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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

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May 14, 1992

SUMMARY AND OUTLOOK

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

Overview of the Forecast

Real gross domestic product now appears to have risen more in the first quarter of this year than we anticipated in the last Greenbook--and more than the Commerce Department indicated in its April advance estimate. Although the data on merchandise trade for March could alter the picture, the next official estimate of the growth of real GDP for the first quarter could well exceed 3 percent.[1]

In our view, the strong gain in domestic final demand last quarter represented to an important extent two temporary influences: consumers making expenditures that they postponed late last year and homebuyers and builders responding to an exceptionally favorable combination of weather and financial conditions. The underlying trends in real income and employment, as well as the backup in mortgage interest rates since January, suggest that such an expansion of demand could not be sustained. Indeed, the most recent monthly data on retail spending and home sales suggest that growth in final demand is moving back into line with the moderate path we have been forecasting.

In broad terms, our projection of economic activity is little changed from that in the previous Greenbook. We expect that real GDP will grow, on average, at an annual rate of a little less than 3 percent through the end of 1993 and that the unemployment rate will decline gradually to just over 6-1/2 percent by the end of the forecast period.

The incoming data on wages and prices since the last Greenbook have been a bit disappointing. The employment cost indexes for

1. Another source of uncertainty is the scheduled annual revision of the retail trade data prior to the next NIPA release.

March indicated that the slack in labor markets has not made much of a dent in increases in labor compensation over the past few quarters. The rise in the consumer price index in March turned out to be higher than we expected, but April's change was back on the mark. On balance, we have shaded our forecast for consumer inflation up about 1/4 percentage point this year and next. The CPI excluding food and energy is now projected to rise 3.8 percent in 1992 and 3.2 percent in 1993.

Key Assumptions

Because of the System's easing action in April, the federal funds rate, at 3-3/4 percent, is now 1/4 percentage point lower than we assumed in the previous Greenbook; we assume no further change in the funds rate through 1993. The path for long-term rates is virtually the same as we projected in March: We continue to expect that, in an environment of a moderate economic expansion and subdued inflation, long-term rates will decline somewhat over the next few quarters.

We also are assuming that restraints on the supply of credit will loosen gradually. With their capital positions and their access to capital markets improving, and with ample liquidity, commercial banks are now better able to accommodate any increase in loan demands. Restraints also may have begun to ease in other areas; for example, life insurers reportedly are edging back into the below-investment-grade bond market. This tendency should be sustained as intermediaries become more confident that the economy is on a solid growth track and as the quality of their asset portfolios continues to improve. Innovations in finance also should be a positive factor in opening new funding channels for some borrowers currently disadvantaged in the marketplace.

Growth of M2 and M3 is anticipated to increase a bit over the remainder of the year from the sluggish pace to date. The continued more rapid growth of nominal income associated with the economic expansion will tend to boost the demand for money balances, but the recent upward movement in velocity may be sustained by the restructuring of depository institutions, the still relatively restrained asset expansion by banks, and drawdowns of some money balances by depositors repaying debt or seeking higher returns in the capital markets. On balance, the increases in the monetary aggregates in 1992 are anticipated to be below the midpoints of the ranges adopted by the FOMC in February. In 1993, money growth is projected to be slightly faster than in 1992; depository credit, too, is anticipated to expand somewhat more rapidly, in part because the pace of thrift institution liquidations should slow.

The staff's assumptions regarding fiscal policy are essentially unchanged from those in the last Greenbook. We anticipate that no major budget initiatives will be enacted (although we have allowed for "emergency" funding for rebuilding efforts in Chicago and Los Angeles). We also continue to expect that defense outlays in FY1993 will fall $5 billion below the spending cap established by the 1990 budget act. Nonetheless, our projections of the unified budget deficit have been altered, particularly in the current fiscal year, by a further downward adjustment in estimated spending for deposit insurance. At the same time, we have cut our projection of receipts. Through early May, data on tax collections suggest that individual income tax liabilities for 1991 were lower than we previously expected. We believe that both capital gains realizations and the effective tax rate on NIPA personal income (which does not include capital gains) have turned out lower than we previously forecast for 1991; we have carried an adjustment to effective personal tax rates forward through FY1993. That shortfall, however, is partly offset by the additional receipts associated with this projection's higher level of corporate profits. On net, we now expect that the FY1992 unified budget deficit will be $342 billion and that the deficit for FY1993 will rise to $373 billion. Excluding deposit insurance, the projected deficit narrows from $307 billion this fiscal year to $297 billion in FY1993.

THE UNIFIED BUDGET DEFICIT
(Billions of dollars)

	FY1991	FY1992	FY1993
	-Actual-	-Projections-	
March Greenbook	269	362	362
Effect on the deficit:			
Outlays:			
Deposit insurance	--	-23	5
Defense	--	-2	1
Receipts:			
Lower personal taxes	--	10	12
Higher corporate taxes	--	-6	-4
Other	--	2	-2
May Greenbook	269	342	373
Memo:			
Deficit excluding deposit insurance and Defense Cooperation Account	246	307	297
(previous)	(246)	(305)	(291)

The foreign exchange value of the dollar has fallen below its level at the time of the March Greenbook, in part because of expectations of a near-term easing by the Federal Reserve. Because such easing is not built into our forecast, we project the dollar to recover from its recent lows and then to remain unchanged at about its level at the time of the March FOMC meeting. Our outlook for growth abroad, on average, also has not changed substantially. Foreign GDP (including developing countries) is projected to be expanding at about a 3-1/2 percent annual rate in the second half of this year and at a slightly higher pace in 1993. As expected, prices of crude oil have firmed since late March, but a bit more than assumed in the previous Greenbook. Nonetheless, we still expect that the posted price of WTI oil will ease back a little and settle at about $19.25 per barrel through the end of 1993.

Recent Developments and the Outlook for 1992:Q2

We think that real GDP is expanding at around a 2 percent annual rate in the current quarter, considerably less than our current estimate of the first-quarter pace. As is usual at this point in the quarter, our assessment relies heavily on the labor market information. Payroll employment rose modestly in April, but the breakdown by industry was mixed. Factory payrolls increased a little, and jobs in business services, which are also cyclically sensitive, posted another gain. However, construction employment fell, reportedly because of cutbacks in nonresidential building and heavy construction. On balance, aggregate hours worked by private production workers last month were marginally below the first-quarter level. The figures on unemployment insurance claims into early May suggest that job gains have remained small. However, productivity likely is growing appreciably at this point, and, if so, slight gains in hours worked in May and June would be consistent with a moderate rise in real GDP this quarter.

Among the key components of final demand, consumer spending is expected to decelerate markedly from the rapid pace recorded in the first quarter to about a 2 percent rate this quarter. In real terms, we estimate that retail sales of goods excluding motor vehicles rose in April, but not enough to offset the March decline. In coming months, we assume further small real gains in spending for non-auto goods as well as in outlays for services. Sales of motor vehicles, which over the past year have failed to exhibit their typically strong cyclical upturn, have been about flat since February. Nonetheless, domestic producers have been increasing assemblies, and they report that dealers are optimistic about sales. Our forecast embodies a firming in sales of light vehicles in the near term as well as a small increase in dealer stocks. The rise in production of motor vehicles contributes almost a percentage point to the overall rise in real GDP in the current quarter.

Our assessment of the housing market in the current quarter has become a bit less favorable in light of the steep March declines in sales of new single-family homes and in some other indicators of real estate transactions. We now believe that temporary factors--unseasonably warm weather and the prospect of a tax credit for first-time homebuyers--may have considerably reinforced the surge in activity prompted by the decline in mortgage rates around the turn of the year. The backup in mortgage interest rates probably began to cut into sales by March. Because demand appears a little less robust than we earlier thought, we expect that single-family housing starts will drop back to a 1.03 million unit annual rate this quarter and that growth in spending on residential construction will moderate.

In contrast, the outlook for business fixed investment in the current quarter now seems brighter. Orders for nondefense capital goods (excluding aircraft) posted a solid increase in March and were up 3-1/4 percent, on average, in the first quarter. Growth of computer shipments is likely to slow to a less torrid pace than that of the past half year, but demand for industrial equipment appears to be strengthening. Also, we anticipate that deliveries of airplanes to domestic companies this quarter will exceed the low rate of the past two quarters.

Moreover, a flattening out of contracts and permits points to an abatement in the decline in spending for nonresidential construction. Outlays for office buildings still appear to be headed down, but the decline in other types of commercial construction is easing, and industrial building has risen somewhat. Thus, the drag on real GDP from the drop in nonresidential spending is projected to be on the order of $1 billion to $1-1/2 billion per quarter (annual rate) in the near term, less than half the rate of decline during the past year and a half.

Nonagricultural merchandise exports, which are currently estimated to have flattened out in the first quarter, are projected to pick up again this quarter. But merchandise imports, which dropped last quarter, are forecast to rebound strongly. The result is a decline in real net exports that retraces a little more than half of the rise that occurred during the preceding two quarters.

For business inventories, the strong sales and production adjustments around the turn of the year combined to clean up some of the overhang that developed in late 1991. Nonetheless, because the most recent data show that inventories held by wholesalers and non-auto retailers at the end of the first quarter were still somewhat higher relative to sales than we previously projected, we expect a further, but lesser, decline in nonfarm stocks this quarter.[2] That slower pace of inventory liquidation contributes 1/2 percentage point to our projection of real GDP growth in the current quarter.

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2. Our translation of the current-cost data now available suggests that the decline in constant-dollar non-auto inventories during the first quarter was roughly $15 billion less than shown in BEA's advance estimate of real GDP. Because we are providing a "best change" forecast of the <u>growth</u> of real GDP from the published 1992:Q1 base, all of the inventory investment figures shown on the projection tables for 1992:Q2 through 1993:Q4 are understated by $15 billion--but the quarter-to-quarter changes in inventory investment are correct.

Consumer prices for a broad range of goods and services rose faster in March than we had previously anticipated. In April, the increase in the CPI excluding food and energy came back down to 0.3 percent, a pace that we project will prevail, on average, into the summer months. Nonetheless, on a quarterly average basis, the increase in the CPI excluding food and energy this quarter is expected to exceed our earlier forecast by about 1/2 percentage point. The projected rise in the overall CPI this quarter has been raised only 1/4 percentage point, to 3.8 percent, because of the favorable news on food prices.

The Outlook for the Economy: 1992:H2 and 1993

Growth of real GDP is projected to average just under 3 percent at an annual rate over the next six quarters. Over this period, the broad contours of the forecast are much the same as in the March Greenbook. As before, we expect that lower bond yields, some easing of restraints on credit supplies, and the restructuring of household and business balance sheets will help to provide the financial groundwork for sustained growth in spending. The major contributors to growth in final demand will be a rise in consumer spending, increases in business outlays for equipment, and a gradual expansion of homebuilding. A projected pickup in business inventory investment adds substantial support to production in the second half of this year, but much less in 1993. The ongoing contraction in defense spending remains a significant negative throughout; and net

STAFF PROJECTION OF REAL GDP
(Percent change; annual rate)

	1992		1993	
	Q2	H2	H1	H2
Real GDP	2.0	3.1	2.9	2.8
Final sales	1.5	2.2	2.5	2.6

exports, on balance, are projected to decline somewhat. But, in 1993, the drag from declining outlays for nonresidential structures is expected to end, and state and local governments are projected to record small, but growing, increments to spending.

The staff continues to believe that the considerable margin of slack in resource utilization that we are projecting will be exerting downward pressure on inflation. Businesses should be able to increase production at the moderate rates that we project with relatively modest additions to their workforces. As a result, we expect that productivity will grow at above-trend rates into 1993, that unemployment will decrease only gradually, and that increases in compensation will continue to trend lower. Nonetheless, the restraint on labor costs should enable businesses to maintain somewhat wider profit margins even while price increases slow.

Consumer spending. Between mid-1992 and the end of 1993, consumer spending is projected to rise at a 3 percent annual rate, a modest rate of increase compared with that during most of the expansion of the 1980s. Even though the personal saving rate declined sharply in the first quarter, we see no compelling reason to anticipate a reversal of that movement. Household net worth is high relative to income, debt service burdens have been reduced somewhat, and delinquency rates on consumer loans have begun to recede. Consumer confidence has begun to improve, and we are anticipating that spending will increase in line with real disposable income.

Real outlays for durable goods are expected to follow a path decidedly less robust than is typical of the early stages of cyclical upswings, but they are projected to be the strongest component of real PCE, rising 6-3/4 percent at an annual rate from 1992:Q3 to 1993:Q4. We continue to believe that households have deferred buying motor vehicles, and perhaps other big-ticket items, to some extent in the past couple of years and that as the recovery in income and employment is sustained, they will become increasingly willing to make those purchases. At the same time, we are projecting that growth in spending on nondurable goods and on services will average only about 2-1/2 percent.

Residential investment. Homebuilding is projected to rise steadily from the somewhat lower pace now projected for the current quarter. Single-family housing starts are expected to be at a 1.1 million unit rate by the end of 1992 and at a 1.2 million unit rate in the latter part of next year. As noted above, the projection assumes that longer-term interest rates, including mortgage rates, will move down somewhat in coming quarters; the resulting improvement in housing affordability, backed by rising income and employment, should once again stimulate demand. We also expect that the recent firming of house prices, particularly in some markets that have had notable declines in recent years, will help to allay concerns about the wisdom of investment in housing.

In contrast, conditions in the market for multifamily real estate still look poor and probably will improve only slightly by the end of 1993. The population of young adults, one important source of demand for rental apartments, will be growing quite slowly, and the current substantial overhang of vacant units will require considerable time to absorb. Understandably, traditional lenders will remain quite cautious about funding the building of new income properties. Thus, we have assumed that the March surge in multifamily starts was a fluke and expect that the pace will not move much above 200,000 units even in 1993.

Business fixed investment. After accelerating to a 5-1/2 percent rate of growth in the current quarter, real business fixed investment is expected to continue to advance at close to that rate for the remainder of the forecast period. As before, a projected recovery in outlays for producers' durable equipment more than accounts for the rise. We expect that the gradual rise in capacity utilization and an improvement in corporate cash flow will sustain growth in equipment spending. Growth in spending for office and computing equipment is projected to remain relatively strong; investment in other equipment is anticipated to accelerate, with the exception of aircraft where excess airline capacity has resulted in numerous order cancellations and scheduled production cuts for some models.

The decline in spending for nonresidential construction is expected to extend into 1993, although the downtrend is somewhat less steep than in the last projection. We now believe that spending for industrial facilities and some smaller commercial projects will increase over the coming year or so. However, declines in outlays for office buildings and for oil and gas drilling are still anticipated to be great enough to offset those gains until the middle of 1993.

Business inventories. By the end of the current quarter, we anticipate that the remainder of the excess business inventories accumulated at the end of 1991 will have been eliminated. As sales continue to expand, businesses will find that some increase in stocks will be necessary to ensure smooth production and to provide satisfactory service to customers. Firms will continue to improve the efficiency with which they manage inventories, however, and thus our projection anticipates that the desired inventory-sales ratio for the nonfarm business sector will gradually move lower over time. Though the initial upswing in stocks in the second half of this year contributes importantly to growth in real GDP, that contribution wanes in 1993 as inventory investment begins to level off.

Government purchases. The staff projects that total real government purchases of goods and services will decline at a 2-1/2 percent rate in the second half of 1992 and then decrease another 1 percent during 1993. The ongoing cutback in federal outlays for defense, which seems to have stalled temporarily in the first half of this year, is anticipated to resume in 1992:Q3; over the remaining six quarters of the forecast, real defense spending is projected to decline at an 8 percent annual rate. As indicated above, this path for defense spending, on an NIPA basis, is consistent with FY1993 unified budget outlays that fall $5 billion (nominal) short of the budget cap set in 1990. At the same time, we expect that real nondefense purchases will grow at a rate of 3-3/4 percent in the second half of 1992 and 3 percent in 1993--roughly in line with the growth in spending built into the 1990 caps.

At the state and local levels, pressures to improve infrastructure and expand public services are expected to give way in the near term to the need to balance budgets, and real purchases are projected to drop back a bit over the rest of this year. During 1993, purse strings should loosen somewhat. By then, the recent restraint in spending and the numerous tax increases of the past several years should combine with the recovery in income, sales, and property values to restore balance to the sector's budget--as measured by the NIPA operating and capital accounts (excluding social insurance).

Net exports. Between 1992:Q3 and the end of 1993, the external balance is expected to worsen gradually in real terms. Because of the projected recovery in economic activity among our industrialized trading partners and continued strong demand from developing countries, growth in U.S. nonagricultural merchandise exports is expected to pick up to an annual rate of a little more than 7 percent. But the rise in non-oil merchandise imports is expected to be somewhat larger than that in exports. A detailed discussion of these projections is contained in the International Developments section of the Greenbook.

Labor markets. The staff expects that employment will increase only modestly through year-end. Over the second half, businesses should be taking up slack in their operations and raising productivity at about a 2 percent annual rate. We anticipate that hiring will pick up a bit further next year, but we continue to believe that the pace of employment growth will be restrained by the desire to control costs. As a result, growth in output per hour is projected to remain a little faster than our assumed cyclically adjusted trend of just over 1 percent. The unemployment rate is expected to stay near its recent level of 7.2 percent into this summer but then to gradually move lower, reaching just over 6-1/2 percent by the end of 1993.

STAFF INFLATION PROJECTION
(Percent change; annual rate)

	1992		1993	
	Q2	H2	H1	H2
Consumer price index	3.8	3.6	3.3	3.1
(previous)	3.6	3.4	3.1	2.8
Excluding food and energy	4.3	3.5	3.2	3.1
(previous)	3.8	3.2	3.0	2.8
Employment cost index	3.8	3.7	3.6	3.5
(previous)	3.7	3.6	3.4	3.3
Memo:				
Civilian unemployment rate (quarterly; end of period)	7.2	7.0	6.8	6.6

Despite some apparent hesitation in the trends of late, we continue to believe that the persistence of a considerable margin of slack in the labor market will be putting further downward pressure on compensation adjustments over the projection period. Benefit costs, particularly medical insurance, probably will remain relatively resistant to such pressure. But wage rates, which have decelerated roughly 3/4 percentage point over the past year (measured on a twelve-month change basis), are projected to slow by a comparable amount by the end of next year. On balance, growth in ECI compensation, which has been at about a 4 percent annual rate in recent quarters, is projected to move down to 3-3/4 percent later this year and to 3-1/2 percent in 1993.

Prices. The slow rise in unit labor costs implied by our compensation and productivity projections remains a major ingredient in our expectation that price increases again will begin to trend lower in the second half of this year. However, the paths for both labor costs and prices are slightly higher in this projection. We do not anticipate a reversal of the upside surprise in inflation early this year, and--influenced in part by the disappointing rate of deceleration in compensation--we have carried the higher prices through to our projection of "core" CPI inflation for the year as a whole. In addition, energy prices are expected to rise more rapidly in the near term than previously thought because the firming in crude oil costs has occurred more quickly than had been projected in March. Otherwise, we see no exceptional pressure on consumer prices from energy, food, or imported goods through 1993. All told, the CPI is projected to rise at a 3-3/4 percent annual rate, on a quarterly average basis, in the second quarter of this year but to drop back to about a 3-1/2 percent rate in the second half; it is expected to decelerate further during 1993, approaching 3 percent by the end of the year.

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

May 14, 1992

Interval	Nominal GDP 3/25/92	Nominal GDP 5/14/92	Real GDP 3/25/92	Real GDP 5/14/92	GDP fixed-weight price index 3/25/92	GDP fixed-weight price index 5/14/92	Consumer price index[1] 3/25/92	Consumer price index[1] 5/14/92	Unemployment rate (level except as noted) 3/25/92	Unemployment rate (level except as noted) 5/14/92
ANNUAL										
1989[2]	7.0	7.0	2.5	2.5	4.3	4.3	4.8	4.8	5.3	5.3
1990[2]	5.1	5.1	1.0	1.0	4.3	4.3	5.4	5.4	5.5	5.5
1991[2]	2.9	2.9	-.7	-.7	4.0	4.0	4.2	4.2	6.7	6.7
1992	4.6	4.5	2.0	1.9	2.7	2.8	3.1	3.3	7.2	7.1
1993	5.7	5.7	3.0	2.9	2.9	3.0	3.1	3.3	6.9	6.8
QUARTERLY										
1990 Q1[2]	6.3	6.3	1.7	1.7	5.0	5.0	7.2	7.2	5.2	5.2
Q2[2]	6.2	6.2	1.6	1.6	4.6	4.6	4.1	4.1	5.3	5.3
Q3[2]	4.9	4.9	.2	.2	4.8	4.8	7.0	7.0	5.6	5.6
Q4[2]	-.9	-.9	-3.9	-3.9	3.2	3.2	6.9	6.9	6.0	6.0
1991 Q1[2]	2.3	2.3	-2.5	-2.5	5.4	5.4	3.3	3.3	6.5	6.5
Q2[2]	4.6	4.6	1.4	1.4	3.3	3.3	2.4	2.4	6.7	6.7
Q3[2]	4.1	4.1	1.8	1.8	2.6	2.6	2.7	2.7	6.8	6.8
Q4[2]	2.7	2.2	.8	.4	2.2	2.1	3.6	3.6	6.9	6.9
1992 Q1[2]	4.7	4.9	1.6	2.0	2.9	3.1	2.6	2.9	7.2	7.2
Q2	5.6	4.9	2.9	2.0	2.9	2.9	3.6	3.8	7.3	7.2
Q3	5.8	6.0	3.1	3.1	2.9	3.0	3.4	3.7	7.2	7.1
Q4	5.9	5.9	3.2	3.1	2.8	3.0	3.3	3.4	7.1	7.0
93 Q1	6.1	6.0	3.0	2.9	3.2	3.4	3.2	3.3	7.1	6.9
Q2	5.3	5.5	2.9	2.9	2.6	2.8	2.9	3.2	7.0	6.8
Q3	5.2	5.3	2.8	2.8	2.6	2.7	2.8	3.1	6.8	6.7
Q4	5.0	5.2	2.7	2.8	2.5	2.7	2.7	3.1	6.7	6.6
TWO-QUARTER[3]										
1990 Q2[2]	6.2	6.2	1.7	1.7	4.8	4.8	5.6	5.6	-.1	-.1
Q4[2]	1.9	1.9	-1.8	-1.8	3.9	3.9	7.0	7.0	.7	.7
1991 Q2[2]	3.5	3.5	-.6	-.6	4.4	4.4	2.9	2.9	.7	.7
Q4[2]	3.4	3.1	1.3	1.1	2.2	2.4	3.1	3.1	.2	.2
1992 Q2	5.2	4.9	2.2	2.0	2.9	3.0	3.1	3.3	.4	.3
Q4	5.8	6.0	3.2	3.1	2.9	3.0	3.4	3.6	-.2	-.2
1993 Q2	5.7	5.7	2.9	2.9	2.9	3.1	3.0	3.2	-.1	-.2
Q4	5.1	5.2	2.8	2.8	2.6	2.7	2.8	3.1	-.3	-.2
FOUR-QUARTER[4]										
1989 Q4[2]	5.9	5.9	1.7	1.7	4.2	4.2	4.6	4.6	.1	.1
1990 Q4[2]	4.1	4.1	-.1	-.1	4.4	4.4	6.3	6.3	.6	.6
1991 Q4[2]	3.4	3.3	.4	.3	3.3	3.4	3.0	3.0	.9	.9
1992 Q4	5.5	5.4	2.7	2.6	2.9	3.0	3.2	3.4	.2	.1
1993 Q4	5.4	5.5	2.8	2.8	2.7	2.9	2.9	3.2	-.4	-.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)

May 14, 1992

Item	Unit[1]	1985	1986	1987	1988	1989	1990	1991	Projected 1992	Projected 1993
EXPENDITURES										
Nominal GDP	Bill. $	4038.7	4268.6	4539.9	4900.4	5244.0	5513.8	5672.6	5926.9	6263.3
Real GDP	Bill. 87$	4279.8	4404.5	4540.0	4718.6	4836.9	4884.9	4848.8	4938.7	5081.3
Real GDP	% change	3.3	2.2	4.5	3.3	1.7	-.1	.3	2.6	2.8
Gross domestic purchases		3.8	2.1	3.9	2.5	1.0	-.9	.1	2.7	3.0
Final sales		3.8	3.3	2.7	4.2	1.5	1.2	-.5	2.7	2.6
Private dom. final purch.		3.9	3.0	1.9	4.2	.6	-.3	-.5	3.6	3.5
Personal cons. expend.		4.0	4.0	2.1	4.2	1.2	.3	.6	3.4	2.9
Durables		6.3	12.5	-2.6	8.5	-.8	-2.7	-2.8	8.5	5.9
Nondurables		2.7	3.3	1.4	3.2	.8	-1.0	-.9	2.4	2.0
Services		4.2	2.5	3.7	3.7	2.0	1.9	2.2	2.8	2.8
Business fixed invest.		3.1	-5.7	3.0	5.5	.5	.6	-7.1	3.6	5.0
Producers' dur. equip.		2.2	-.7	2.4	9.1	-.1	3.1	-3.7	7.0	6.9
Nonres. structures		4.6	-14.1	4.4	-1.2	1.7	-4.6	-14.7	-4.8	-.1
Res. structures		4.3	11.1	-3.1	.9	-7.7	-11.8	-.9	7.4	9.4
Exports		-.3	9.9	12.6	13.5	10.9	7.6	6.8	4.0	5.7
Imports		5.2	6.7	4.7	3.6	2.7	-.4	4.6	5.5	6.7
Government purchases		5.9	4.1	3.3	.2	1.6	3.2	-1.6	-.4	-.9
Federal		6.4	3.8	3.7	-3.4	-1.2	2.3	-3.1	-1.2	-4.5
Defense		7.0	3.7	4.5	-3.2	-2.0	.8	-4.7	-4.3	-7.7
State and local		5.4	4.4	2.9	2.9	3.6	3.8	-.5	.0	1.4
Change in bus. invent.	Bill. 87$	22.1	8.6	26.3	19.9	32.6	.2	-13.9	-12.2	12.9
Nonfarm		19.8	10.6	32.7	26.9	33.3	-1.5	-13.9	-12.8	11.9
Net exports		-145.3	-155.1	-143.0	-104.0	-75.7	-51.4	-20.9	-25.7	-36.2
Nominal GDP	% change	7.0	4.7	8.0	7.7	5.9	4.1	3.3	5.4	5.5
PLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	97.5	99.5	102.2	105.5	108.3	110.0	109.0	109.3	111.1
Unemployment rate	%	7.2	7.0	6.2	5.5	5.3	5.5	6.7	7.1	6.8
Industrial prod. index	% change	1.9	1.4	6.5	4.5	1.1	.3	-.5	2.9	4.0
Capacity util. rate-mfg.	%	79.5	79.0	81.4	83.9	83.9	82.3	78.2	77.9	79.4
Housing starts	Millions	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.25	1.38
Auto sales in U.S.		11.04	11.45	10.24	10.63	9.91	9.51	8.39	8.56	9.29
North American produced		8.20	8.22	7.07	7.54	7.09	6.90	6.14	6.27	6.89
Other		2.84	3.24	3.18	3.09	2.83	2.60	2.25	2.29	2.40
INCOME AND SAVING										
Nominal GNP	Bill. $	4053.6	4277.8	4544.5	4908.2	5248.2	5524.6	5685.8	5943.2	6281.2
Nominal GNP	% change	6.8	4.4	8.1	7.8	5.9	4.3	3.0	5.5	5.5
Nominal personal income		6.6	5.5	7.4	7.1	6.7	6.5	2.7	5.5	6.2
Real disposable income		1.9	2.8	2.1	3.2	1.4	1.0	.5	2.6	3.1
Personal saving rate	%	6.5	6.0	4.3	4.4	4.4	5.1	5.2	4.7	4.7
Corp. profits, IVA&CCAdj	% change	9.0	-7.1	29.7	10.2	-11.5	-11.5	6.6	25.3	3.5
Profit share of GNP	%	6.9	6.4	7.0	7.4	6.7	5.8	5.4	6.3	6.4
Federal surpl./def.	Bill. $	-181.4	-201.1	-151.8	-136.6	-124.2	-165.3	-201.6	-270.3	-251.2
State/local surpl./def.		56.1	54.3	40.1	38.4	41.1	25.7	30.0	52.3	65.9
Ex. social ins. funds		9.2	1.5	-14.7	-18.4	-19.2	-38.1	-35.3	-13.6	-1.8
PRICES AND COSTS										
GDP implicit deflator	% change	3.6	2.6	3.3	4.2	4.2	4.2	3.0	2.8	2.6
GDP fixed-wt. price index		3.6	2.5	3.4	4.2	4.2	4.4	3.4	3.0	2.9
Gross domestic purchases fixed-wt. price index		3.5	2.3	3.9	4.1	4.2	5.1	2.6	3.0	2.9
CPI		3.5	1.3	4.5	4.3	4.6	6.3	3.0	3.4	3.2
Ex. food and energy		4.3	3.9	4.3	4.5	4.4	5.3	4.5	3.8	3.2
I, hourly compensation[2]		3.9	3.2	3.3	4.8	4.8	4.6	4.4	3.8	3.5
Nonfarm business sector										
Output per hour		.7	1.2	1.8	.5	-1.6	.0	1.1	2.4	1.3
Compensation per hour		4.7	4.6	3.8	3.7	2.9	6.0	3.2	3.5	3.5
Unit labor cost		3.9	3.4	1.9	3.3	4.5	6.0	2.0	1.1	2.2

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

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

May 14, 1992

Item	Unit	1989				1990				1991	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GDP	Bill. $	5139.9	5218.5	5277.3	5340.4	5422.4	5504.7	5570.5	5557.5	5589.0	5652.6
Real GDP	Bill. 87$	4809.8	4832.4	4845.6	4859.7	4880.8	4900.3	4903.3	4855.1	4824.0	4840.7
Real GDP	% change	2.5	1.9	1.1	1.2	1.7	1.6	.2	-3.9	-2.5	1.4
Gross domestic purchases		.7	1.1	1.7	.3	.6	1.3	1.3	-6.5	-3.5	.9
Final sales		.8	2.1	2.7	.4	4.6	-.5	.9	-.3	-2.4	1.2
Private dom. final purch.		-.4	.4	3.1	-.7	2.7	-1.5	2.5	-4.7	-4.8	.8
Personal cons. expend.		-.2	1.0	4.1	.1	2.1	.0	2.8	-3.5	-1.3	1.4
Durables		-5.0	5.9	13.8	-15.5	16.7	-11.8	1.5	-14.0	-11.9	-1.8
Nondurables		.1	-1.4	3.1	1.5	-.3	-1.5	1.3	-3.4	-.3	.9
Services		.8	1.2	2.3	3.6	.3	4.1	4.1	-.9	.7	2.5
Business fixed invest.		.9	2.7	.8	-2.5	7.1	-4.6	8.5	-7.7	-17.4	-3.3
Producers' dur. equip.		-1.0	7.3	-2.5	-3.9	6.4	-3.2	11.5	-1.6	-18.1	.0
Nonres. structures		4.9	-6.2	8.0	.4	8.5	-7.3	2.5	-19.7	-15.7	-10.3
Res. structures		-5.9	-11.9	-5.6	-7.3	.6	-15.7	-16.2	-15.0	-24.8	3.1
Exports		12.4	17.2	.9	13.7	8.8	4.8	-.4	17.7	-7.4	19.4
Imports		-6.1	6.9	6.8	4.0	-2.5	1.7	9.6	-9.3	-15.4	13.3
Government purchases		-3.4	5.2	4.1	.7	6.4	2.2	-.3	4.6	2.8	-.1
Federal		-9.5	7.9	5.1	-7.2	5.9	4.3	-5.0	4.5	9.9	1.0
Defense		-12.8	5.6	10.1	-9.2	2.3	3.3	-7.9	5.9	10.9	-3.3
State and local		1.3	3.4	3.3	6.6	6.7	.8	3.2	4.6	-1.9	-.7
Change in bus. invent.	Bill. 87$	41.2	38.9	20.2	30.0	-4.0	22.1	13.9	-31.2	-32.8	-30.4
Nonfarm		35.8	33.4	25.9	38.1	-5.5	15.5	9.9	-25.7	-31.1	-30.8
Net exports		-81.2	-71.9	-79.8	-70.0	-56.0	-52.5	-65.7	-31.2	-18.6	-12.3
''minal GDP	% change	7.8	6.3	4.6	4.9	6.3	6.2	4.9	-.9	2.3	4.6
LOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	107.6	108.1	108.5	109.0	109.7	110.2	110.2	109.8	109.2	108.8
Unemployment rate[1]	%	5.2	5.2	5.3	5.4	5.2	5.3	5.6	6.0	6.5	6.7
Industrial prod. index	% change	2.7	2.8	-1.2	.2	.6	4.2	3.9	-7.0	-9.7	2.6
Capacity util. rate-mfg.[1]	%	84.7	84.5	83.7	82.9	82.7	82.8	82.9	80.8	78.0	77.9
Housing starts	Millions	1.49	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
INCOME AND SAVING											
Nominal GNP	Bill. $	5144.3	5217.7	5279.8	5350.9	5432.7	5505.5	5576.8	5583.2	5611.7	5660.6
Nominal GNP	% change	7.3	5.8	4.8	5.5	6.3	5.5	5.3	.5	2.1	3.5
Nominal personal income		10.8	4.5	3.7	7.8	9.8	6.6	5.7	3.9	.3	4.5
Real disposable income		3.6	-2.6	1.9	3.0	4.5	1.6	.2	-2.0	-1.7	2.6
Personal saving rate[1]	%	5.2	4.3	3.7	4.4	4.9	5.4	4.8	5.2	5.1	5.4
Corp. profits, IVA&CCAdj	% change	-12.2	-5.6	-16.6	-11.4	6.7	-.5	-39.4	-4.8	8.4	1.9
Profit share of GNP[1]	%	7.1	6.9	6.5	6.3	6.3	6.2	5.4	5.3	5.4	5.4
Federal govt. surpl./def.	Bill. $	-114.5	-110.5	-128.4	-143.3	-160.8	-156.9	-149.7	-193.6	-146.4	-206.7
State/local surpl./def.		42.4	45.1	42.6	34.4	30.3	28.5	26.1	18.0	20.4	27.6
Ex. social ins. funds		-16.4	-14.8	-18.3	-27.4	-32.2	-34.9	-38.2	-46.9	-44.7	-38.0
PRICES AND COSTS											
GDP implicit deflator	% change	5.4	4.2	3.4	3.7	4.4	4.4	4.7	3.2	5.0	3.1
GDP fixed-wt. price index		4.8	4.5	3.5	3.7	5.0	4.6	4.8	3.2	5.4	3.3
Gross domestic purchases fixed-wt. price index		5.3	4.6	2.8	4.0	6.1	3.5	5.0	5.8	3.2	2.4
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
., hourly compensation[2]		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.

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

May 14, 1992

				Projected							
		1991		1992				1993			
Item	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	5709.2	5739.7	5809.3	5879.7	5966.2	6052.3	6141.4	6223.6	6304.0	6384.3
Real GDP	Bill. 87$	4862.7	4868.0	4891.9	4916.6	4954.0	4992.3	5028.0	5064.1	5099.0	5134.1
Real GDP	% change	1.8	.4	2.0	2.0	3.1	3.1	2.9	2.9	2.8	2.8
Gross domestic purchases		3.4	-.4	1.7	2.7	3.3	3.3	3.1	3.0	2.9	2.9
Final sales		-.7	-.2	4.8	1.5	1.9	2.4	2.4	2.6	2.6	2.6
Private dom. final purch.		1.9	.1	4.9	2.5	3.4	3.7	3.7	3.6	3.5	3.4
Personal cons. expend.		2.3	.0	5.3	1.9	3.1	3.4	3.2	3.0	2.8	2.7
Durables		9.5	-5.7	18.3	-.8	8.0	9.5	6.3	6.1	5.5	5.7
Nondurables		.0	-3.9	4.6	.6	2.5	2.1	2.1	2.0	1.9	1.9
Services		2.2	3.7	2.9	3.3	2.3	2.7	3.0	2.9	2.7	2.5
Business fixed invest.		-3.7	-3.4	-1.5	5.4	5.4	5.2	5.2	4.8	5.2	4.9
Producers' dur. equip.		6.7	-1.6	1.6	8.9	9.1	8.5	8.0	7.0	6.5	6.0
Nonres. structures		-23.9	-7.8	-8.5	-3.2	-4.1	-3.2	-2.4	-1.2	1.5	1.8
Res. structures		10.9	12.3	15.8	5.1	3.3	5.8	8.3	9.2	9.9	10.4
Exports		7.3	9.7	1.0	4.1	5.4	5.3	5.6	5.6	5.9	5.9
Imports		22.3	2.1	-1.5	9.6	7.4	6.7	7.1	6.7	6.7	6.4
Government purchases		-3.4	-5.4	2.8	.6	-2.9	-2.2	-1.8	-1.0	-.6	-.4
Federal		-8.1	-13.6	2.3	4.4	-5.6	-5.3	-4.9	-4.6	-4.3	-4.1
Defense		-8.9	-15.7	-1.6	2.9	-9.2	-8.8	-8.3	-7.9	-7.4	-7.2
State and local		-.1	.8	3.2	-1.9	-1.0	-.1	.4	1.3	1.9	2.1
Change in bus. invent.	Bill. 87$	.1	7.6	-26.1	-19.7	-5.8	2.7	8.1	12.3	14.6	16.6
Nonfarm		-2.8	9.2	-26.0	-20.2	-6.8	1.7	7.1	11.3	13.6	15.6
Net exports		-31.1	-21.3	-17.8	-25.4	-28.6	-30.9	-33.5	-35.5	-37.3	-38.6
Nominal GDP	% change	4.1	2.2	4.9	4.9	6.0	5.9	6.0	5.5	5.3	5.2
'LOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.0	108.9	108.8	109.1	109.4	109.9	110.3	110.8	111.3	111.8
Unemployment rate[1]	%	6.8	6.9	7.2	7.2	7.1	7.0	6.9	6.8	6.7	6.6
Industrial prod. index	% change	6.6	-.7	-4.1	5.4	5.5	5.1	4.7	4.2	3.7	3.5
Capacity util. rate-mfg[1]	%	78.7	78.2	77.0	77.6	78.2	78.7	79.1	79.4	79.5	79.5
Housing starts	Millions	1.04	1.10	1.28	1.21	1.25	1.28	1.33	1.36	1.40	1.43
Auto sales in U.S.		8.60	8.19	8.28	8.31	8.65	9.00	9.10	9.22	9.35	9.50
North American produced		6.31	6.06	6.03	6.06	6.35	6.65	6.70	6.82	6.95	7.10
Other		2.29	2.13	2.25	2.25	2.30	2.35	2.40	2.40	2.40	2.40
INCOME AND SAVING											
Nominal GNP	Bill. $	5720.1	5750.7	5824.3	5895.6	5983.9	6068.8	6159.7	6241.5	6322.6	6401.2
Nominal GNP	% change	4.3	2.2	5.2	5.0	6.1	5.8	6.1	5.4	5.3	5.1
Nominal personal income		2.7	3.5	5.1	5.0	5.4	6.6	7.6	6.0	5.5	6.0
Real disposable income		.3	.9	3.0	2.4	1.8	3.4	3.8	3.0	2.6	3.1
Personal saving rate[1]	%	5.0	5.2	4.7	4.9	4.6	4.6	4.8	4.7	4.7	4.8
Corp. profits, IVA&CCAdj	% change	3.5	13.0	70.8	9.1	13.2	16.9	.7	6.3	-.7	7.9
Profit share of GNP[1]	%	5.4	5.5	6.2	6.3	6.4	6.5	6.4	6.4	6.4	6.4
Federal govt. surpl./def.	Bill. $	-210.2	-243.1	-273.0	-284.0	-263.7	-260.6	-262.0	-255.5	-244.0	-243.6
State/local surpl./def.		31.8	40.3	43.7	49.0	56.8	59.9	64.4	65.2	66.8	67.0
Ex. social ins. funds		-33.8	-24.8	-21.5	-16.8	-9.4	-6.7	-2.6	-2.2	-1.1	-1.5
PRICES AND COSTS											
GDP implicit deflator	% change	2.1	1.7	3.1	2.7	2.8	2.7	3.0	2.5	2.4	2.3
GDP fixed-wt. price index		2.6	2.1	3.1	2.9	3.0	3.0	3.4	2.8	2.7	2.7
Gross domestic purchases fixed-wt. price index		2.5	2.2	2.7	3.3	3.1	3.0	3.4	2.8	2.7	2.7
CPI		2.7	3.6	2.9	3.8	3.7	3.4	3.3	3.2	3.1	3.1
Ex. food and energy		4.0	3.7	3.9	4.3	3.6	3.3	3.3	3.1	3.1	3.1
, hourly compensation[2]		4.1	4.0	4.0	3.8	3.7	3.7	3.6	3.5	3.5	3.4
Nonfarm business sector[3]											
Output per hour		.9	1.7	4.4	1.1	2.1	2.0	1.5	1.3	1.2	1.1
Compensation per hour		2.6	2.7	2.6	4.1	3.6	3.6	3.9	3.5	3.4	3.4
Unit labor cost		1.8	.9	-1.7	3.0	1.5	1.6	2.4	2.2	2.2	2.3

1. Not at an annual rate. 2. Private-industry workers. 3. Data for 1992:Q1 are staff estimates.

Strictly Confidential (FR)
Class II FOMC

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

May 14, 1992

Item	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 Q2	1988	1989	1990	1991
Real GDP	30.1	22.6	13.2	14.1	21.1	19.5	3.0	-48.2	-31.1	16.7	154.2	80.0	-4.6	12.9
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	3.0
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	-26.0
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	-21.3
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	19.3
Durables	-5.6	6.3	14.4	-18.7	17.1	-14.0	1.6	-16.3	-13.2	-1.9	34.5	-3.6	-11.6	-11.8
Nondurables	.3	-3.8	8.1	3.9	-.9	-4.1	3.4	-9.0	-.8	2.3	32.2	8.5	-10.6	-8.9
Services	3.4	5.1	10.0	15.3	1.1	17.8	17.7	-4.2	3.2	10.9	61.4	33.8	32.4	40.0
Business fixed invest.	1.2	3.6	1.1	-3.4	9.4	-6.4	11.2	-11.0	-25.4	-4.3	28.2	2.5	3.2	-38.9
Producers' dur. equip.	-.9	6.4	-2.3	-3.6	5.7	-3.0	10.1	-1.5	-18.2	.0	30.4	-.4	11.3	-13.9
Nonres. structures	2.1	-2.8	3.4	.2	3.7	-3.4	1.1	-9.6	-7.1	-4.4	-2.2	2.9	-8.2	-25.0
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	-1.6
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	38.8
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	34.9
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	9.9
Exports	13.0	18.3	1.0	15.3	10.4	5.9	-.5	20.9	-10.0	23.2	52.1	47.6	36.7	35.5
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	25.6
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	-14.6
Federal	-9.3	7.1	4.7	-7.0	5.4	4.0	-4.9	4.2	9.1	1.0	-13.2	-4.5	8.7	-11.9
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	-13.3
Nondefense	.3	3.3	-2.1	-.2	3.7	1.8	.9	.2	1.7	3.4	-3.9	1.3	6.6	1.4
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	-2.6

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

May 14, 1992

Item	1991		Projected 1992				Projected 1993						Projected	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1990	1991	1992	1993
Real GDP	22.0	5.3	23.9	24.7	37.5	38.3	35.7	36.1	34.9	35.2	-4.6	12.9	124.3	141.8
Gross domestic purchases	40.8	-4.5	20.4	32.3	40.6	40.6	38.2	38.1	36.7	36.4	-43.4	3.0	133.9	149.5
Final sales	-8.6	-2.3	57.7	18.3	23.6	29.8	30.3	31.9	32.6	33.2	56.6	-26.0	129.3	127.9
Private dom. final purch.	18.4	.7	47.7	24.4	33.5	37.3	36.9	36.3	35.7	35.2	-11.2	-21.3	142.9	144.2
Personal cons. expend.	18.8	-.1	42.7	15.4	25.3	27.9	26.4	25.6	24.0	23.4	10.2	19.3	111.3	99.4
Durables	9.4	-6.1	17.7	-.9	8.4	10.0	6.9	6.8	6.2	6.5	-11.6	-11.8	35.2	26.4
Nondurables	-.1	-10.3	11.8	1.4	6.4	5.5	5.5	5.3	5.1	5.1	-10.6	-8.9	25.1	21.0
Services	9.6	16.3	13.2	14.9	10.5	12.4	13.9	13.5	12.7	11.9	32.4	40.0	51.0	52.0
Business fixed invest.	-4.8	-4.4	-1.9	6.6	6.7	6.7	6.6	6.3	6.9	6.6	3.2	-38.9	18.1	26.4
Producers' dur. equip.	5.8	-1.5	1.4	7.8	8.2	7.8	7.5	6.7	6.3	6.0	11.3	-13.9	25.1	26.5
Nonres. structures	-10.5	-3.0	-3.2	-1.2	-1.5	-1.1	-.8	-.4	.5	.6	-8.2	-25.0	-7.0	-.1
Res. structures	4.5	5.2	6.8	2.3	1.5	2.7	3.9	4.4	4.9	5.2	-24.6	-1.6	13.4	18.4
Change in bus. invent.	30.5	7.5	-33.7	6.4	13.9	8.5	5.4	4.2	2.3	2.0	-61.2	38.8	-4.9	13.9
Nonfarm	28.0	12.0	-35.2	5.8	13.4	8.5	5.4	4.2	2.3	2.0	-63.8	34.9	-7.5	13.9
Farm	2.5	-4.5	1.5	.6	.5	.0	.0	.0	.0	.0	2.6	3.9	2.6	.0
Net exports	-18.8	9.8	3.5	-7.6	-3.1	-2.3	-2.6	-2.0	-1.8	-1.3	38.8	9.9	-9.6	-7.7
Exports	9.5	12.8	1.4	5.7	7.5	7.5	8.0	8.1	8.6	8.7	36.7	35.5	22.1	33.3
Imports	28.3	3.0	-2.2	13.4	10.6	9.8	10.5	10.1	10.4	10.0	-2.0	25.6	31.7	41.0
Government purchases	-8.2	-12.8	6.5	1.5	-6.8	-5.2	-4.1	-2.4	-1.3	-.8	29.0	-14.6	-4.0	-8.6
Federal	-8.2	-13.8	2.1	4.0	-5.4	-5.0	-4.6	-4.2	-3.9	-3.7	8.7	-11.9	-4.3	-16.4
Defense	-6.6	-11.7	-1.1	1.9	-6.4	-6.0	-5.5	-5.1	-4.7	-4.5	2.1	-13.3	-11.6	-19.8
Nondefense	-1.6	-2.1	3.2	2.1	1.0	1.0	.9	.9	.8	.8	6.6	1.4	7.3	3.4
State and local	-.1	1.1	4.4	-2.6	-1.4	-.2	.5	1.8	2.6	2.9	20.4	-2.6	.2	7.8

1. Annual changes are from Q4 to Q4.

Strictly .dential (FR)
Class II FOMC

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

May 14, 1992

Item	Fiscal year				1991				1992				1993			
	1990[a]	1991[a]	1992	1993	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1031	1054	1081	1153	233	307	264	255	239	317	271	262	253	348	290	271
Outlays[1]	1252	1324	1423	1526	299	333	356	338	353	358	374	391	378	381	377	394
Surplus/deficit[1]	-220	-269	-342	-373	-66	-26	-91	-83	-114	-42	-104	-129	-125	-32	-87	-123
On-budget	-277	-322	-397	-431	-81	-50	-94	-97	-121	-73	-106	-138	-133	-66	-93	-134
Off-budget	57	52	55	58	15	24	3	14	7	31	3	10	8	34	6	11
Surplus excluding deposit insurance[2]	-162	-203	-303	-297	-63	-12	-55	-88	-103	-32	-79	-106	-108	-13	-70	-107
Means of financing																
Borrowing	263	293	324	390	56	43	95	89	83	56	96	138	114	55	83	116
Cash decrease	1	-1	17	-16	0	-12	2	-7	29	-9	4	-6	10	-20	0	10
Other[3]	-44	-23	1	-1	9	-6	-6	1	2	-6	3	-3	1	-2	4	-3
Cash operating balance, end of period	40	41	24	40	32	44	41	49	20	29	24	30	20	40	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1093	1116	1153	1232	1115	1114	1125	1126	1152	1157	1176	1197	1228	1245	1259	1277
Expenditures	1245	1305	1418	1488	1262	1321	1335	1369	1422	1441	1439	1458	1490	1501	1503	1520
Purchases	417	446	442	442	452	452	445	432	442	449	445	441	445	442	439	436
Defense	309	326	314	303	332	328	322	311	315	318	312	307	306	301	297	292
Nondefense	109	120	128	139	119	124	123	121	127	131	133	135	139	141	142	144
Other expenditures	828	860	976	1046	810	869	890	937	980	992	994	1016	1045	1059	1064	1084
Surplus/deficit	-153	-189	-265	-255	-146	-207	-210	-243	-270	-284	-264	-261	-262	-255	-244	-244
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-177	-158	-211	-211	-114	-167	-168	-191	-216	-226	-210	-211	-215	-213	-205	-209
Change in HEB, percent of potential GDP	.4	-.4	.9	0	-1.3	.9	0	.4	.4	.2	-.3	0	.1	0	-.1	.1
Fiscal impetus (FI), percent, cal. year	-3.3	-4	-4.2	-4.7	-2.6	.5	-1.8	-2.4	-1.5	.9	-1.3	-1.1	-2	-1	-1	-.9

1. OMB's February deficit estimates are $400 billion in FY92 and $350 billion in FY93. CBO's March deficit estimates are $368 billion in FY92 and $337 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 March deficit estimates, excluding deposit insurance spending, are $302 billion in FY92 and $267 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.

Weakness in monetary and credit aggregates provided the backdrop for a modest easing of money market conditions on April 9, moving the federal funds rate down a quarter point to 3-3/4 percent. Other short-term market rates have fallen 45 to 50 basis points since the March FOMC meeting; commercial banks have hesitated to follow this decline, however, and Chemical Bank has stood alone in cutting its prime rate from 6-1/2 to 6-1/4 percent. Meanwhile, bond yields have fluctuated within the "trading range" that has prevailed since early February and are currently down about 10 to 20 basis points from end-of-March levels.

Unexpectedly favorable earnings reports combined with lower interest rates to bolster demand for corporate shares. The Dow-Jones Industrial Average has set records in recent days, and with price-earnings ratios more generally at elevated levels, gross equity issuance has remained heavy, though off its pace earlier in the year. Investors reportedly have become more cautious toward IPOs, and corporate deleveraging has slowed. Bank shares outperformed the market over the intermeeting period, responding to first-quarter earnings reports that suggested a lessening of asset quality problems and more attractive lending margins.

The broad monetary aggregates have sagged, with M2 falling at a 1/2 percent annual rate in March and a 2 percent pace in April, and M3 dropping at a 3 percent rate in March and 3-1/2 percent in April. The weakness was widespread across components, including a substantial slowing in M1 growth. Some temporary factors appear to have contributed to this weakness, including nonwithheld tax payments that were lower than normal and brisk RTC resolution activity at the end of the first quarter. Even allowing for these special factors, however, M2 growth has been weak relative to income and opportunity costs. Capital market instruments have continued to appeal to households, as evidenced by sustained heavy flows into bond and equity mutual funds in March, which reportedly continued in April.

The runoff in large time deposits continued in April. In the case of Japanese branches and agencies, increased fears about the soundness of these institutions prompted a sharp drop in CD issuance and interbank borrowing, which was largely offset by borrowings from related offices abroad.

A key underlying reason for tepid expansion in the broader monetary aggregates has been weak growth in depository assets. The thrift sector continued to shrink and bank credit expanded only modestly over March and April, with security acquisitions accounting for virtually all the gains. At banks, business loans continued to contract, and consumer loans were about flat after adjustment for securitizations; home equity lending was sluggish and other real estate loans edged higher. Consistent with improvement in the financial condition of the banking industry, respondents to the early May survey of senior loan officers at large banks generally indicated no further tightening of terms and conditions for business loans; moreover, a few suggested more willingness to lend to small businesses, while a larger number indicated greater willingness to make consumer loans.

Overall business debt growth has been very slow; outlays for fixed investment and inventories have evidently remained subdued while firms have issued large amounts of equity and experienced increased earnings. Gross bond issuance has been strong, but the proceeds of both bond and equity offerings have been targeted mainly for the paydown of more costly bonds and bank loans. Quality spreads on longer-term corporate debt have continued to narrow; in the first quarter, ratings slipped further on average, but downgradings outnumbered upgradings by a smaller margin.

Improvements in ratings occurred largely within the below-investment-grade sector, reflecting substantial equity capital infusions; default rates in this sector also have declined. Bond issues by below-investment-grade firms picked up in March, and in April remained quite high. The market appears to have become more receptive to the issues of cyclical firms, including homebuilders. Reports from participants in the private placement market suggest that overall issuance is unchanged to down slightly so far this year in comparison to last year, but that life insurers have become a bit more receptive to lower-grade issues, while mutual funds and private investor groups also are showing interest in this market.

Gross issuance of mortgage-backed securities reached a record pace in the first quarter, reflecting a surge in refinancings, but net issuance was modest. Although interest rates on fixed-rate mortgages have fallen about 1/4 percentage point since the end of March, they are still 1/2 percentage point above their lows in January, and mortgage application indexes show substantial further declines recently.

Total consumer credit contracted in March and was flat on average for the first quarter. Growth in consumer credit remained restrained even as consumption outlays jumped, reflecting persistent caution in household debt accumulation and the high cost of borrowing relative to yields on liquid assets. Recent surveys of consumers continue to indicate very little willingness to borrow.

State and local governments again issued large volumes of debt in April, including substantial refinancings of high-interest, long-term debt. Although many government units have implemented basic adjustments to deal with their financial problems, some prominent units face considerable difficulties and are vulnerable to further downgradings of their debt.

Reflecting the seasonal bulge in tax receipts and reduced RTC spending, the federal deficit is expected to fall this quarter; net borrowing will be $56 billion, down from $83 billion in the first quarter. Borrowing might have been reduced still further had it not been for the desire of the Treasury to build its cash balance some before it confronts the huge deficits anticipated later this year.

Outlook

The staff economic projection is based on an assumption that short-term interest rates will remain near current levels through the end of 1993. The prevailing yield curve suggests that market expectations are consistent neither with this assumption nor with our projection that bond and mortgage rates will edge down over the next few quarters. Investors still seem unwilling to bank on a significantly lower inflation rate in the years ahead. However, the staff believes that the moderate economic expansion in prospect, with continued slack in labor markets, will deliver further progress toward price stability, and that as this trend becomes more widely perceived, long-term rates will decline somewhat.

Growth of debt of domestic nonfinancial sectors appears to be picking up slightly and is expected to remain moderate through the end of 1993. At 5-1/2 percent in 1992 and 6-1/2 percent in 1993 (measured on a quarterly average basis), debt expansion is projected to be just a little faster on average than nominal GDP growth, with a fractional contribution from the funding of the RTC.[1] The major impetus to debt growth continues to be from heavy federal

1. Nonfinancial debt is artificially boosted by the RTC activity because the Treasury in effect acts as a financial intermediary in funding depository assets taken onto the RTC's books.

borrowing: nonfederal debt growth, while rising, is projected to remain quite weak through 1993.

In the staff projection, borrowing by the nonfinancial business sector increases somewhat in coming quarters, owing to (1) a slackened pace of net equity issuance as firms attain better leverage ratios and (2) a widening of the financing gap as inventory and fixed investment pick up relative to internal funds generation. Firms probably will seek some financing from banks in coming quarters, especially as inventory investment turns positive. Banks are better positioned to provide business credit, given their improved capital structures and large holdings of securities, and are more likely to open their windows to potential borrowers as the expansion becomes better established. However, unless bond yields turn upward in contradiction of our interest rate forecast, financing demands are likely to remain heavily focused on the bond markets, where lower-rated firms should experience continued improvement in the receptiveness of life insurance companies and other institutions to their debt.

As commercial real estate has begun to turn over at more realistic values, there have been scattered signs of an improved availability of credit in this area, in particular for well-capitalized deals. Lenders, however, are unlikely to throw caution to the winds any time soon; responses to the senior loan officer opinion survey indicate that banks generally continued to tighten standards for commercial real estate and development loans, and life insurance companies still seem intent on reducing exposure to this sector. We expect that continued charge-offs at banks and other lenders will lead to a further net contraction of loans in this sector.

Residential mortgage growth is expected to strengthen gradually with housing activity. Consumer credit is projected to turn up, before long, but growth is likely to remain quite subdued by historical standards, owing in part to the relatively small upswing in durable goods purchases. We anticipate that the ratio of installment debt to income will fall appreciably further over the next year.

Growth of debt of state and local governments is expected to maintain its recent slow pace through 1993. While gross bond issuance may remain heavy, there will be sizable retirements of advance-refunded issues that reach their call dates in coming quarters. Financial stress among states and localities is likely to persist over the near term, with deterioration in credit ratings in some areas, but conditions should improve gradually as the economy continues to grow in 1993.

Confidential FR Class II
May 14, 1992

GROWTH RATES O. .BT BY SECTOR[1]
(Percent, period-end to period-end)

	Domestic Nonfinancial Sectors								Memo	
				Households						
	Total[2]	U.S. govt.[2]	Non-federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets[3]	Nominal GDP[4]
1982	9.3	19.7	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	3.3
1992	5.8	13.4	3.4	5.5	6.7	0.7	1.0	3.0	2.4	5.4
1993	6.4	11.7	4.6	6.7	7.8	4.0	2.5	2.5	4.2	5.5
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	2.2
1992 -- Q1	5.0	11.4	2.8	4.6	6.0	-0.2	0.7	2.9	1.3	4.9
Q2	5.1	11.4	3.0	5.0	6.4	-0.2	0.6	3.1	1.8	4.9
Q3	6.0	13.3	3.6	5.8	6.8	1.3	1.0	3.2	2.3	6.0
Q4	6.8	15.2	3.9	6.1	7.0	2.0	1.5	2.6	4.0	5.9
1993 -- Q1	6.8	13.9	4.3	6.3	7.4	2.9	2.2	2.5	4.2	6.0
Q2	5.8	9.8	4.4	6.6	7.6	3.6	2.1	2.6	3.9	5.5
Q3	6.1	10.2	4.6	6.6	7.6	4.3	2.7	2.4	4.5	5.3
Q4	6.4	10.9	4.7	6.7	7.6	5.0	2.7	2.5	4.0	5.2

1. Published data through 1991 Q4.
2. Deposit insurance activity raises total debt growth .4, .5, and .5 percentage points in 1991, 1992, and 1993 respectively; the corresponding figures for federal debt growth are 1.6, 1.9, and 1.6 percentage points.
3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.
4. Annual figures are Q4 to Q4.

2.6.3 FOF

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

	Calendar year						1991		1992			
	1988	1989	1990	1991	1992	1993	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors:												
1 Total	637.7	590.6	581.5	483.4	692.9	778.9	493.1	468.1	604.6	617.6	730.0	819.4
2 Net equity issuance	-129.5	-124.2	-63.0	17.5	36.3	12.5	17.0	54.0	48.2	37.0	35.0	25.0
3 Net debt issuance	767.2	714.7	644.5	465.9	656.6	766.4	476.1	414.1	556.4	580.6	695.0	794.4
Borrowing sectors:												
Nonfinancial business												
4 Financing gap[2]	11.9	53.5	61.2	28.2	2.3	37.3	46.3	44.8	-5.1	-7.9	6.7	15.4
5 Net equity issuance	-129.5	-124.2	-63.0	17.5	36.3	12.5	17.0	54.0	48.2	37.0	35.0	25.0
6 Credit market borrowing	247.4	217.9	97.3	3.1	33.6	87.4	-17.9	-64.4	25.9	20.2	35.6	52.7
Households												
7 Net borrowing, of which:	315.8	287.3	257.8	160.3	223.4	287.5	108.3	176.1	187.6	206.8	241.0	258.1
8 Home mortgages	230.4	219.2	218.7	139.5	191.5	236.7	105.6	143.1	170.8	186.5	198.7	210.1
9 Consumer credit	50.3	43.1	14.2	-16.5	5.7	32.0	-26.3	-11.3	-1.5	-1.5	10.0	16.0
10 Debt/DPI (percent)[3]	85.5	88.3	91.2	94.3	94.1	94.1	94.8	95.0	94.7	94.4	94.6	94.5
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[4]	-26.6	-31.0	-40.2	-27.3	-7.4	0.9	-23.2	-19.7	-18.2	-8.1	-0.6	-2.6
U.S.government												
13 Net borrowing	155.1	146.4	246.9	278.1	373.3	368.4	365.5	278.7	317.1	325.9	389.9	460.2
14 Net borrowing;quarterly, nsa	155.1	146.4	246.9	278.1	373.3	368.4	95.3	89.0	82.5	56.4	95.8	137.5
15 Unified deficit;quarterly, nsa	141.9	155.0	236.1	265.5	387.6	367.4	91.3	82.9	113.8	41.6	103.6	128.7
Funds supplied by												
16 depository institutions	275.0	86.1	-32.2	-64.6	31.8	107.2	-128.2	43.1	-53.5	106.8	57.0	16.9
Memoranda: As percent of GDP:												
17 Dom. nonfinancial debt[3]	180.9	183.3	188.1	193.8	195.0	195.9	194.9	195.6	195.7	195.8	195.9	196.4
18 Dom. nonfinancial borrowing	15.7	13.6	11.7	8.2	11.1	12.2	8.3	7.2	9.6	9.9	11.6	13.1
19 U.S. government[5]	3.2	2.8	4.5	4.9	6.3	5.9	6.4	4.9	5.5	5.5	6.5	7.6
20 Private	12.5	10.8	7.2	3.3	4.8	6.4	1.9	2.4	4.1	4.3	5.1	5.5

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.

Recent Developments

After the March FOMC meeting, the dollar traded in a fairly narrow range until late in the period, when the dollar declined, primarily reflecting growing market expectations of a near-term easing by the Federal Reserve and the perception that any easing by the Bundesbank has been postponed. On a weighted-average basis in terms of other G-10 currencies (through 10:00 am, May 14), the dollar has declined, on balance, about 2 percent. The decline has included depreciations of 2 percent against the mark, the yen, and 5 percent against sterling.

German short-term interest rates have been essentially unchanged over the intermeeting period, and Japanese short-term rates have declined about 10 basis points, noticeably less than the decline in U.S. rates. Japanese long-term rates have risen 15 basis points and German long-term rates have been little changed on balance, whereas rates on U.S. 10-year Treasury securities have declined 20 basis points. U.K. short-term interest rates have declined about 90 basis points, initially in the wake of the Conservative Party's election victory and later with the Bank of England's reduction of official lending rates. The three-month interbank rate in France has come down 30 basis points following an easing of reserve requirements by the Bank of France, and perhaps in anticipation of a reduction in official rates. Canadian short-term interest rates have fallen 75 basis points over the intermeeting period, and the U.S. dollar has appreciated 1 percent against the Canadian dollar.

. The Desk did not intervene during the intermeeting period.

Recent data from the major foreign industrial countries show a mixed pattern of activity in the first quarter. Indications of greater strength in Germany and to some extent France and Italy contrast with signs of continuing weakness in Japan and Canada. Estimates of western German real GNP in the first-quarter suggest that growth may have rebounded to as much as 6 percent (at a seasonally adjusted annual rate), boosted by unusually warm weather and other special statistical factors. Industrial production also firmed in the first quarter, and new orders increased. In the eastern German states, a rise in investment, largely public investment, appears to be under way. However, west German labor markets have remained tight, and recent strikes and ongoing wage negotiations have reduced the scope for an easing of interest rates and raised uncertainties about whether the rebound in overall German activity will be sustained.

In Japan, most recent economic news has been negative and suggests a further slowing of growth. Industrial production declined further in the first quarter, and orders and retail sales were soft. The ratio of offers to applicants, a sensitive measure of labor-market conditions, declined sharply in February, to nearly 25 percent below its year-ago level. The stock market has recovered somewhat recently, and the Nikkei index is down only 3 percent, on balance, since the last FOMC meeting. The Japanese government's modest package of special measures to stimulate demand (announced at the end of March) entailed primarily a shifting forward of already planned expenditures.

Canada continues to struggle with a halting recovery, as unemployment remains at 11 percent. In the United Kingdom, the recent success of the Conservative Party in national elections has removed some uncertainties that may have held back the economy.

With the noticeable exception of Germany, inflationary pressures have remained fairly steady or have ebbed further in the foreign industrial countries. In the United Kingdom, new wage settlements recently fell below an average rate of 5 percent, and CPI inflation is down to about 4 percent (twelve-month basis), but underlying inflation is still in the range of 5 to 6 percent. In Canada, the twelve-month rate of consumer-price inflation has dropped to almost 1-1/2 percent, putting Canada well ahead of schedule to meet official inflation objectives. The rise in Japanese inflation to just below 3 percent in April was attributed largely to a transitory increase in prices of perishable food. In contrast, German consumer-price inflation remained at about 4-1/2 percent in April. Moreover, German authorities' concerns about inflation prospects have been heightened by wage demands that are above government estimates of noninflationary increases and by the recent acceleration of monetary aggregates.

The preliminary U.S. merchandise trade deficit narrowed substantially in February, and for January-February it was nearly $9 billion (at an annual rate) less than in the fourth quarter. The narrowing of the deficit reflected a drop in imports, while exports remained little changed from their high fourth-quarter level. Much of the decline in imports was attributable to lower oil prices; the quantity of non-oil imports also fell somewhat as imports of consumer goods declined from very high levels reached in the fourth quarter. Prices of non-oil imports increased moderately in the first quarter, at about the same rate as in the fourth quarter.

Outlook

The staff outlook for real net exports of goods and services is little changed for 1992 and slightly weaker for 1993 than projected in the last Greenbook. Net exports make a modest negative contribution to U.S. real GDP growth throughout the forecast period. The outlook for growth of real GDP in major foreign industrial countries on average has been lowered somewhat, primarily for 1993; however, this decline has been largely offset by a somewhat stronger outlook for growth in key developing countries.

The Dollar. We project that the foreign exchange value of the dollar will be roughly unchanged from the level that has prevailed for most of the intermeeting period. The dollar is currently at the low end of the intermeeting range, largely because of market expectations of easing by the Federal Reserve that is not built into our forecast. The projected path of the dollar is essentially the same as in the March Greenbook. 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. GDP growth in the major foreign industrial countries is projected to average about 2 percent in 1992 (Q4/Q4, using GDP weights) and 2-3/4 percent in 1993. The average for 1992 is essentially unchanged from that presented in the March Greenbook, but the outlook for the remaining quarters of 1992 is somewhat lower. The outlook for 1993 is more than 1/4 percentage point less than projected previously, largely because of downward revisions for Germany and Japan.

We expect western German output growth to average about 2-1/2 percent (Q4/Q4) this year and next, stimulated by investment demand in the eastern states and the ending of temporary tax surcharges.

The outlook for German growth is stronger for the first half of 1992 than we had foreseen in March (largely because of the unexpectedly strong performance in the first quarter) but weaker in the second half and in 1993. Projected U.K. growth in 1992 has been revised upward, particularly in the near term, as signs that activity may be rebounding have become more evident. However, Japanese GNP growth is now forecast to be only 1-1/2 percent in 1992 and 3 percent in 1993. This outlook for Japanese growth is about 1/2 percentage point below the rates projected in March, largely because of the weakness displayed in recent Japanese data and surveys of investment intentions. We are assuming that a supplemental Japanese budget package involving increased spending will be announced and implemented later this year.

The staff forecasts that average consumer-price inflation in the foreign industrial countries will fall below 3 percent (Q4/Q4 basis) by the end of next year, marginally lower than projected in the March Greenbook. The outlook for inflation has improved somewhat in Japan and the United Kingdom. However, recent labor-market developments have diminished previous expectations of an easing of German inflation, and German consumer prices are now projected to rise this year and in 1993 by 3-1/4 to 3-1/2 percent.

The combined current account position of the foreign G-7 countries is expected to move to a surplus of about $20 billion in 1992 and 1993 (from a deficit of $7 billion in 1991), largely because of the absence of Gulf War payments and the continued expansion of Japan's surplus--to $90 billion. Germany's deficit is expected to narrow to $8 billion this year.

We expect short-term interest rates in the foreign industrial countries to decline moderately, about 50 basis points on average over the forecast period, although the path is slightly higher than in the previous forecast. The near-term outlook for German short-term interest rates has moved up about 25 basis points since March and any declines have been postponed until 1993, largely in response to intensifying wage and price pressures in that country. The expected paths of short-term interest rates in most of Germany's EMS partners have been raised similarly. However, the projections for short-term rates in the United Kingdom, Japan, and Canada have been lowered. Foreign long-term interest rates are projected to decline on average over the forecast period, though less than short rates.

Developing Countries. The outlook for growth in the developing countries that are major U.S. trading partners is slightly higher than in the last Greenbook. Real GDP growth is projected to increase moderately in 1992 and again in 1993 from the average rate of 5-1/4 percent recorded in 1991. This pattern holds in Asia and Mexico. Growth in other Latin American countries, on average, is expected to slow a bit this year and to pick up again in 1993. Relative to the March forecast, growth in key Asian countries has been raised somewhat as a result of a stronger outlook for domestic demand and more rapid expansion of trade with China.

U.S. Real Net Exports of Goods and Services. We project real net exports to decline about $8 billion in the second quarter. Imports are projected to rebound, following an expected small decline in the first quarter, and exports are projected to expand only moderately. Beyond the second quarter, we project net exports to continue to worsen gradually, by a total of about $13 billion through the rest of the forecast period. We expect imports of goods and services to expand at a slightly faster pace than exports through 1993, as the recovery of U.S. real GDP growth initially exceeds that in industrial countries abroad and as the positive effects of the net depreciation of the dollar over the past year diminish.

We project the quantity of nonagricultural exports to grow about 6 percent this year (fourth-quarter to fourth-quarter) and 7 percent in 1993. The key factors underlying this export projection are the expected increase in income growth in major U.S. export markets on average, continued rapid growth in trade in computers in real terms, and some residual stimulus from the past depreciation of the dollar.

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

	1990:Q4 to 1991:Q4	Projection 1992 Q1	Q2	Q3	Q4	1993 Q4
Nonag. exports	8.8	0.3	7.7	7.3	7.4	7.2
Agric. exports	11.3	21.4	-19.1	-0.1	-3.2	0.6
Non-oil imports	5.1	-2.8	6.6	8.6	8.5	7.3
Oil imports	6.5	-0.9	57.5	9.6	0.4	9.6

* GDP basis, 1987 dollars.

Agricultural exports are expected to decline in the second quarter from the high level reached in the first quarter this year when shipments to the former Soviet republics surged. We assume that agricultural exports will be about flat over the forecast period, partly because prospects for output in the former Soviet Union have improved.

We project the quantity of non-oil imports excluding computers to grow more than 4 percent this year and more than 6 percent in 1993 as U.S. domestic demand recovers. Continued rapid growth of trade in computers should add another percentage point to the growth rates of total real non-oil imports. (Net exports of computers, however, are projected to remain about unchanged through the forecast period.)

The quantity of oil imports is projected to increase significantly in the second quarter as domestic petroleum stocks are rebuilt. Thereafter, we expect oil imports to fluctuate around a gradual uptrend through 1993 as the U.S. economy recovers and domestic oil production continues to trend down.

Oil Prices. Production restraint on the part of OPEC (especially Saudi Arabia) has pushed spot and futures prices for West Texas Intermediate crude oil to about $21.00 per barrel recently. This level of spot prices is somewhat above the level we had assumed in the March Greenbook. Accordingly, we have revised up the level of oil import prices in the near term. The recent pattern of spot prices is consistent with an average U.S. oil import unit value of $17.66 per barrel in the second quarter and roughly $18 per barrel in the third quarter and fourth quarters, raising the assumed average level of the import unit value about 40 cents per barrel for the year 1992.

Our longer-term price assumption remains unchanged and continues to hinge on Saudi Arabia's willingness to target prices at a level consistent with an average U.S. import unit value of $18 per barrel--unless its production falls below 8 million barrels per day (mb/d). Increasing demand associated with the recovery of world economic activity should about offset Kuwait's and eventually Iraq's re-entry to the world oil market, allowing Saudi Arabia to maintain production above 8 mb/d through 1993.

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports is projected to resume a moderate uptrend over the period ahead as U.S. producer prices (weighted by their shares in exports) begin to recover from levels depressed by the cyclical weakness. Non-oil import price increases are expected to remain in the neighborhood of 2-1/2 percent at an annual rate over the forecast period.

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

	1990:Q4 to 1991:Q4	Projection 1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q4
PPI (exp. wts.)	-0.8	-0.2	3.2	2.0	1.9	1.9
Nonag. exports	-0.4	-0.7	2.6	1.3	1.2	1.3
Non-oil imports	0.2	2.5	2.4	2.6	2.5	2.4
Oil imports ($/bl)	18.04	15.46	17.66	18.13	18.00	18.00

Nominal Trade and Current Account Balances. The merchandise trade deficit is estimated to have narrowed 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. We project the deficit to widen steadily to about $100 billion by the end of 1993. The current account deficit is projected to widen from about $30 billion in the first quarter to $60 billion by the end of 1993. 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.

May 13, 1992

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

			Projection		
Measure and country	1989	1990	1991	1992	1993
REAL GNP					
Canada	2.1	-1.1	-0.2	2.1	3.4
France	4.0	1.6	1.8	2.1	2.6
Western Germany	3.3	5.3	0.9	2.4	2.6
Italy	2.8	1.6	1.5	1.8	2.3
Japan	4.9	4.7	3.2	1.6	2.9
United Kingdom	1.6	-0.7	-1.7	1.9	2.6
Average, weighted by 1987-89 GNP	3.5	2.6	1.4	1.9	2.7
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	3.6	2.0	1.7	2.9	3.7
G-6	2.9	1.0	0.6	2.0	3.0
Developing countries	5.2	4.9	5.3	5.6	6.1
CONSUMER PRICES					
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	3.3	3.4
Italy	6.6	6.3	6.1	4.7	4.8
Japan	2.9	3.2	3.2	2.3	1.9
United Kingdom	7.6	10.0	4.2	3.6	3.0
Average, weighted by 1987-89 GNP	4.4	4.8	3.9	3.1	2.9
Average, weighted by share of U.S. non-oil imports	4.2	4.4	3.8	2.9	2.5

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)

	1991		1992 (Projection)				1993 (Projection)				ANNUAL (Projection)		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993
GDP Net Exports of Goods and Services (87$)	-31.1	-21.3	-17.8	-25.5	-28.7	-31.0	-33.6	-35.6	-37.4	-38.7	-20.8	-25.8	-36.3
Exports of G+S	545.2	558.0	559.4	565.1	572.6	580.1	588.0	596.1	604.7	613.4	537.9	569.3	600.6
Merchandise	400.3	413.7	415.8	420.7	427.5	434.2	441.2	448.2	455.6	462.9	397.4	424.5	452.0
Services	144.8	144.3	143.6	144.4	145.1	145.9	146.9	147.9	149.1	150.5	140.4	144.7	148.6
Imports of G+S	576.3	579.3	577.1	590.5	601.1	611.0	621.5	631.6	642.0	652.0	558.7	594.9	636.8
Merchandise	475.7	476.6	473.5	485.9	496.2	505.3	515.2	524.6	534.3	543.2	459.8	490.2	529.3
Oil	51.9	45.9	45.8	51.3	52.5	52.6	53.6	55.1	56.9	57.6	48.5	50.5	55.8
Non-oil	423.8	430.7	427.7	434.6	443.7	452.8	461.6	469.5	477.3	485.6	411.3	439.7	473.5
Services	100.6	102.8	103.6	104.6	105.0	105.7	106.3	107.0	107.7	108.8	98.9	104.7	107.5
Memo: (Percent changes 1/)													
Exports of G+S	7.3	9.7	1.0	4.1	5.4	5.3	5.6	5.6	5.9	5.9	6.8	4.0	5.7
of which: Goods	4.6	14.1	2.0	4.8	6.6	6.4	6.6	6.5	6.8	6.5	9.0	4.9	6.6
Imports of G+S	22.3	2.1	-1.5	9.6	7.4	6.7	7.1	6.7	6.7	6.4	4.6	5.5	6.7
of which: Non-oil Goods	26.3	6.7	-2.8	6.6	8.6	8.5	8.0	7.0	6.9	7.1	5.1	5.1	7.3
Current Account Balance	-46.5	-41.1	-30.9	-42.6	-48.6	-54.0	-52.2	-54.4	-54.9	-60.0	-8.6	-44.0	-55.4
Merchandise Trade, net	-83.4	-74.6	-63.2	-77.8	-83.8	-87.3	-90.9	-94.1	-97.0	-99.8	-73.6	-78.0	-95.4
Exports	416.1	432.2	433.4	441.0	449.4	457.6	466.5	475.3	484.7	493.5	416.5	445.3	480.0
Agricultural	40.2	43.3	44.2	42.5	42.9	42.9	43.9	44.5	45.5	45.8	40.1	43.1	44.9
Nonagricultural	375.9	389.0	389.2	398.5	406.5	414.6	422.6	430.8	439.2	447.7	376.4	402.2	435.1
Imports	499.5	506.9	496.6	518.7	533.3	544.8	557.4	569.4	581.7	593.3	490.1	523.4	575.4
Oil	52.4	48.8	41.5	53.8	56.4	56.1	57.2	58.8	60.7	61.4	51.4	51.9	59.6
Non-oil	447.1	458.0	455.1	465.0	476.8	488.7	500.2	510.6	521.0	531.8	438.7	471.4	515.9
Other Current Account	29.5	32.6	24.0	26.0	24.3	23.6	27.1	28.6	30.2	29.7	55.6	24.5	28.9
Invest. Income, net	7.5	0.9	8.3	9.2	11.0	9.7	11.5	11.1	11.9	10.1	9.4	9.6	11.1
Direct, net	48.2	43.7	46.2	46.7	46.9	46.8	47.2	47.7	47.9	47.9	51.4	46.6	47.7
Portfolio, net	-40.8	-42.7	-37.8	-37.5	-35.9	-37.1	-35.7	-36.6	-36.0	-37.7	-42.0	-37.1	-36.5
Military, net	-3.5	-2.3	-2.3	-2.4	-1.7	-1.4	-1.2	-1.2	-1.2	-1.2	-5.3	-1.9	-1.2
Other Services, net	44.5	40.7	42.5	43.2	44.0	45.0	46.3	47.8	49.4	50.9	41.2	43.7	48.6
Transfers, net	-11.5	-5.7	-16.2	-14.8	-18.0	-20.0	-18.0	-18.0	-18.0	-20.0	19.7	-17.2	-18.5

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