond offerings by lower-rated firms have picked up to a striking degree of late. The market also has become more receptive to new offerings by financial firms. Among financial firms, a few life insurance companies have strengthened their balance sheets over the intermeeting period through divestitures and equity offerings, while bank holding companies have issued new equity and have sold additional debt at narrower yield spreads, as markets evidently have come to view bank asset quality problems as having topped out. Such an assessment is supported by recent call report data on loan delinquencies and charge-offs.

In the household sector, growth of outstanding home mortgage debt appears to have increased in the first quarter, as home sales and starts picked up appreciably. At this point, given the lags in loan processing (which reportedly lengthened recently as applications skyrocketed), it is impossible to assess just how large the pickup in net mortgage borrowing has been. One uncertainty is the extent to which refinancing transactions have involved the cashing out of home equity; anecdotal evidence is mixed, but, on balance, suggests that this is not substantially augmenting mortgage debt expansion.

Total consumer credit increased in January, following a decline for 1991 as a whole. Consumer loans at banks in February and retail sales data suggest a possible further rise in consumer credit last month. In all likelihood, though, credit growth has remained rather slow; rates on a number of types of consumer loans have come down in recent months, but they generally remain high compared to other interest rates and survey data suggest consumers are still cautious about using credit to finance purchases.

The decline in consumer debt last year and interest savings from mortgage refinancings and ARM rate adjustments have helped to reduce the debt service burdens of many households. Lower mortgage and consumer loan delinquency rates in the fourth quarter also point to reduced debt management problems.

Gross issuance of municipal bonds increased over the intermeeting period. Although net borrowing by state and local governments has continued sluggish, the level of refunding issues in the first quarter was the highest since 1987. Rather than delaying new issues, the recent backup in market yields appears to have prompted some issuers to move ahead with refundings for fear that rates might rise further.

Federal debt growth in the current quarter has been a bit faster, on a seasonally adjusted basis, than in the fourth quarter of last year and would have been stronger still were it not for a lull in RTC activity. The size of the ten- and thirty-year coupon issues in the quarterly refunding operation was trimmed a bit, necessitating greater increases in bill and other note offerings; the maturity shift has been modest, however, and has left no visible imprint on the yield structure.

#### Outlook

The staff projection assumes that short-term interest rates will remain near current levels through the end of 1993. The recent back-up in long-term interest rates ran against our prior expectations, and we raised the path for these rates in response. Still, the trajectory of bond and mortgage yields in the present forecast is downward into 1993, a pattern clearly at odds with prevailing market views. The difference in outlook appears to reflect the staff's greater optimism about the prospects for disinflation, and a greater concern on the part of market participants that the System will be confronted with a need to tighten in order to contain adequately the growth of aggregate demand. For some analysts, the basis of such concern is the rapid growth of reserves and M1, which the staff does not believe is a reliable indication of the outlook for nominal expenditure.

Debt of nonfinancial sectors now is expected to grow 4-1/2 percent at an annual rate in the first quarter, somewhat above the fourth-quarter pace, but about the same as 1991 as a whole. Growth is expected to pick up in coming quarters and to run about 6 percent in 1992 and slightly higher in 1993, on an end-of-period basis. In both years, debt growth would exceed that of nominal GDP. By far the strongest component will be federal borrowing, owing to

the huge federal deficits expected this year and next. Nonfederal debt growth is expected to pick up a bit, but to remain fairly weak by historical standards.

In the nonfinancial business sector, net equity and bond issuance is expected to be the major source of external finance in 1992, and to a lesser extent in 1993. As the economy improves, a broader range of firms is likely to find it possible to tap these markets on favorable terms, owing both to better business prospects and to reduced investor caution. Stronger capital positions also should help alleviate the stringency that has characterized lending by depository institutions over the past year or so; this should be of particular significance to smaller and medium-sized firms without access to open markets. However, little relief is expected for commercial real estate; our projections anticipate a sizable contraction in commercial mortgage debt as the decline in real estate values is more fully recognized by lending institutions.

Indicators of consumer confidence recently have improved somewhat, but, as noted above, consumers continue to express an unwillingness to use credit for major purchases. There appears to be room for further declines in consumer loan rates, given their still large spreads over funding costs and better prospects for lower default risk, which should relieve some inhibitions to use credit. After declining 2 percent last year, consumer credit is projected to increase slightly in 1992 before advancing by a still relatively small 4-3/4 percent next year. With a pickup in housing activity, however, mortgage debt is expected to accelerate to 6-3/4 percent in 1992 and 7-3/4 percent in 1993. Continued downward adjustments of ARM rates to prevailing market yields should further reduce household debt-servicing burdens.

In contrast, state and local governments are likely to continue to struggle with financing problems. Moody's has warned that continuing budget difficulties likely will lead to a host of rating downgrades in 1992, exacerbating the financing problems of many units. Bond issuance will continue to be buoyed by the need to finance urgent infrastructure investment or to cover, directly or indirectly, operating deficits; however, state and local debt growth is expected to remain at about the same low level in 1992 and 1993 as in 1991 because many bonds that were advanced refunded in earlier years will be retired in the period ahead.

GROWTH RATES OF DEBT BY SECTOR<sup>1</sup>  
(Percent, period-end to period-end)

| -----Domestic Nonfinancial Sectors----- |                          |             |       |            |              |          |                       | -----Memo-----                        |                          |      |
|---|--------------------------|-------------|-------|------------|--------------|----------|-----------------------|---------------------------------------|--------------------------|------|
| -----Households-----                    |                          |             |       |            |              |          |                       |                                       |                          |      |
| Total <sup>2</sup>                      | U.S. gov't. <sup>2</sup> | Non-federal | Total | Home mtgs. | Cons. credit | Business | State & local gov'ts. | Private financial assets <sup>3</sup> | Nominal GDP <sup>4</sup> |      |
| 1982                                    | 9.3                      | 19.7        | 6.9   | 5.4        | 4.5          | 4.4      | 7.8                   | 9.3                                   | 10.4                     | 3.2  |
| 1983                                    | 11.7                     | 18.9        | 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                                   | 12.9                     | 9.1  |
| 1985                                    | 14.9                     | 16.5        | 14.5  | 14.0       | 11.8         | 15.9     | 11.6                  | 31.4                                  | 12.5                     | 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                                  | 8.6                      | 8.0  |
| 1988                                    | 9.0                      | 8.0         | 9.4   | 11.0       | 12.2         | 7.3      | 8.4                   | 7.0                                   | 8.6                      | 7.7  |
| 1989                                    | 7.7                      | 7.0         | 8.0   | 9.0        | 10.3         | 5.8      | 6.8                   | 8.4                                   | 7.0                      | 5.9  |
| 1990                                    | 6.5                      | 11.0        | 5.1   | 7.4        | 9.3          | 1.8      | 2.8                   | 5.2                                   | 4.1                      | 4.1  |
| 1991                                    | 4.3                      | 11.1        | 2.3   | 4.1        | 5.1          | -2.0     | 0.1                   | 2.8                                   | 0.7                      | 3.4  |
| 1992                                    | 5.9                      | 14.0        | 3.3   | 5.7        | 6.7          | 1.5      | 0.6                   | 3.0                                   | 3.1                      | 5.5  |
| 1993                                    | 5.3                      | 11.1        | 4.5   | 6.8        | 7.8          | 4.7      | 2.2                   | 2.5                                   | 3.3                      | 5.4  |
| Seasonally adjusted, annual rates       |                          |             |       |            |              |          |                       |                                       |                          |      |
| 1991 -- Q1                              | 4.0                      | 8.0         | 2.8   | 4.4        | 5.5          | -2.6     | 1.1                   | 3.0                                   | 3.5                      | 2.3  |
| Q2                                      | 5.0                      | 10.6        | 3.2   | 4.7        | 5.8          | -0.9     | 1.6                   | 3.2                                   | 0.6                      | 4.6  |
| Q3                                      | 4.3                      | 14.0        | 1.3   | 2.7        | 3.8          | -3.3     | -0.5                  | 2.3                                   | -1.4                     | 4.1  |
| Q4                                      | 3.7                      | 10.3        | 1.6   | 4.4        | 5.1          | -1.4     | -1.8                  | 2.7                                   | 0.2                      | 2.7  |
| 1992 -- Q1                              | 4.6                      | 11.0        | 2.5   | 4.8        | 5.8          | 0.1      | -0.4                  | 2.9                                   | 1.7                      | 4.7  |
| Q2                                      | 6.2                      | 15.7        | 3.1   | 5.4        | 6.4          | 0.9      | 0.3                   | 3.1                                   | 3.7                      | 5.6  |
| Q3                                      | 6.0                      | 13.2        | 3.5   | 5.9        | 6.8          | 2.0      | 0.7                   | 3.2                                   | 3.0                      | 5.8  |
| Q4                                      | 6.5                      | 13.5        | 4.0   | 6.2        | 7.0          | 2.8      | 1.6                   | 2.6                                   | 3.8                      | 5.9  |
| 1993 -- Q1                              | 6.6                      | 13.1        | 4.2   | 6.5        | 7.4          | 3.6      | 1.9                   | 2.5                                   | 3.7                      | 6.1  |
| Q2                                      | 5.6                      | 9.2         | 4.3   | 6.7        | 7.6          | 4.3      | 1.8                   | 2.6                                   | 3.1                      | 5.3  |
| Q3                                      | 6.0                      | 9.7         | 4.6   | 6.7        | 7.6          | 5.0      | 2.5                   | 2.4                                   | 3.0                      | 5.2  |
| Q4                                      | 6.3                      | 10.8        | 4.6   | 6.8        | 7.6          | 5.7      | 2.5                   | 2.5                                   | 3.2                      | 5.0  |

1. Published data through 1991 Q4.

2. Deposit insurance activity raises total debt growth .4, .8, and .4 percentage points in 1991, 1992, and 1993 respectively; the corresponding figures for federal debt growth are 1.6, 2.8, and 1.1 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<sup>1</sup>  
(Billions of dollars, seasonally adjusted annual rates)

|  | 1988   | 1989   | Calendar year |       | 1992  | 1993  | -----1991----- |       | -----1992----- |       |       |       |
|--|--------|--------|---------------|-------|-------|-------|----------------|-------|----------------|-------|-------|-------|
|  |        |        | 1990          | 1991  |       |       | Q3             | Q4    | Q1             | Q2    | Q3    | Q4    |
| Net funds raised by domestic nonfinancial sectors: |        |        |               |       |       |       |                |       |                |       |       |       |
| 1 Total  | 637.7  | 590.6  | 581.5         | 483.4 | 706.1 | 759.0 | 493.1          | 468.1 | 560.7          | 752.5 | 728.5 | 782.9 |
| 2 Net equity issuance                              | -129.5 | -124.2 | -63.0         | 17.5  | 38.4  | 12.5  | 17.0           | 54.0  | 49.0           | 44.0  | 35.5  | 25.0  |
| 3 Net debt issuance                                | 767.2  | 714.7  | 644.5         | 465.9 | 667.7 | 746.5 | 476.1          | 414.1 | 511.7          | 708.5 | 693.0 | 757.9 |
| Borrowing sectors:                                 |        |        |               |       |       |       |                |       |                |       |       |       |
| Nonfinancial business                              |        |        |               |       |       |       |                |       |                |       |       |       |
| 4 Financing gap <sup>2</sup>                       | 10.0   | 51.9   | 64.9          | 25.2  | 11.5  | 32.7  | 42.6           | 38.7  | -0.6           | 11.0  | 17.1  | 18.4  |
| 5 Net equity issuance                              | -129.5 | -124.2 | -63.0         | 17.5  | 38.4  | 12.5  | 17.0           | 54.0  | 49.0           | 44.0  | 35.5  | 25.0  |
| 6 Credit market borrowing                          | 247.4  | 217.9  | 97.3          | 3.1   | 19.9  | 77.9  | -17.9          | -64.4 | -14.0          | 11.2  | 24.6  | 57.7  |
| Households   |        |        |               |       |       |       |                |       |                |       |       |       |
| 7 Net borrowing, of which:                         | 315.8  | 287.3  | 257.8         | 160.3 | 232.0 | 293.5 | 108.3          | 176.1 | 195.4          | 221.3 | 247.0 | 264.1 |
| 8 Home mortgages                                   | 230.4  | 219.2  | 218.7         | 139.5 | 190.2 | 236.7 | 105.6          | 143.1 | 165.3          | 186.5 | 198.7 | 210.1 |
| 9 Consumer credit                                  | 50.3   | 43.1   | 14.2          | -16.5 | 11.5  | 38.0  | -26.3          | -11.3 | 1.0            | 7.0   | 16.0  | 22.0  |
| 10 Debt/DPI (percent) <sup>3</sup>                 | 85.5   | 88.3   | 91.2          | 94.3  | 94.2  | 94.4  | 94.8           | 94.9  | 94.7           | 94.6  | 94.7  | 94.6  |
| State and local governments                        |        |        |               |       |       |       |                |       |                |       |       |       |
| 11 Net borrowing                                   | 48.9   | 63.2   | 42.6          | 24.4  | 26.4  | 23.1  | 20.2           | 23.8  | 25.8           | 27.7  | 28.5  | 23.4  |
| 12 Current surplus <sup>4</sup>                    | -26.6  | -31.0  | -40.2         | -27.5 | -7.2  | 4.1   | -23.2          | -20.5 | -18.0          | -8.7  | -0.2  | -2.0  |
| U.S. government                                    |        |        |               |       |       |       |                |       |                |       |       |       |
| 13 Net borrowing                                   | 155.1  | 146.4  | 246.9         | 278.1 | 389.6 | 352.0 | 365.5          | 278.7 | 304.5          | 448.3 | 392.9 | 412.7 |
| 14 Net borrowing; quarterly, nsa                   | 155.1  | 146.4  | 246.9         | 278.1 | 389.6 | 352.0 | 95.3           | 89.0  | 80.4           | 87.0  | 96.5  | 125.7 |
| 15 Unified deficit; quarterly, nsa                 | 141.9  | 155.0  | 236.1         | 265.5 | 411.0 | 351.4 | 91.3           | 82.9  | 124.5          | 45.5  | 108.5 | 132.5 |
| Funds supplied by                                  |        |        |               |       |       |       |                |       |                |       |       |       |
| 16 depository institutions                         | 275.0  | 86.1   | -32.2         | -64.6 | 25.2  | 134.8 | -128.2         | 43.1  | -79.8          | 39.8  | 69.0  | 71.9  |
| Memoranda: As percent of GDP:                      |        |        |               |       |       |       |                |       |                |       |       |       |
| 17 Dom. nonfinancial debt <sup>3</sup>             | 180.9  | 183.3  | 188.1         | 193.8 | 194.8 | 195.6 | 194.9          | 195.4 | 195.4          | 195.7 | 195.9 | 196.2 |
| 18 Dom. nonfinancial borrowing                     | 15.7   | 13.6   | 11.7          | 8.2   | 11.2  | 11.9  | 8.3            | 7.2   | 8.8            | 12.0  | 11.6  | 12.5  |
| 19 U.S. government <sup>5</sup>                    | 3.2    | 2.8    | 4.5           | 4.9   | 6.6   | 5.6   | 6.4            | 4.8   | 5.2            | 7.6   | 6.6   | 6.8   |
| 20 Private   | 12.5   | 10.8   | 7.2           | 3.3   | 4.7   | 6.3   | 1.9            | 2.4   | 3.6            | 4.4   | 5.0   | 5.7   |

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1. Published data through 1991 Q4.
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.

## INTERNATIONAL DEVELOPMENTS

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### Recent Developments

Since the February FOMC meeting, the weighted-average foreign-exchange value of the dollar in terms of the other G-10 currencies has increased about 4 percent. The dollar has appreciated in recent weeks in the wake of a succession of data releases that have pointed to a stronger recovery of U.S. economic activity than the market expected. The appreciation included increases of 6 percent against the yen, 4 percent against the mark and other ERM currencies, and almost 1 percent against the Canadian dollar. The yen weakened against other major currencies on indications of further declines in Japanese growth and expectations of another cut in interest rates by the Bank of Japan. Persistent political and financial market scandals in Japan, which contributed to a sharp decline in the Japanese stock market, supported this expectation, and may also have been an independent factor in foreign exchange markets.

Whereas Japanese short-term interest rates have declined more than 25 basis points over the intermeeting period, German rates are up 20 basis points, nearly as much as U.S. rates. Long-term interest rate differentials have moved in favor of the dollar, as U.S. ten-year bond yields have risen more than 20 basis points while German yields are up, on balance, 10 basis points and Japanese yields are down 10 basis points.

. The Desk sold \$150 million against yen, on two occasions, of which \$125 million was for the Treasury and \$25 million for the System.

Real GDP growth in the major foreign industrial countries on average weakened somewhat more than expected in the fourth quarter of 1991. In western Germany, real output fell almost 2 percent at an annual rate, for a third consecutive quarter of decline. In Japan, real GDP declined slightly for the first time since early 1989. In the United Kingdom and Canada, too, growth was somewhat more negative than had been anticipated. From partial GDP data and other indicators of fourth-quarter activity, growth rates in France and Italy appear to have remained positive but low.

More recent information for the first quarter suggests that the pace of activity in continental Europe may have picked up a bit. Winter weather conditions once again have been unusually favorable in Germany, where a spurt in construction activity could move real GNP into positive growth in the first quarter. Industrial production and consumer confidence appear to have revived in France and Italy early this year. Economic activity in Japan, the United Kingdom, and Canada has languished, however.

The recent decline in Japan's stock market has focused attention on the deepening economic stagnation in that country. Many indicators of Japanese activity--including new orders, auto registrations, and industrial production--point to further weakness. The index of leading indicators recently fell to its lowest level in nearly five years, and the Bank of Japan's latest survey of corporate sentiment showed that business confidence slipped further in February. Slower growth of domestic demand has contributed to a widening of the Japanese trade surplus, which in January reached a record annual rate of nearly \$125 billion.

Slower activity in many countries has helped to moderate upward pressure on prices and wages; inflation in most major foreign industrial countries has remained steady in recent months. In

western Germany, however, the twelve-month rate of consumer price inflation moved up sharply in February to almost 4-1/4 percent, reflecting in part sizable increases in energy prices and rents. Although the rate of increase of earnings in Germany has slowed in recent months, the outcome from ongoing labor negotiations remains uncertain, raising concerns about potential wage inflation. The west German unemployment rate has remained fairly low despite the recent slump in activity and continuing availability of workers from the eastern states, partly because of a declining trend in hours per worker. In the United Kingdom, wages still are rising at a rate above 7 percent, despite stagnant U.K. economic activity and an unemployment rate near 9-1/2 percent.

The U.S. merchandise trade deficit narrowed slightly in January, but was essentially the same as the average rate in the fourth quarter. Exports declined in January, following a strong expansion in the fourth quarter, when shipments of aircraft and capital equipment were the major sources of strength. Imports, too, fell back in January, following significant growth in the fourth quarter. Non-oil import prices accelerated somewhat in January, after having risen at about a 4 percent annual rate in the fourth quarter. The prices of non-oil industrial supplies, which had declined steadily last year, showed the largest increases.

#### Outlook

The staff forecast for net exports incorporates more rapid economic growth in the United States and slower growth abroad in the near term and a somewhat higher path for the dollar through 1993 than forecast in the last Greenbook. As a result, we have revised down both the level and the projected growth of real net exports of goods and services throughout the forecast period.

The Dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies on average will remain around recent levels through the forecast period. This path for the dollar is about 3-1/2 percent higher than that in the January Greenbook, reflecting the appreciation of the dollar over the past six weeks, which was associated with brighter prospects for the U.S. economy and the backup of U.S. interest rates. However, we see some downside risk to this dollar forecast. The market appears to expect further increases in U.S. interest rates over the forecast period; that expectation would be disappointed under the staff's projected path of interest rates that are flat to declining. Offsetting this downside risk, in part, is the possibility that the market's forecast for higher nominal interest rates reflects a less optimistic outlook for U.S. inflation.

Against the currencies of key developing countries, the CPI-adjusted value of the dollar is expected to show a moderate depreciation on average through the end of the forecast period.

Foreign Industrial Countries. The weaker-than-expected outcomes for GDP in the major industrial countries during the fourth quarter and indications that such weakness continued in the first quarter have prompted a downward revision of the staff's projection of average growth abroad in the near term. Real output in Japan and continental Europe is now expected to be in a range of 1 to 1-1/2 percent (annual rate) during the first half of 1992. This puts the level of GDP in the foreign G-7 countries (using either GDP weights or U.S. export weights) by mid-1992 about 2/3 percent lower than that projected in January. The staff still projects that conditions are in place for a modest, steady recovery abroad, with growth rising from about 1-1/4 percent in the first half of this year to about 2-3/4 percent in the second half and then to around 3 percent

during 1993. The effects of monetary easing now in the pipeline should begin to show through in recoveries of domestic demand in Canada, the United Kingdom, and Japan. In addition, firmer U.S. growth also is expected to contribute to recoveries in those countries through stronger external demand. Continued growth of investment demand in eastern Germany and a pickup in consumption in the west (after recent tax surcharges terminate at mid-year) are expected to boost activity after mid-1992, both in western Germany and in Germany's major trading partners.

The inflation forecast for the foreign G-7 countries also has been adjusted downward since January, as the staff's revised projection of GDP growth in the near term implies greater slack in labor and commodity markets abroad. CPI inflation in the foreign G-7 countries now is expected to average about 3-1/4 percent this year and to slow to 3 percent in 1993. The largest downward revisions have been in Japan and the United Kingdom, where four-quarter rates of inflation are now expected to subside to about 2 percent and 3-1/2 percent, respectively, by the end of next year.

Foreign short-term interest rates are expected to move down over the forecast period, by more than 50 basis points on average. Interest rates in this projection are slightly lower than those in the January Greenbook, reflecting in part the softer near-term outlook for nominal GDP growth. The most notable change has been the outlook for interest rates in Japan, where lower growth and inflation have increased the likelihood of near-term reductions in official rates. German short-term interest rates are expected to decline about 50 basis points over the balance of the forecast period. Interest rates in other key EMS countries (France, Italy, and the United Kingdom) could decline somewhat more. Average foreign long-term rates are projected to decline somewhat less than

short-term rates, following much the same path as that projected in January.

Developing Countries. The outlook for growth in developing countries that are major U.S. trading partners is marginally lower than in the last Greenbook. Growth is estimated to have increased moderately in 1991 to about 5-1/4 percent, on average. While some of these countries will be influenced negatively by the somewhat weaker outlook for foreign industrial countries, others will be influenced positively by the stronger near-term outlook for U.S. growth. On balance, real GDP growth is projected to increase slightly this year and somewhat more next year as external demand improves. Capacity constraints in several Asian countries will tend to limit the expansionary effects of higher external demand.

U.S. Real Net Exports of Goods and Services. We expect real net exports to improve significantly in the first quarter, to reverse that gain in the second quarter, and then to worsen moderately further through most of the rest of the forecast period. The first-quarter improvement reflects a slowing of real imports of goods and services and a moderate expansion of exports. Looking beyond the first quarter, we project imports to rebound in the second quarter and to continue expanding at a somewhat faster pace than exports thereafter, as the recovery of real GDP growth at home initially exceeds that abroad and as the positive effects of the net depreciation of the dollar over the past nine months diminish.

The lower path of foreign real GDP and the higher path of the dollar have led us to lower significantly our projection of real nonagricultural exports. Compared with levels projected in the January Greenbook, these exports are now about 3 percent lower by the end of 1993. Nevertheless, we still expect the quantity of

nonagricultural exports to grow about 6 percent this year (fourth-quarter to fourth-quarter) and 7 percent in 1993. The key factor underlying this export projection remains the expected increase in income growth in major U.S. export markets on average. Also contributing to the projected expansion of exports are our expectations of continued rapid growth in trade in computers in real terms and some remaining stimulus from the past depreciation of the dollar.

TRADE QUANTITIES<sup>\*</sup>

(Percent change from preceding period shown, except as noted, A.R.)

|                 | 1990Q4 | Projection |       |     |     | 1993 |
|-----------------|--------|------------|-------|-----|-----|------|
|                 | to     | 1992       |       |     |     | 1993 |
|                 | 1991Q4 | Q1         | Q2    | Q3  | Q4  | Q4   |
| Nonag. exports  | 9.0    | 2.1        | 7.8   | 7.3 | 7.3 | 7.2  |
| Agric. exports  | 11.9   | 0.5        | -17.0 | 4.5 | 7.4 | 1.4  |
| Non-oil imports | 5.4    | -3.7       | 7.8   | 8.4 | 8.8 | 7.0  |
| Oil imports     | 7.0    | 2.8        | 52.0  | 7.7 | 1.9 | 8.9  |

\* GDP basis, 1987 dollars.

Agricultural exports are expected to fluctuate around the higher levels reached in the latter part of 1991 when shipments to the republics of the former Soviet Union surged. Although exports in January were below fourth-quarter levels, weekly data for February suggest a rebound in shipments. We assume that agricultural exports will show a moderate upward trend next year.

The quantity of non-oil imports is expected to decline in the first quarter, following a strong build-up in the second half of 1991. We project these imports to resume expanding at an average annual rate of about 7-1/2 percent over the rest of the forecast period, somewhat faster than in the January forecast because of the stronger U.S. recovery and the higher dollar.

The quantity of oil imports is projected to remain unusually low in the current quarter because of mild weather. We expect oil imports to show an uptrend later this year and next as the U.S. economy recovers and domestic oil production continues its secular decline.

Oil Prices. Current prices in the spot and futures markets for crude oil are consistent with an average U.S. oil import unit value of \$16.25 per barrel over the first half of 1992; this is about \$0.75 below the oil price assumption in the January Greenbook. Prices have fallen on balance as mild weather and a sluggish world economy have damped demand, and, perhaps, as a result of the failure of the mid-February OPEC meeting even to assign country quotas. We continue to assume that, as world activity recovers, oil prices will return to \$18 per barrel by the end of 1992 and will be held unchanged at that level for the rest of the forecast period. This assumption hinges on Saudi Arabia's willingness to target an \$18 per barrel price unless its production falls below 8 million barrels per day (mb/d). The effects of declining exports from the former Soviet Union and the recovery of world economic activity should about offset Iraq and Kuwait's re-entry to the world oil market, allowing Saudi Arabia to maintain production above 8 mb/d through 1993. This assumed path of oil prices is approximately \$0.75 per barrel above the forecast implicit in the crude oil futures market.

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports is projected to decline in the first quarter (given recent monthly changes) and to resume a moderate uptrend over the period ahead as U.S. producer prices (weighted by their shares in exports) begin to recover from levels depressed by the cyclical weakness. Non-oil import price inflation should moderate from an annual rate of about 3 percent in the first

quarter to about 2 percent by the end of 1992, partly as a result of the recent rise in the dollar.

SELECTED PRICE INDICATORS  
(Percent change from preceding period shown, except as noted, A.R.)

|                        | 1990Q4 | Projection |       |       |       | 1993  |
|------------------------|--------|------------|-------|-------|-------|-------|
|                        | to     | 1992       |       |       |       | 1993  |
|                        | 1991Q4 | Q1         | Q2    | Q3    | Q4    | Q4    |
| PPI (exp. wts.)        | -0.8   | -0.8       | 2.6   | 2.0   | 2.1   | 1.8   |
| Nonag. exports         | -0.4   | -0.2       | 2.2   | 1.2   | 1.3   | 1.2   |
| Non-oil imports        | 0.1    | 3.1        | 2.4   | 2.4   | 2.0   | 2.0   |
| Oil imports<br>(\$/bl) | 18.04  | 15.72      | 16.72 | 17.39 | 17.95 | 18.00 |

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to narrow from an annual rate of about \$75 billion in the fourth quarter and for the year 1991 to less than \$65 billion in the first quarter and then to widen steadily to about \$95 billion by the end of 1993. The current account deficit is projected to widen from \$33 billion in the first quarter to about \$50 billion next year. The nontrade portions of the current account should continue to improve moderately on balance, as U.S. net sales of a wide range of services expand further.

March 25, 1992

STRICTLY CONFIDENTIAL - FR  
CLASS II FOMCREAL GNP AND CONSUMER PRICES, SELECTED COUNTRIES, 1989-93  
(Percent change from fourth quarter to fourth quarter)

| Measure and country   | 1989 | 1990 | Projection |      |      |
|---|------|------|------------|------|------|
|   |      |      | 1991       | 1992 | 1993 |
| <b>REAL GNP</b><br>-----                                      |      |      |            |      |      |
| Canada  | 2.1  | -1.1 | -0.2       | 2.1  | 3.4  |
| France  | 3.8  | 1.8  | 1.7        | 2.1  | 2.7  |
| Western Germany   | 3.2  | 5.5  | 0.9        | 2.7  | 3.1  |
| Italy   | 2.9  | 1.1  | 1.3        | 1.8  | 2.6  |
| Japan   | 4.9  | 4.7  | 3.2        | 2.0  | 3.5  |
| United Kingdom  | 1.6  | -0.7 | -1.7       | 1.1  | 2.6  |
| Average, weighted by 1987-89 GNP                              | 3.5  | 2.6  | 1.3        | 2.0  | 3.1  |
| Average, weighted by share of<br>U.S. nonagricultural exports |      |      |            |      |      |
| Total foreign   | 3.5  | 2.1  | 1.7        | 2.8  | 3.8  |
| G-6   | 2.9  | 1.0  | 0.6        | 2.0  | 3.2  |
| Developing countries  | 5.1  | 4.9  | 5.4        | 5.5  | 6.2  |
| <b>CONSUMER PRICES</b><br>-----                               |      |      |            |      |      |
| Canada  | 5.2  | 4.9  | 4.1        | 3.0  | 2.6  |
| France  | 3.6  | 3.6  | 2.9        | 2.8  | 2.8  |
| Western Germany   | 3.0  | 3.0  | 3.9        | 3.1  | 2.9  |
| Italy   | 6.6  | 6.3  | 6.1        | 4.9  | 4.8  |
| Japan   | 2.9  | 3.2  | 3.2        | 2.5  | 2.0  |
| United Kingdom  | 7.6  | 10.0 | 4.2        | 3.8  | 3.6  |
| Average, weighted by 1987-89 GNP                              | 4.4  | 4.8  | 3.9        | 3.2  | 2.9  |
| Average, weighted by share of<br>U.S. non-oil imports         | 4.2  | 4.4  | 3.8        | 2.9  | 2.6  |

U.S. CURRENT ACCOUNT AND REAL NET EXPORTS  
 (Billions of dollars, seasonally adjusted annual rates)

|  | 1989   |        |        |        | 1990   |       |        |        | 1991  |       | ANNUAL |        |        |
|--|--------|--------|--------|--------|--------|-------|--------|--------|-------|-------|--------|--------|--------|
|  | Q1     | Q2     | Q3     | Q4     | Q1     | Q2    | Q3     | Q4     | Q1    | Q2    | 1988   | 1989   | 1990   |
| GDP Net Exports of Goods and Services (87\$) | -81.2  | -71.9  | -79.8  | -70.0  | -56.0  | -52.5 | -65.7  | -31.2  | -18.6 | -12.3 | -104.0 | -75.7  | -51.3  |
| Exports of G+S                               | 451.2  | 469.5  | 470.5  | 485.8  | 496.2  | 502.1 | 501.6  | 522.5  | 512.5 | 535.7 | 421.6  | 469.2  | 505.6  |
| Merchandise                                  | 330.3  | 347.0  | 343.1  | 354.8  | 364.9  | 368.0 | 365.1  | 379.4  | 379.9 | 395.8 | 307.4  | 343.8  | 369.3  |
| Services                                     | 120.9  | 122.5  | 127.4  | 131.0  | 131.3  | 134.1 | 136.5  | 143.1  | 132.6 | 139.9 | 114.2  | 125.4  | 136.2  |
| Imports of G+S                               | 532.4  | 541.3  | 550.3  | 555.7  | 552.2  | 554.5 | 567.4  | 553.7  | 531.1 | 548.0 | 525.7  | 544.9  | 556.9  |
| Merchandise                                  | 439.9  | 447.5  | 455.4  | 458.9  | 455.9  | 457.2 | 467.9  | 453.0  | 435.9 | 451.2 | 431.3  | 450.4  | 458.5  |
| Oil  | 49.2   | 51.0   | 53.7   | 51.7   | 55.2   | 53.0  | 54.7   | 43.1   | 44.8  | 51.4  | 47.5   | 51.4   | 51.5   |
| Non-oil                                      | 390.6  | 396.5  | 401.8  | 407.2  | 400.8  | 404.2 | 413.1  | 409.9  | 391.0 | 399.8 | 383.8  | 399.0  | 407.0  |
| Services                                     | 92.5   | 93.8   | 94.9   | 96.8   | 96.3   | 97.4  | 99.5   | 100.7  | 95.3  | 96.8  | 94.3   | 94.5   | 98.5   |
| Memo: (Percent changes 1/)                   |        |        |        |        |        |       |        |        |       |       |        |        |        |
| Exports of G+S                               | 12.4   | 17.2   | 0.9    | 13.7   | 8.8    | 4.8   | -0.4   | 17.7   | -7.4  | 19.4  | 13.5   | 10.9   | 7.6    |
| of which: Goods                              | 10.7   | 21.8   | -4.4   | 14.4   | 11.9   | 3.4   | -3.1   | 16.6   | 0.5   | 17.8  | 15.8   | 10.2   | 6.9    |
| Imports of G+S                               | -6.1   | 6.9    | 6.8    | 4.0    | -2.5   | 1.7   | 9.6    | -9.3   | -15.4 | 13.3  | 3.6    | 2.7    | -0.4   |
| of which: Non-oil Goods                      | -4.0   | 6.2    | 5.5    | 5.5    | -6.1   | 3.4   | 9.1    | -3.1   | -17.2 | 9.3   | 3.3    | 3.2    | 0.7    |
| Current Account Balance                      | -110.3 | -111.2 | -104.9 | -98.8  | -90.7  | -88.7 | -95.5  | -93.6  | 41.5  | 11.6  | -126.2 | -106.3 | -92.1  |
| Merchandise Trade, net                       | -117.7 | -114.8 | -116.7 | -114.4 | -110.1 | -96.4 | -115.0 | -110.9 | -74.1 | -62.2 | -127.0 | -115.9 | -108.1 |
| Exports                                      | 348.8  | 366.4  | 360.6  | 370.0  | 381.0  | 388.4 | 386.6  | 402.3  | 402.2 | 415.6 | 320.3  | 361.5  | 389.5  |
| Agricultural                                 | 42.9   | 43.1   | 40.6   | 42.2   | 43.0   | 40.8  | 39.3   | 37.8   | 39.3  | 37.7  | 38.2   | 42.2   | 40.2   |
| Nonagricultural                              | 306.0  | 323.3  | 320.0  | 327.8  | 338.0  | 347.5 | 347.3  | 364.5  | 362.9 | 377.8 | 282.1  | 319.3  | 349.3  |
| Imports                                      | 466.5  | 481.2  | 477.3  | 484.4  | 491.1  | 484.7 | 501.6  | 513.2  | 476.3 | 477.7 | 447.3  | 477.4  | 497.7  |
| Oil  | 44.2   | 54.2   | 52.2   | 53.1   | 63.2   | 51.3  | 61.8   | 72.1   | 52.9  | 51.7  | 39.6   | 50.9   | 62.1   |
| Non-oil                                      | 422.3  | 427.0  | 425.1  | 431.3  | 427.9  | 433.4 | 439.8  | 441.1  | 423.5 | 426.0 | 407.7  | 426.4  | 435.6  |
| Other Current Account                        | 3.8    | 8.3    | 9.9    | 5.8    | 7.5    | 7.6   | 8.3    | -7.2   | 96.0  | 64.3  | -4.6   | 6.9    | 4.0    |
| Invest. Income, net                          | 3.6    | -4.7   | 2.0    | 9.9    | 12.0   | 0.0   | 11.2   | 24.5   | 19.6  | 9.5   | 5.4    | 2.7    | 11.9   |
| Direct, net                                  | 42.4   | 36.1   | 41.2   | 50.2   | 51.9   | 43.6  | 53.5   | 61.7   | 61.4  | 52.3  | 36.8   | 42.5   | 52.7   |
| Portfolio, net                               | -38.8  | -40.9  | -39.2  | -40.3  | -39.8  | -43.6 | -42.3  | -37.2  | -41.8 | -42.8 | -31.5  | -39.8  | -40.7  |
| Military, net                                | -6.9   | -6.5   | -4.6   | -6.8   | -6.9   | -6.2  | -6.7   | -9.0   | -9.3  | -5.9  | -5.7   | -6.2   | -7.2   |
| Other Services, net                          | 24.8   | 27.3   | 29.7   | 32.7   | 30.5   | 32.6  | 32.3   | 38.9   | 37.7  | 41.8  | 16.1   | 28.6   | 33.6   |
| Transfers, net                               | -14.2  | -12.4  | -15.2  | -20.2  | -16.1  | -18.8 | -17.3  | -37.1  | 67.7  | 28.4  | -14.9  | -15.5  | -22.3  |

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

OUTLOOK FOR U.S. CURRENT ACCOUNT AND REAL NET EXPORTS  
(Billions of dollars, seasonally adjusted annual rates)

|  | Projection |       |       |       |       |       |       |       |       |       | Projection |       |       |
|--|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------------|-------|-------|
|  | 1991       |       | 1992  |       |       |       | 1993  |       |       |       | ANNUAL     |       |       |
|  | Q3         | Q4    | Q1    | Q2    | Q3    | Q4    | Q1    | Q2    | Q3    | Q4    | 1991       | 1992  | 1993  |
| GDP Net Exports of Goods and Services (87\$) | -31.1      | -17.6 | -11.2 | -18.7 | -20.8 | -22.6 | -24.8 | -27.5 | -29.2 | -29.0 | -19.9      | -18.3 | -27.7 |
| Exports of G+S                               | 545.2      | 562.2 | 564.0 | 569.4 | 577.5 | 586.0 | 594.3 | 602.1 | 610.5 | 619.2 | 538.9      | 574.2 | 606.5 |
| Merchandise                                  | 400.3      | 414.5 | 416.5 | 421.9 | 429.1 | 436.7 | 444.2 | 451.2 | 458.6 | 465.9 | 397.6      | 426.0 | 455.0 |
| Services                                     | 144.8      | 147.7 | 147.5 | 147.6 | 148.4 | 149.3 | 150.2 | 150.9 | 151.9 | 153.3 | 141.2      | 148.2 | 151.6 |
| Imports of G+S                               | 576.3      | 579.8 | 575.2 | 588.1 | 598.3 | 608.7 | 619.2 | 629.6 | 639.7 | 648.3 | 558.8      | 592.6 | 634.2 |
| Merchandise                                  | 475.7      | 477.9 | 474.2 | 487.3 | 497.1 | 506.9 | 516.9 | 526.7 | 535.9 | 543.5 | 460.2      | 491.4 | 530.7 |
| Oil  | 51.9       | 46.1  | 46.4  | 51.5  | 52.5  | 52.8  | 53.8  | 55.4  | 56.9  | 57.5  | 48.5       | 50.8  | 55.9  |
| Non-oil                                      | 423.8      | 431.9 | 427.8 | 435.9 | 444.7 | 454.2 | 463.1 | 471.5 | 479.1 | 486.1 | 411.6      | 440.7 | 475.0 |
| Services                                     | 100.6      | 101.9 | 101.0 | 100.8 | 101.1 | 101.8 | 102.3 | 102.8 | 103.8 | 104.8 | 98.6       | 101.2 | 103.4 |
| Memo: (Percent changes 1/)                   |            |       |       |       |       |       |       |       |       |       |            |       |       |
| Exports of G+S                               | 7.3        | 13.1  | 1.3   | 3.9   | 5.8   | 6.1   | 5.8   | 5.3   | 5.7   | 5.8   | 7.6        | 4.2   | 5.7   |
| of which: Goods                              | 4.6        | 15.0  | 1.9   | 5.3   | 7.0   | 7.3   | 7.0   | 6.5   | 6.7   | 6.5   | 9.3        | 5.4   | 6.7   |
| Imports of G+S                               | 22.3       | 2.5   | -3.1  | 9.3   | 7.1   | 7.1   | 7.1   | 6.9   | 6.6   | 5.4   | 4.7        | 5.0   | 6.5   |
| of which: Non-oil Goods                      | 26.3       | 7.9   | -3.7  | 7.8   | 8.4   | 8.8   | 8.1   | 7.4   | 6.7   | 6.0   | 5.4        | 5.2   | 7.0   |
| Current Account Balance                      | -46.5      | -41.1 | -32.5 | -41.1 | -46.4 | -50.7 | -50.2 | -52.7 | -52.7 | -53.3 | -8.6       | -42.7 | -52.2 |
| Merchandise Trade, net                       | -83.4      | -74.6 | -63.7 | -75.6 | -81.1 | -85.5 | -88.4 | -91.6 | -93.6 | -94.2 | -73.6      | -76.5 | -92.0 |
| Exports                                      | 416.1      | 432.2 | 434.6 | 441.1 | 450.1 | 459.4 | 468.8 | 477.7 | 487.0 | 495.8 | 416.5      | 446.3 | 482.3 |
| Agricultural                                 | 40.2       | 43.3  | 43.2  | 41.0  | 42.1  | 43.2  | 44.4  | 45.2  | 46.4  | 46.8  | 40.1       | 42.4  | 45.7  |
| Nonagricultural                              | 375.9      | 389.0 | 391.4 | 400.1 | 408.0 | 416.2 | 424.4 | 432.4 | 440.6 | 449.0 | 376.4      | 403.9 | 436.6 |
| Imports                                      | 499.5      | 506.9 | 498.3 | 516.8 | 531.2 | 545.0 | 557.3 | 569.3 | 580.6 | 590.0 | 490.1      | 522.8 | 574.3 |
| Oil  | 52.4       | 48.8  | 43.3  | 51.1  | 54.2  | 56.2  | 57.5  | 59.1  | 60.7  | 61.3  | 51.4       | 51.2  | 59.6  |
| Non-oil                                      | 447.1      | 458.0 | 455.0 | 465.6 | 477.1 | 488.8 | 499.8 | 510.2 | 519.9 | 528.7 | 438.7      | 471.6 | 514.6 |
| Other Current Account                        | 29.5       | 32.6  | 22.8  | 25.5  | 24.0  | 25.4  | 27.2  | 28.4  | 29.5  | 31.1  | 55.6       | 24.4  | 29.1  |
| Invest. Income, net                          | 7.5        | 0.9   | 8.4   | 9.1   | 10.7  | 9.4   | 11.1  | 10.5  | 11.4  | 9.8   | 9.4        | 9.4   | 10.7  |
| Direct, net                                  | 48.2       | 43.7  | 46.0  | 46.2  | 46.4  | 46.4  | 46.8  | 47.1  | 47.4  | 47.5  | 51.4       | 46.3  | 47.2  |
| Portfolio, net                               | -40.8      | -42.7 | -37.6 | -37.2 | -35.8 | -37.0 | -35.6 | -36.6 | -36.0 | -37.7 | -42.0      | -36.9 | -36.5 |
| Military, net                                | -3.5       | -2.3  | -2.5  | -2.5  | -1.7  | -1.3  | -0.8  | -1.2  | -1.6  | -1.6  | -5.3       | -2.0  | -1.3  |
| Other Services, net                          | 44.5       | 40.7  | 43.3  | 44.8  | 45.7  | 46.7  | 48.0  | 49.6  | 51.1  | 52.7  | 41.2       | 45.1  | 50.4  |
| Transfers, net                               | -11.5      | -5.7  | -18.0 | -16.8 | -20.0 | -20.0 | -20.0 | -20.0 | -20.0 | -20.0 | 19.7       | -18.7 | -20.0 |

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