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Strictly Confidential (FR) Class II FOMC

November 12, 1992

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

DOMESTIC NONFINANCIAL DEVELOPMENTS

The economy appears to have entered the autumn with a little more forward momentum than anticipated in the last Greenbook. But the available evidence suggests that households and businesses remain cautious, and the recent backup in interest rates and appreciation of the dollar represent impediments to growth of demand that we had not foreseen in our prior forecast. Consequently, while we have raised our forecast of real GDP growth in the current quarter to 2 percent at an annual rate, we see no significant pickup from that pace until the latter half of 1993. With the margin of unutilized resources likely to remain substantial over the forecast period, we project that the trend of CPI increase will move down to 2 percent in 1994.

The staff projection continues to be based on an assumption of little, if any, change in short-term interest rates over the next two years. Also, we have retained an assumption that fiscal policy will remain mildly restrictive--a feature that obviously conflicts with the expectations of many financial market participants. In part because of that difference, we continue to anticipate that longer-term interest rates will drop substantially in coming quarters and that the downtrend will extend into 1994.

Clearly, there are grounds for skepticism regarding our fiscal assumption. If the economy remains as sluggish in coming months as we have forecast, there is a distinct possibility that the new Administration and Congress will enact a short-term stimulus package. But, given the likelihood that the dimensions of any such action would be constrained by longer-range budgetary concerns, our fiscal assumptions may not be too far off the mark in terms of their macroeconomic implications; however, we have provided, in an addendum, model simulations of some generic fiscal policy measures,

with the thought that they may aid the reader in assessing the risks to our baseline forecast.

Recent Developments and the Current Quarter

Data for the current quarter are scarce, being limited to October readings on the labor market, a few figures on industrial output, and information on motor vehicle sales. Based on that admittedly skimpy information and the tendencies visible as the summer ended, we now expect real GDP to grow at a 2 percent annual rate in the fourth quarter--compared with a 1-1/4 percent pace in the September Greenbook.

The most important factor in the upward revision is the October report on employment and hours. Although the increase in private payrolls last month was small, it was combined with an uptick in average weekly hours and suggests a greater firmness in labor input than we had anticipated. The dropoff in initial claims for unemployment insurance in recent weeks reinforces the impression that, despite reports of further business downsizing and weak hiring plans, there has been some stability of late in overall labor demand. With productivity likely still rising at an above-trend rate, it seems reasonable to anticipate that output will post a moderate increase this quarter.

In the manufacturing sector, the hours figures for October, together with assorted physical product data, suggest that industrial production rose a little last month. Motor vehicle assemblies increased in October, and the recent improved pace of light truck sales bodes well for a further gain in vehicle production this month.

That said, there is no hint in the available information that the economic expansion is gaining velocity--or that it will very soon. Survey evidence through October pointed to a deterioration in

consumer confidence; many analysts have said that there might be a post-election lift in sentiment, but that remains nothing more than a conjecture at this point. Real consumer spending was flat in August and September, and we are anticipating only a moderate increase of about 2 percent at an annual rate this quarter. Because of improved labor income and a retracing of the third-quarter hurricane effects, real disposable income is expected to rise considerably this quarter, and the personal saving rate is anticipated to retrace part of its summer decline.

The higher level of housing starts in August and September, given the normal lags, should be reflected in an appreciable step-up in residential construction activity this quarter. One cannot yet observe the influence of the recent rise in mortgage rates on housing demand. Some potential buyers may jump in, for fear that rates might be headed higher; but we expect that, on balance, the recent backup will lead to a flattening in sales and starts in the near term.

In the business sector, trends in orders at domestic manufacturers point to a solid gain in equipment outlays this quarter: New orders for nondefense capital goods, excluding aircraft, were up 2-1/2 percent in the third quarter (not annualized).¹ Moreover, deliveries of commercial aircraft to domestic carriers should bounce back closer to trend from a relatively low pace this summer. Prospects for nonresidential construction are less favorable, but some uptick after the third-quarter plunge appears likely, in light of the recent trends in contracts and permits and the reconstruction work in Florida.

1. Given the lack of more current information, we cannot judge whether businesses are now postponing outlays in anticipation of the possible enactment of investment tax incentives. However, in the current circumstances, with a well-defined fiscal alternative not yet on the table, it seems likely that any such effects would be quite moderate.

Businesses still report no need to stock up to meet customer demands, and we anticipate that inventory investment will fall off slightly from the modest third-quarter pace.

Given the sustained weakness of demand abroad, we expect that the external sector will continue to contribute negatively to U.S. output growth this quarter.

Government purchases, too, are likely to be a negative element in GDP growth. At the federal level, defense spending should drop appreciably after a third-quarter surge, and at the state and local level, budgetary constraints and an unwinding of the emergency summer jobs program point to flatness in real purchases of goods and services.

We have lowered our forecast of the fourth-quarter increase in consumer prices one-half percentage point to an annual rate of 3 percent. Recent news on wages and prices has been very favorable. The employment cost indexes for September showed that the trends in both wage and benefit increases are pointed downward, with the overall ECI for private industry compensation up 3.4 percent in the most recent year, compared with 4.5 percent in the prior twelve months. Meanwhile, the CPI excluding food and energy, which has had a run of monthly increases of just 0.2 percent, rose only 3.3 percent in the year ended September--1.2 percentage points below the year-earlier figure. Although we anticipate that the core CPI will rise at less than a 3 percent rate again this quarter, below our previous expectation, the reduction in our forecast for the overall CPI has been muted by a higher food price component (reflecting recent increases in fruit and vegetable prices).

The Outlook for 1993 and 1994

Key Assumptions. As noted earlier, our forecast continues to be conditioned on a monetary policy assumption of little change in

short-term rates through the projection period. In the next few quarters, the projected sluggishness of aggregate demand could be accompanied by some downward pressures on money market rates; however, as the expansion process takes firmer hold, abetted by a gradual easing of credit supply restraints, the pressures may swing the other way and a rise in real rates may be needed to hold aggregate demand on a disinflationary path.

Long-term interest rates now are noticeably above the levels that we previously had expected to prevail in the current quarter. We had noted the possibility that the markets might be roiled by fiscal uncertainties, and indeed the conventional wisdom is that this factor was, if not the entire explanation, at least an important cause of the recent bond market slump. On our assumption that current fears of budget-busting fiscal action will be largely allayed by events in the coming months, we have adhered to our previous view that, as market participants see short rates and inflation remaining low, nominal bond yields will fall appreciably. Thus, although bond yields in this forecast are considerably higher through the first half of 1993 than in the September Greenbook, they return to essentially the previously forecast path in 1994.

Despite the recent greater growth of M2, both M2 and M3 will probably end this year a little below their annual target ranges. We project that the monetary aggregates will grow relatively slowly again in 1993 and that velocity will increase; deposit rates will likely continue to adjust downward in response to previous declines in market rates, and structural changes--such as those arising from household deleveraging and the implementation of FDICIA--will probably continue to restrain the expansion of depository lending. While structural adjustments are likely to abate in 1994, any

rise in short-term interest rates in that year would tend to limit the acceleration in growth of the broad aggregates.

Despite our unchanged assumptions regarding discretionary fiscal policy action, we have reduced our projection of the FY1993 deficit about \$20 billion, to a level of \$334 billion. To a degree, the revision reflects technical adjustments made in light of the lower-than-expected 1992 deficit. In addition, though, our receipts projection has been boosted by a somewhat higher path for nominal income in the near term, and outlays have been cut a bit by lower spending for deposit insurance and a lower-than-expected defense appropriation. The deficit forecast for FY1994 is \$347 billion, unchanged from the last Greenbook. An assumed pickup in the pace of RTC activity accounts for most of the rise in the deficit over the next two years; excluding deposit insurance, the deficit should remain fairly flat, in a range a little under \$300 billion.

The rise in the trade-weighted value of the dollar since the last FOMC meeting amounts to about 9 percent; we anticipate that the dollar will not deviate materially from its current level through 1994. Although recent news on activity in the other major industrial economies has been generally negative, this information has necessitated only a marginal downward adjustment to our 1992 foreign growth forecast. We have also shaved a tad off of the already only moderate growth projected for 1993; but, importantly, the prospect is still for a significant acceleration of activity during 1993 and 1994. Crude oil prices are assumed to remain around their recent levels through 1994. We have also assumed that the recent strains in trade negotiations will not lead to significant new impediments to international commerce.

General contours of the forecast. We have trimmed a little from our projected GDP growth rates for 1993 and 1994, largely

because of the revisions to our paths for interest and exchange rates. The pace of growth that we anticipate over the next few quarters should generate some small gains in employment, but we do not expect those gains to begin surpassing even the still-sluggish pace of labor force growth until the latter part of 1993. The civilian unemployment rate thus is projected to remain around 7-1/2 percent over the next year. In 1994, the jobless rate is expected to decline, roughly along the same path that was projected in the September Greenbook. Favorable incoming data on wages and prices are reflected in a marginal downward adjustment to the inflation forecast through the projection period.

STAFF ECONOMIC PROJECTIONS
(Percent change; Q4 to Q4)

	1991	1992	1993	1994
Real GDP	.1	2.3	2.4	3.2
<i>Previous</i>	.1	1.9	2.7	3.3
Civilian unemployment rate ¹	6.7	7.4	7.6	7.1
<i>Previous</i>	6.7	7.5	7.7	7.1
CPI excluding food and energy	4.5	3.2	2.5	2.0
<i>Previous</i>	4.5	3.5	2.7	2.1

1. Annual average.

The basic story line remains unchanged: Growth of aggregate demand is damped in the near term by cautious spending behavior on the part of consumers, who remain fearful of losing their jobs. Over time, however, a diminution in the ability of businesses to increase production without adding workers, as well as the effects of lower interest rates and of further progress in redressing financial imbalances, should lead to more hiring and investment-- which, in turn, should encourage households to spend more. Although the possibility exists that the dynamics of this process could produce a more robust expansion that we have projected, the unusual

drags from commercial construction and governmental budget constraints argue against a major overshoot; and, if there is an upside risk to the forecast, so, too, is there a risk that the financial stresses evident here and abroad could prove more disruptive of the growth process than we have anticipated.²

Consumer spending. Real PCE grew 2 percent over the past four quarters, and growth is forecast to be only a little above that pace through the first half of 1993. We continue to expect that, in the near term, a hesitancy borne of insecurity about prospects for jobs and income will damp consumer demand, and we have projected that the personal saving rate will have moved back to about 5 percent by next spring.³ This pattern will support an appreciable further reduction in debt burdens, putting households in a still better position to increase their spending subsequently. Although we anticipate that purchases of motor vehicles and other consumer durables and semidurables will contribute to near-term growth in spending, a backlog of deferred replacement demand will probably be growing.

By the latter part of 1993, the uptrend in labor income should be more firmly established, and consumer confidence and financial health should have improved to the point that households will feel comfortable in stepping up their expenditures somewhat. We have projected that growth of real PCE will move above 3 percent for

2. In considering the risks in this forecast, it is conceivable that the very expectations about deficit-expanding fiscal actions that appear to have raised interest rates could also lead consumers and businesses to step up their spending in anticipation of higher future levels of income and production. If this were so, we would be overstating the restraining effects of the recent runup in rates. However, given the uncertainty facing private agents about the specifics of any fiscal package and the lack of evidence at this point of any anticipatory spending behavior, it seems more likely that the current higher rates are exerting a net negative effect on aggregate demand.

3. The saving rate averaged 5.0 percent over the year ended in June and then dropped to an average of 4.5 percent in the third quarter.

several quarters--a pace that is far from impressive by historical standards, but nonetheless one that, given the moderate rate of income growth, implies a small decline in the personal saving rate. However, it may be worth noting that a broader concept of personal saving suggested by economic theory--one that includes saving in the form of net acquisitions of durable goods--would show a significant rise between now and 1994 in this forecast.

Housing. As noted earlier, we believe that the recent backup in mortgage rates is likely to lead to a flattening out of single-family housing starts and sales in the near term. Given the prevailing economic uncertainties, many potential buyers will hesitate to make such a financial commitment even though the cash-flow affordability of homeownership remains at a very high level by the standards of recent years. Moreover, with house prices not rising appreciably on average across the country--and falling in some areas--there is no widespread sense of urgency to purchase now. Meanwhile, in the multifamily sector, still-high vacancy rates and reluctant lenders should damp building activity.

When, as projected, mortgage rates retrace their recent run-up and then move even lower, demand for homes can be expected to respond. The pickup in construction employment should, in turn, help generate the income needed to buttress demand in this and other areas of expenditure. We have forecast that single-family starts will trend upward from around 1.05 million units (annual rate) in early 1993 to about 1-1/4 million units by the end of 1994. The absorption of vacant apartment units should cause real rents to firm gradually and the number of profitable building opportunities to increase; however, multifamily starts are projected to rise to only about 1/4 million units by late 1994. The expected pace of housing starts is low by postwar standards, because of relatively low

population growth and the relatively high levels of real long-term interest rates.

Business fixed investment. Real outlays on business fixed capital have risen appreciably on net in recent quarters, and the sustained growth of sales and cash flow should produce further substantial gains in the period ahead. The projection shows real BFI increasing at an average rate of around 6-1/2 percent over the next two years (about the pace during the first three quarters of this year). The competitive pressures to modernize product lines and to achieve labor-cost savings are likely to focus attention on equipment purchases. Computers and related equipment are projected to continue to be a major element in spending growth, but a less dominant factor than they have been to date in this cyclical upswing. We expect that a gradual pickup will occur in other categories; communications equipment has already strengthened, and a firming in demand for industrial machinery is likely. Proposals for investment incentives and enhanced infrastructure spending, if implemented, could boost equipment spending beyond the pace forecast here; however, we have made no allowance for that possibility at this point.

On the nonresidential construction side, the flattening of contracts and permits over the past year and a half suggests that the bottom should be near. Of course, the same could have been said--and was--before the reported drop in construction-put-in-place this summer. But with that latest decline, the downside risks seem even smaller, and real investment in nonresidential structures appears likely to be rising at least modestly by 1994. While excess office space should hold down new building in that sector for years to come, other commercial and industrial construction will probably

rise somewhat, and utility investment will be enlarged to a degree by pollution abatement requirements.

Business inventories. The past couple of quarters have seen a modest increase in inventories held by nonfarm businesses, and we have projected a slight further accumulation in the current quarter. But this pace of investment has been consistent with a continuation of the trend toward lower stock-to-sales ratios--and probably very lean positions in some areas. We expect a moderate pickup in inventory investment over the forecast period, as final sales strengthen and businesses seek to ensure that they can adequately meet customer requirements. As supplies begin to tighten and lead times lengthen, desired stocks normally tend to rise; however, with final sales growth projected to be moderate, we anticipate that ongoing efforts to streamline production and distribution processes to achieve just-in-time delivery will maintain the downtrend in stock-sales ratios.

A special word is in order with regard to the farm component of business inventory investment. Although the way that agricultural developments will be reflected in the national income accounts is often a little uncertain, the high level of production this year has undoubtedly caused farm stocks to rise--and, indeed, there was a notable step-up in farm inventory investment in the advance estimate of third-quarter GDP. It seems reasonable to assume that a combination of reduced planting (encouraged by Department of Agriculture acreage restraint programs) and more normal crop yields will result in lower output next year--and farm inventory investment is a likely place for such a variation in production to show through. A swing in farm inventory investment is projected to contribute a couple of tenths of a percent to GDP growth this year and to subtract a tenth next year.

Government purchases. The outlook for federal purchases continues to be an appreciable negative in the forecast of aggregate demand. Defense spending is slated to decline steeply, apart from any action that the new President and Congress may take. Meanwhile, real nondefense purchases, which in any event account for less than a third of the total, are projected to rise only a little, consistent with the caps on discretionary spending.

State and local purchases also are likely to remain weak for some time. We project essentially no growth next year and only 1-1/4 percent growth in 1994. Moreover, given the size of the sector's deficit, further tax hikes appear inevitable; sales tax increases both drain off consumer purchasing power and work to raise the CPI. As a result of the tax and spending adjustments, the state and local government deficit on operating and capital account is projected to shrink from about \$50 billion (annual rate) currently to about \$12 billion at the end of 1994.

Net exports. Real exports of goods and services are projected to rise about 6 percent in both 1993 and 1994, somewhat less in each year than predicted in the last Greenbook. Real imports are projected to increase about 6-3/4 percent in both years, a little more than was previously expected. As a consequence of these revisions, real net exports are projected to be a slight drag on GDP growth through 1994, instead of the marginally positive factor anticipated previously. The change is mainly a reflection of the higher path of the dollar in this forecast. (A detailed discussion of these projections is contained in the International Developments section.)

Labor markets. The sharpest gains in labor productivity in this upswing probably are now behind us, but above-trend increases should continue for a while longer. Given this projected pattern of

productivity growth and our output forecast, we expect that growth in employment will pick up only gradually over the course of 1993 and then continue at a moderate pace in 1994. Employment gains of the magnitude that we foresee in the near term probably are not large enough to alter the unemployment rate to any great extent. By the end of 1993, however, the unemployment rate is expected to start tilting downward--falling to a level of 6-3/4 percent by the end of 1994.

Whether our forecast of the jobless rate proves to be accurate also will depend importantly on the path of labor force participation. In the forecast, we are expecting that the participation rate will change little in the near term, but that it will start rising slowly beginning in the second half of 1993, when job opportunities start to be perceived as more plentiful. Recent developments, however, have once again underscored the difficulties of predicting the changes in participation, as unexpected declines in the rate since mid-year have now retraced a large part of its first-half surge.

LABOR MARKET PROJECTIONS
(Percent change, Q4 to Q4)

	1991	1992	1993	1994
Output per hour, nonfarm business sector	1.3	2.5	1.5	1.4
Labor force participation rate ¹	65.9	66.1	66.2	66.4
Civilian labor force	.5	1.3	1.1	1.2
Civilian employment, household survey	-.6	.7	1.1	2.0
Civilian unemployment rate ¹	6.9	7.5	7.5	6.8

1. Average for the fourth quarter.

Wages and prices. Although rates of resource utilization--of both labor and industrial plant--are projected to be rising by

the latter part of 1993, this tightening will be gradual and the remaining amount of slack substantial. The anticipated behavior of the dollar and of oil prices implies no external shocks to the system, and the accumulation of crop inventories from the current harvest should help to contain agricultural prices, even if production declines somewhat. Under the circumstances, it is reasonable to expect that the trend toward lower inflation will persist through 1994.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4)

	1991	1992	1993	1994
Consumer price index	3.0	2.9	2.7	2.1
<i>Previous</i>	3.0	3.2	2.8	2.2
Excluding food and energy	4.5	3.2	2.5	2.0
<i>Previous</i>	4.5	3.5	2.7	2.1
ECI for compensation, private industry workers ¹	4.4	3.3	3.0	2.7
<i>Previous</i>	4.4	3.4	3.0	2.7

1. December to December.

Unit labor costs should be damped by an ongoing moderation of wage and benefit increases. We have projected that the ECI for compensation will rise 3 percent in 1993 and about 2-3/4 percent in 1994. There are, however, some obvious risks. One is the possibility that employers' efforts to contain medical benefit costs will be hindered by federal mandates for health insurance. This is likely to be an issue in the upcoming congressional session, but at this point we cannot assess the legislative outcome or the near-term economic consequences. Other mandates could also translate into additional out-of-pocket expenses or short-run productivity losses for businesses; here, too, incorporating such items in the forecast would only be conjecture.

With those caveats, our forecast points to an appreciable further reduction in core inflation, with the rate of rise in the CPI excluding food and energy slowing from 3-1/4 percent this year to only 2 percent in 1994. With appreciable slack remaining in the economy at the end of the period, the tendency would be for inflation to slow further in 1995.

Addendum: The Economic Effects of Potential Fiscal Actions

In light of the possibility of stimulative fiscal action, we have examined the effects of several fiscal policy measures, using the staff econometric model. Although the alternative policy actions that we have considered--an investment tax credit (ITC), a reduction in personal income taxes, and an increase in grants-in-aid to state and local governments--bear some resemblance to proposals that have been discussed publicly, they certainly should not be taken as serious forecasts of what specifically may be proposed by the incoming Administration or passed by the Congress. Rather, our aim is simply to give the Committee a general idea of how alternative fiscal actions of moderate size might alter the outlook. To this end, we have prepared three model simulations, each for a different fiscal action--but with the same ex-ante cost to the Treasury--under the assumption that short-term interest rates are held constant.

The specifics of the three simulations are these: (1) a cut in personal income taxes starting in April 1993, worth \$20 billion on an annual basis; (2) a rise in annual grants-in-aid to state and local governments of \$20 billion, beginning in the second quarter of next year; and (3) an investment tax credit on new equipment purchased after December 31, 1992, equal to 5 percent of the

purchase price.⁴ Given the present level of nominal equipment investment, the latter measure would cost the Treasury approximately \$20 billion annually. All three measures are assumed to be permanent.

In carrying out these simulations, we have made no special assumptions concerning possible anticipatory effects in financial markets; given that short-term interest rates are, by assumption, held constant in all simulations, this position implies that bond yields and the foreign exchange value of the dollar would be little changed from those incorporated in the baseline Greenbook projection.⁵ We also have made no adjustments to the model to control for anticipatory behavior on the part of households, state and local governments, and businesses, except that firms are assumed to know by the start of the new year that they are eligible for an ITC beginning in January 1993.

All of the three measures raise the level of activity over the next two years, with the ITC providing the most impetus within the time period under consideration (table).⁶ With output growing more rapidly than it does in the baseline forecast, the level of the unemployment rate would be lowered under all three scenarios. Because of the ample slack in the economy at present, none of the alternatives would forestall further deceleration in inflation from the pace seen this past year. However, the additional growth associated with the ITC would reduce the amount of slack to a point

4. Implicitly, these alternatives assume a legislative process beginning early next year and concluding by the end of the first quarter; we have assumed a January 1 effective date for the ITC because legislation for such provisions typically includes a retroactive feature to avoid inducing postponements of planned expenditures.

5. In the econometric model, long-term rates are mainly a function of a distributed lag on short-term rates.

6. The ITC provision described here is considerably more generous than seems to be contemplated in *Putting People First*.

at which little, if any, additional slowing of inflation would be expected.

Clearly, the reaction of the financial markets would play an important role in influencing the macroeconomic outcomes associated with any changes in fiscal policy. If, in contrast to the

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

	1993	1994
1. <u>Growth of real GDP:</u>		
Baseline	2.4	3.2
With alternative fiscal actions:		
a. \$20 billion cut in personal income taxes	2.8	3.6
b. \$20 billion increase in grants-in-aid	2.6	3.6
c. 5 percent investment tax credit	3.1	4.4
2. <u>Civilian unemployment rate:</u>¹		
Baseline	7.5	6.8
With alternative fiscal actions:		
a. \$20 billion cut in personal income taxes	7.4	6.5
b. \$20 billion increase in grants-in-aid	7.4	6.6
c. 5 percent investment tax credit	7.3	6.1
3. <u>Consumer price index:</u>		
Baseline	2.7	2.1
With alternative fiscal actions:		
a. \$20 billion cut in personal income taxes	2.7	2.4
b. \$20 billion increase in grants-in-aid	2.7	2.3
c. 5 percent investment tax credit	2.8	2.5

1. Average in the fourth quarter.

assumption underlying the simulations reported in the table, we were to assume that the path of long-term interest rates moves roughly 1/4 percentage point above the baseline in response to the enactment of a \$20 billion fiscal stimulus measure, the effects on real activity would be greatly diminished; of the three measures only the ITC would show an appreciable increase in the level of real GDP by the end of 1994.

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

November 12, 1992

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index ¹		Unemployment rate (level except as noted)	
	09/30/92	11/12/92	09/30/92	11/12/92	09/30/92	11/12/92	09/30/92	11/12/92	09/30/92	11/12/92
ANNUAL										
1990 ²	5.2	5.2	.8	.8	4.5	4.5	5.4	5.4	5.5	5.5
1991 ²	2.8	2.8	-1.2	-1.2	4.0	4.0	4.2	4.2	6.7	6.7
1992	4.4	4.5	1.7	1.8	3.0	3.0	3.1	3.0	7.5	7.4
1993	4.5	4.5	2.1	2.2	2.6	2.6	3.1	2.8	7.7	7.6
1994	5.1	4.8	3.2	3.0	2.2	2.1	2.4	2.2	7.1	7.1
QUARTERLY										
1991 Q1 ²	1.8	1.8	-3.0	-3.0	4.7	4.7	3.3	3.3	6.5	6.5
Q2 ²	5.2	5.2	1.7	1.7	3.5	3.5	2.4	2.4	6.7	6.7
Q3 ²	4.0	4.0	1.2	1.2	3.0	3.0	2.7	2.7	6.8	6.8
Q4 ²	2.8	2.8	.6	.6	2.4	2.4	3.6	3.6	6.9	6.9
1992 Q1 ²	6.2	6.2	2.9	2.9	3.6	3.6	2.9	2.9	7.2	7.2
Q2 ²	4.3	4.3	1.5	1.5	2.9	2.9	3.5	3.5	7.5	7.5
Q3 ²	4.3	4.5	1.9	2.7	1.9	2.1	2.9	2.6	7.6	7.6
Q4	3.4	4.5	1.2	2.0	2.7	2.8	3.6	3.0	7.8	7.5
1993 Q1	4.8	4.9	2.0	2.0	3.0	3.0	3.1	3.1	7.8	7.6
Q2	4.7	4.2	2.5	2.0	2.4	2.4	2.8	2.7	7.8	7.6
Q3	5.0	4.5	2.9	2.5	2.2	2.2	2.7	2.5	7.7	7.6
Q4	5.1	4.7	3.3	2.9	2.1	2.0	2.6	2.3	7.5	7.5
1994 Q1	5.8	5.2	3.5	3.1	2.5	2.5	2.4	2.3	7.3	7.3
Q2	5.0	4.7	3.3	3.2	2.0	1.9	2.2	2.1	7.1	7.2
Q3	4.7	4.6	3.1	3.2	1.8	1.7	2.0	2.0	7.0	7.0
Q4	4.5	4.6	3.0	3.3	1.8	1.7	2.0	2.0	6.8	6.8
TWO-QUARTER³										
1991 Q2 ²	3.5	3.5	-.7	-.7	4.2	4.2	2.9	2.9	.7	.7
Q4 ²	3.4	3.4	.9	.9	2.7	2.7	3.1	3.1	.2	.2
1992 Q2 ²	5.2	5.2	2.2	2.2	3.4	3.4	3.1	3.1	.6	.6
Q4	3.8	4.5	1.5	2.3	2.3	2.4	3.2	2.8	.3	.0
1993 Q2	4.8	4.5	2.3	2.0	2.7	2.7	3.0	2.9	.0	.1
Q4	5.1	4.6	3.1	2.7	2.2	2.1	2.6	2.4	-.3	-.1
1994 Q2	5.4	5.0	3.4	3.2	2.3	2.2	2.3	2.2	-.4	-.3
Q4	4.6	4.6	3.1	3.2	1.8	1.7	2.0	2.0	-.3	-.4
FOUR-QUARTER⁴										
1990 Q4 ²	4.1	4.1	-.5	-.5	4.7	4.7	6.3	6.3	.6	.6
1991 Q4 ²	3.5	3.5	.1	.1	3.5	3.5	3.0	3.0	.9	.9
1992 Q4	4.5	4.9	1.9	2.3	2.9	2.9	3.2	2.9	.9	.6
1993 Q4	4.9	4.6	2.7	2.4	2.4	2.4	2.8	2.7	-.3	.0
1994 Q4	5.0	4.8	3.3	3.2	2.0	1.9	2.2	2.1	-.7	-.7

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.

Strictly Confidential (FR)
Class II FOMC

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

November 12, 1992

Item	Unit ¹	1986	1987	1988	1989	1990	1991	Projected		
								1992	1993	1994
EXPENDITURES										
Nominal GDP	Bill. \$	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5935.5	6203.9	6498.6
Real GDP	Bill. 87\$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4909.9	5016.5	5165.2
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	2.3	2.4	3.2
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	3.0	2.5	3.3
Final sales		3.3	2.7	4.2	1.5	.6	-.6	2.2	2.1	3.1
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	3.6	3.2	4.1
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	2.6	2.5	3.2
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	7.0	5.4	7.4
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	1.5	1.7	2.3
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.1	2.3	2.6
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.4	6.0	7.3
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	11.9	8.0	8.7
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-3.2	.8	3.3
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	12.8	5.7	9.8
Exports		9.9	12.6	13.5	11.3	7.2	7.4	1.6	6.2	6.2
Imports		6.7	4.7	3.6	2.6	.1	4.8	7.9	6.8	6.6
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.0	-1.9	-.8
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-1.9	-5.6	-4.0
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-4.3	-8.6	-6.6
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.3	.5	1.2
Change in bus. invent.	Bill. 87\$	8.6	26.3	19.9	29.8	6.2	-9.3	5.5	23.1	27.5
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	3.3	24.0	28.9
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-43.5	-63.1	-69.7
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	4.9	4.6	4.8
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.4	109.1	111.2
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	7.6	7.1
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	.9	3.6	4.6
Capacity util. rate-mfg.	%	79.0	81.4	83.9	83.9	82.3	78.2	77.5	77.5	78.4
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.28	1.43
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.33	8.64	9.24
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.23	6.50	6.95
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.14	2.29
INCOME AND SAVING										
Nominal GNP	Bill. \$	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5947.3	6216.7	6511.5
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	4.8	4.6	4.7
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	4.7	5.5	5.3
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.0	2.6	3.1
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.7	4.9	4.9	4.8
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	19.1	2.4	3.0
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.5	6.7	6.6
Federal surpl./def.	Bill. \$	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-293.9	-277.9	-262.6
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	11.9	20.5	38.3
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-45.8	-36.4	-18.3
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.2	1.5
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	2.9	2.4	1.9
Gross domestic purchases										
fixed-wt. price index		2.3	3.9	4.1	4.3	5.3	2.8	2.8	2.4	2.0
CPI		1.3	4.5	4.3	4.6	6.3	3.0	2.9	2.7	2.1
Ex. food and energy		3.9	4.3	4.5	4.4	5.3	4.5	3.2	2.5	2.0
ECI, hourly compensation ²		3.2	3.3	4.8	4.8	4.6	4.4	3.3	3.0	2.7
Nonfarm business sector										
Output per hour		1.2	1.8	.5	-1.4	.1	1.3	2.5	1.5	1.4
Compensation per hour		4.6	3.8	3.8	3.1	6.3	4.2	3.3	3.1	2.9
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.8	.8	1.6	1.5

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)

November 12, 1992

Item	Unit	1990				1991				1992	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
EXPENDITURES											
Nominal GDP	Bill. \$	5445.2	5522.6	5559.6	5561.3	5585.8	5657.6	5713.1	5753.3	5840.2	5902.2
Real GDP	Bill. 87\$	4890.8	4902.7	4882.6	4833.8	4796.7	4817.1	4831.8	4838.5	4873.7	4892.4
Real GDP	% change	2.8	1.0	-1.6	-3.9	-3.0	1.7	1.2	.6	2.9	1.5
Gross domestic purchases		2.1	.9	-1.4	-6.0	-4.2	1.7	2.4	-4	3.0	3.4
Final sales		4.3	-1.1	.1	-.9	-3.2	1.3	-.5	.0	4.7	-.1
Private dom. final purch.		2.9	-1.7	.8	-5.0	-6.0	1.5	1.4	-.4	5.5	2.4
Personal cons. expend.		2.2	.1	1.7	-3.1	-3.0	2.0	1.5	-.3	5.1	-.1
Durables		16.2	-12.0	-1.4	-9.8	-13.0	-.7	8.1	-3.1	16.5	-2.1
Nondurables		-.2	-.5	.8	-2.8	-3.2	1.3	-.6	-3.5	5.5	-1.5
Services		.3	3.7	3.1	-1.6	-.3	3.0	1.2	2.3	2.2	1.2
Business fixed invest.		6.2	-6.6	5.6	-9.6	-15.8	-3.1	-3.4	-5.2	3.0	16.1
Producers' dur. equip.		6.8	-7.8	7.2	-6.1	-16.7	.7	6.0	-2.4	3.2	24.1
Nonres. structures		5.0	-4.1	2.5	-16.5	-14.0	-10.6	-20.8	-11.5	2.7	-.8
Res. structures		5.3	-15.9	-22.9	-22.4	-26.9	7.0	14.4	11.3	20.1	12.6
Exports		10.7	7.0	-.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4
Imports		2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7
Government purchases		6.4	1.1	-2.0	6.1	2.8	.2	-2.3	-3.0	1.7	-1.2
Federal		8.0	2.1	-7.2	9.9	7.2	-.3	-6.5	-9.0	-3.0	-2.7
Defense		4.9	.3	-10.5	12.8	8.7	-5.6	-9.4	-13.0	-7.7	-5.2
State and local		5.2	.4	1.9	3.5	-.1	.6	.9	1.4	5.1	-.2
Change in bus. invent.	Bill. 87\$	7.5	32.8	11.2	-26.8	-25.1	-20.4	.6	7.5	-12.6	7.8
Nonfarm		5.9	27.9	6.6	-25.6	-24.7	-24.5	-1.0	11.8	-10.7	6.0
Net exports		-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9
Nominal GDP	% change	7.7	5.8	2.7	.1	1.8	5.2	4.0	2.8	6.2	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.8	110.2	109.9	109.3	108.6	108.2	108.3	108.2	108.1	108.4
Unemployment rate ¹	%	5.2	5.3	5.6	6.0	6.5	6.7	6.8	6.9	7.2	7.5
Industrial prod. index	% change	.6	4.2	3.9	-7.0	-9.7	2.6	6.6	-.7	-2.9	5.2
Capacity util. rate-mfg. ¹	%	82.7	82.8	82.9	80.8	78.0	77.9	78.7	78.2	77.3	77.9
Housing starts	Millions	1.46	1.20	1.13	1.03	.92	1.00	1.04	1.10	1.26	1.14
Auto sales in U.S.		9.95	9.52	9.56	9.02	8.36	8.43	8.56	8.21	8.31	8.50
North American produced		7.16	6.80	7.05	6.61	6.13	6.10	6.28	6.06	6.07	6.32
Other		2.79	2.71	2.51	2.41	2.23	2.33	2.28	2.15	2.24	2.19
INCOME AND SAVING											
Nominal GNP	Bill. \$	5464.1	5537.0	5577.8	5592.7	5614.9	5674.3	5726.4	5764.1	5859.8	5909.3
Nominal GNP	% change	7.6	5.4	3.0	1.1	1.6	4.3	3.7	2.7	6.8	3.4
Nominal personal income		9.5	6.2	4.6	5.2	.1	4.6	3.3	5.1	6.1	3.9
Real disposable income		4.2	.8	-1.2	-.2	-2.6	1.9	.7	2.2	4.0	1.2
Personal saving rate ¹	%	4.4	4.6	3.9	4.6	4.7	4.7	4.5	5.1	4.9	5.3
Corp. profits, IVA&CCAdj	% change	15.6	19.1	-29.9	-8.2	6.7	-2.6	-6.8	7.1	49.8	4.7
Profit share of GNP ¹	%	6.7	6.9	6.3	6.2	6.2	6.1	6.0	6.0	6.6	6.6
Federal govt. surpl./def.	Bill. \$	-167.8	-156.9	-145.6	-194.6	-149.9	-212.2	-221.0	-258.7	-289.2	-302.9
State/local surpl./def.		36.1	33.8	30.3	20.2	14.6	16.5	15.4	22.0	16.6	17.7
Ex. social ins. funds		-27.3	-29.4	-32.5	-42.2	-46.6	-44.1	-44.5	-37.3	-41.8	-40.3
PRICES AND COSTS											
GDP implicit deflator	% change	4.4	4.8	4.7	3.9	5.3	3.5	2.4	2.4	3.1	2.7
GDP fixed-wt. price index		5.4	4.6	4.7	4.1	4.7	3.5	3.0	2.4	3.6	2.9
Gross domestic purchases											
fixed-wt. price index		5.9	3.7	5.6	5.8	3.1	2.5	2.9	2.5	3.1	3.2
CPI		7.2	4.1	7.0	6.9	3.3	2.4	2.7	3.6	2.9	3.5
Ex. food and energy		5.6	5.5	5.8	4.2	6.5	3.8	4.0	3.7	3.9	3.9
ECI, hourly compensation ²		5.6	4.7	4.7	3.8	4.9	4.5	4.1	4.0	4.0	2.5
Nonfarm business sector											
Output per hour		-.5	2.5	-1.7	.1	-.7	1.7	1.9	2.5	3.7	1.7
Compensation per hour		5.0	7.8	6.4	5.9	3.8	5.8	3.9	3.1	3.8	2.4
Unit labor cost		5.6	5.1	8.2	5.8	4.6	4.0	2.0	.6	.1	.8

1. Not at an annual rate.

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)

November 12, 1992

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. \$	5967.1	6032.4	6104.4	6167.8	6236.0	6307.3	6388.0	6462.3	6535.3	6608.9
Real GDP	Bill. 87\$	4924.5	4948.8	4973.5	4998.2	5029.0	5065.2	5104.4	5144.4	5185.0	5226.9
Real GDP	% change	2.7	2.0	2.0	2.0	2.5	2.9	3.1	3.2	3.2	3.3
Gross domestic purchases		3.3	2.4	2.1	2.4	2.7	2.7	3.1	3.6	3.3	3.1
Final sales		2.1	2.2	1.8	1.3	2.1	3.2	3.2	3.1	3.1	3.2
Private dom. final purch.		2.9	3.8	2.8	2.6	3.3	3.9	4.1	4.4	4.0	3.7
Personal cons. expend.		3.4	2.0	2.3	2.1	2.6	3.2	3.3	3.6	3.1	2.8
Durables		8.6	5.7	3.5	3.5	5.8	8.9	8.8	9.0	7.2	4.8
Nondurables		1.7	.4	1.8	1.4	1.7	2.1	2.3	2.6	2.2	2.2
Services		3.1	2.0	2.3	2.1	2.3	2.5	2.5	2.8	2.6	2.6
Business fixed invest.		.3	10.7	5.4	5.8	6.3	6.6	7.2	7.8	7.4	6.8
Producers' dur. equip.		8.5	13.0	7.3	7.8	8.4	8.4	8.8	9.5	8.8	7.8
Nonres. structures		-17.7	4.7	.6	.4	.6	1.6	2.9	3.2	3.4	3.8
Res. structures		.4	19.0	5.4	2.5	6.6	8.7	9.5	9.7	9.3	10.5
Exports		1.9	3.3	6.1	6.1	6.1	6.3	6.1	6.2	6.3	6.3
Imports		6.9	6.7	6.2	9.2	7.5	4.2	5.9	9.4	6.6	4.4
Government purchases		2.0	-2.3	-2.4	-2.1	-1.9	-1.3	-1.0	-.8	-.7	-.7
Federal		4.4	-5.7	-6.1	-5.9	-5.4	-4.9	-4.4	-3.9	-3.9	-3.9
Defense		6.9	-10.4	-9.4	-8.9	-8.3	-7.7	-7.1	-6.4	-6.5	-6.6
State and local		.4	.0	.1	.5	.5	1.0	1.1	1.1	1.3	1.3
Change in bus. invent.	Bill. 87\$	14.7	12.0	14.7	23.8	28.7	25.4	25.2	26.8	28.2	29.8
Nonfarm		9.8	8.0	14.2	24.8	30.0	27.2	26.8	28.3	29.5	30.9
Net exports		-51.5	-56.9	-57.9	-63.5	-66.6	-64.3	-64.8	-71.0	-72.5	-70.4
Nominal GDP	% change	4.5	4.5	4.9	4.2	4.5	4.7	5.2	4.7	4.6	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.5	108.5	108.6	108.8	109.2	109.7	110.3	110.8	111.5	112.1
Unemployment rate ¹	%	7.6	7.5	7.6	7.6	7.6	7.5	7.3	7.2	7.0	6.8
Industrial prod. index	% change	1.6	.0	3.4	3.2	3.7	4.2	4.6	4.4	4.6	4.7
Capacity util. rate-mfg ¹	%	77.7	77.1	77.3	77.4	77.5	77.8	78.1	78.3	78.6	78.8
Housing starts	Millions	1.20	1.23	1.23	1.26	1.30	1.34	1.38	1.42	1.45	1.48
Auto sales in U.S.		8.21	8.28	8.36	8.52	8.75	8.93	9.05	9.17	9.30	9.42
North American produced		6.24	6.28	6.30	6.40	6.60	6.70	6.80	6.90	7.00	7.10
Other		1.97	2.00	2.06	2.12	2.15	2.23	2.25	2.27	2.30	2.32
INCOME AND SAVING											
Nominal GNP	Bill. \$	5979.4	6040.7	6116.3	6179.4	6251.5	6319.8	6401.2	6474.9	6550.1	6619.9
Nominal GNP	% change	4.8	4.2	5.1	4.2	4.7	4.4	5.3	4.7	4.7	4.3
Nominal personal income		2.2	6.5	6.6	5.3	4.8	5.5	6.5	4.8	4.9	5.1
Real disposable income		.0	2.9	2.6	2.5	1.9	3.3	3.9	2.8	2.7	3.0
Personal saving rate ¹	%	4.5	4.8	4.9	5.0	4.8	4.8	5.0	4.8	4.7	4.7
Corp. profits, IVA&CCAdj	% change	-16.6	53.6	4.3	-.1	-.5	6.2	-.3	7.7	-2.2	7.4
Profit share of GNP ¹	%	6.2	6.8	6.8	6.8	6.7	6.7	6.6	6.7	6.5	6.6
Federal govt. surpl./def.	Bill. \$	-292.3	-291.3	-286.1	-282.8	-270.0	-272.8	-273.7	-266.1	-253.8	-257.0
State/local surpl./def.		3.2	10.2	15.3	14.8	25.3	26.7	33.1	34.6	41.4	44.2
Ex. social ins. funds		-54.1	-47.0	-41.8	-42.2	-31.6	-30.1	-23.6	-22.0	-15.2	-12.5
PRICES AND COSTS											
GDP implicit deflator	% change	1.8	2.4	2.8	2.2	2.0	1.7	2.0	1.5	1.4	1.3
GDP fixed-wt. price index		2.1	2.8	3.0	2.4	2.2	2.0	2.5	1.9	1.7	1.7
Gross domestic purchases											
fixed-wt. price index		2.4	2.6	3.0	2.4	2.2	2.0	2.5	1.9	1.8	1.8
CPI		2.6	3.0	3.1	2.7	2.5	2.3	2.3	2.1	2.0	2.0
Ex. food and energy		2.5	2.7	2.8	2.5	2.5	2.3	2.2	2.0	1.9	1.9
ECI, hourly compensation ²		3.2	3.3	3.2	3.1	3.0	2.9	2.8	2.7	2.7	2.6
Nonfarm business sector											
Output per hour		2.6	2.0	1.9	1.5	1.4	1.4	1.5	1.4	1.4	1.4
Compensation per hour		3.7	3.3	3.4	3.0	3.1	3.1	3.3	2.8	2.7	2.6
Unit labor cost		1.0	1.3	1.5	1.5	1.7	1.7	1.9	1.4	1.3	1.2

1. Not at an annual rate.

2. Private-industry workers.

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS¹
(Billions of 1987 dollars)

November 12, 1992

Item	1990				1991				1992		Proj.			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991	1992
Real GDP	34.1	11.9	-20.1	-48.8	-37.1	20.4	14.7	6.7	35.2	18.7	77.0	-22.9	4.7	110.3
Gross domestic purchases	25.1	10.4	-17.7	-75.4	-51.9	19.9	28.9	-4.4	36.2	41.1	41.7	-57.6	-7.5	146.8
Final sales	51.5	-13.3	1.4	-10.8	-38.8	15.6	-6.2	-.3	55.4	-1.7	73.1	28.8	-29.7	105.9
Private dom. final purch.	28.3	-17.4	8.4	-51.1	-60.2	14.6	13.4	-4.3	52.5	23.5	19.7	-31.8	-36.5	142.2
Personal cons. expend.	17.5	.6	13.8	-25.9	-24.5	15.8	11.9	-2.2	40.3	-.8	39.1	6.0	1.0	83.2
Durables	16.7	-14.3	-1.5	-11.1	-14.6	-.7	8.1	-3.3	16.2	-2.3	-2.4	-10.2	-10.5	29.1
Nondurables	-.6	-1.2	2.0	-7.5	-8.6	3.3	-1.5	-9.2	14.0	-4.0	12.1	-7.3	-16.0	15.5
Services	1.4	16.0	13.4	-7.3	-1.3	13.3	5.2	10.4	9.9	5.6	29.4	23.5	27.6	38.6
Business fixed invest.	8.1	-9.2	7.3	-13.6	-22.3	-4.0	-4.3	-6.6	3.7	18.9	-2.1	-7.4	-37.2	36.2
Producers' dur. equip.	5.9	-7.3	6.2	-5.6	-15.9	.6	5.0	-2.1	2.7	19.2	-6.2	-.8	-12.4	41.0
Nonres. structures	2.2	-1.9	1.1	-8.0	-6.4	-4.6	-9.2	-4.6	1.0	-.3	4.1	-6.6	-24.8	-4.8
Res. structures	2.7	-8.9	-12.7	-11.6	-13.4	2.8	5.7	4.7	8.3	5.6	-17.3	-30.5	-.2	22.6
Change in bus. invent.	-17.4	25.3	-21.6	-38.0	1.7	4.7	21.0	6.9	-20.1	20.4	4.0	-51.7	34.3	4.5
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	16.7	.7	-56.8	37.4	-3.8
Farm	7.9	3.2	-.2	-5.8	.8	4.5	-2.5	-5.8	2.3	3.7	3.3	5.1	-3.0	8.2
Net exports	9.0	1.5	-2.4	26.6	14.8	.5	-14.2	11.1	-1.0	-22.4	35.3	34.7	12.2	-36.4
Exports	12.5	8.5	-.3	14.2	-6.7	20.2	8.1	17.2	4.0	-2.0	49.5	34.9	38.8	9.2
Imports	3.6	7.0	2.1	-12.4	-21.5	19.7	22.3	6.0	5.0	20.5	14.1	.3	26.5	45.8
Government purchases	14.2	2.6	-4.6	13.7	6.6	.5	-5.4	-7.1	3.9	-2.8	18.1	25.9	-5.4	.2
Federal	7.3	2.0	-7.1	9.0	6.8	-.3	-6.6	-9.0	-2.9	-2.6	-2.3	11.2	-9.1	-7.0
Defense	3.4	.2	-7.8	8.5	6.0	-4.2	-7.0	-9.6	-5.4	-3.5	-4.2	4.3	-14.8	-11.7
Nondefense	3.8	1.8	.7	.5	.7	4.0	.4	.6	2.5	.9	2.0	6.8	5.7	4.7
State and local	6.9	.6	2.5	4.7	-.2	.8	1.2	1.9	6.9	-.3	20.4	14.7	3.7	7.2

1. Annual changes are from Q4 to Q4.

NET CHANGES IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS¹
(Billions of 1987 dollars)

November 12, 1992

Item	Projected										Projected						
	1992		1993				1994				1991	1992			1993	1994	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Q3	Q4	Q1	Q2	Q3	Q4
Real GDP	32.1	24.3	24.6	24.7	30.8	36.2	39.2	40.0	40.6	41.9	4.7	110.3	116.4	161.7			
Gross domestic purchases	39.7	29.8	25.6	30.3	33.9	33.9	39.8	46.1	42.1	39.8	-7.5	146.8	123.7	167.9			
Final sales	25.2	27.0	22.0	15.6	25.8	39.6	39.4	38.3	39.2	40.4	-29.7	105.9	103.0	157.3			
Private dom. final purch.	28.2	38.0	28.6	26.0	33.2	40.2	42.4	46.3	42.2	39.8	-36.5	142.2	128.0	170.7			
Personal cons. expend.	27.6	16.1	18.9	17.2	21.6	27.0	27.6	30.3	26.8	24.3	1.0	83.2	84.7	109.0			
Durables	9.0	6.2	3.8	3.9	6.4	9.9	10.0	10.4	8.5	5.9	-10.5	29.1	24.1	34.8			
Nondurables	4.4	1.1	4.6	3.7	4.5	5.6	6.0	6.9	6.0	6.0	-16.0	15.5	18.4	24.9			
Services	14.1	9.0	10.5	9.6	10.7	11.5	11.6	13.1	12.3	12.3	27.6	38.6	42.3	49.3			
Business fixed invest.	.4	13.2	7.0	7.6	8.3	8.9	9.9	10.9	10.5	9.8	-37.2	36.2	31.8	41.0			
Producers' dur. equip.	7.5	11.6	6.8	7.4	8.1	8.3	8.9	9.7	9.2	8.4	-12.4	41.0	30.6	36.2			
Nonres. structures	-7.1	1.6	.2	.1	.2	.6	1.0	1.1	1.2	1.4	-24.8	-4.8	1.2	4.8			
Res. structures	.2	8.5	2.6	1.3	3.3	4.3	4.9	5.1	5.0	5.7	-.2	22.6	11.5	20.7			
Change in bus. invent.	6.9	-2.7	2.7	9.1	5.0	-3.4	-.1	1.6	1.4	1.6	34.3	4.5	13.4	4.4			
Nonfarm	3.8	-1.8	6.2	10.6	5.3	-2.9	-.3	1.5	1.2	1.4	37.4	-3.8	19.2	3.7			
Farm	3.2	-1.0	-3.5	-1.5	-.3	-.5	.2	-.1	.2	.2	-3.0	8.2	-5.8	.7			
Net exports	-7.6	-5.4	-1.0	-5.6	-3.1	2.4	-.6	-6.1	-1.5	2.1	12.2	-36.4	-7.3	-6.2			
Exports	2.6	4.6	8.5	8.6	8.8	9.2	9.1	9.4	9.6	9.7	38.8	9.2	35.2	37.8			
Imports	10.2	10.1	9.5	14.2	11.9	6.9	9.6	15.5	11.2	7.6	26.5	45.8	42.5	43.9			
Government purchases	4.6	-5.5	-5.6	-4.8	-4.3	-3.0	-2.4	-1.8	-1.5	-1.5	-5.4	.2	-17.7	-7.2			
Federal	4.0	-5.5	-5.8	-5.5	-5.0	-4.4	-3.9	-3.4	-3.4	-3.4	-9.1	-7.0	-20.7	-14.1			
Defense	4.4	-7.2	-6.3	-5.8	-5.3	-4.8	-4.3	-3.8	-3.8	-3.8	-14.8	-11.7	-22.2	-15.7			
Nondefense	-.4	1.7	.5	.3	.3	.4	.4	.4	.4	.4	5.7	4.7	1.5	1.6			
State and local	.6	.0	.2	.7	.7	1.4	1.5	1.6	1.9	1.9	3.7	7.2	3.0	6.9			

1. Annual changes are from Q4 to Q4.

Item	Fiscal year				1992				1993				1994			
	1991 ^a	1992 ^a	1993	1994	Q1 ^a	Q2 ^a	Q3 ^a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET																
Not seasonally adjusted																
Receipts ¹	1054	1092	1151	1202	239	322	276	260	251	348	291	266	268	370	298	279
Outlays ¹	1324	1382	1485	1549	355	350	338	385	334	386	380	387	382	390	389	399
Surplus/deficit ¹	-269	-290	-334	-347	-116	-28	-62	-125	-83	-38	-89	-121	-114	-20	-91	-121
On-budget	-322	-340	-387	-404	-121	-60	-62	-133	-90	-70	-93	-132	-122	-57	-93	-135
Off-budget	52	50	53	57	6	31	-1	8	7	32	5	11	7	36	3	14
Surplus excluding deposit insurance ²	-203	-287	-299	-299	-105	-25	-69	-130	-84	-13	-72	-108	-104	-7	-80	-109
Means of financing																
Borrowing	293	311	324	371	83	62	77	88	77	69	90	119	108	51	93	113
Cash decrease	-1	-17	19	0	29	-27	-12	33	8	-22	0	10	10	-20	0	10
Other ³	-23	-4	-9	-24	4	-7	-3	5	-2	-10	-1	-8	-4	-10	-2	-2
Cash operating balance, end of period	41	59	40	40	20	47	59	26	18	40	40	30	20	40	40	30
NIPA FEDERAL SECTOR																
Seasonally adjusted, annual rate																
Receipts	1118	1145	1214	1283	1143	1150	1157	1182	1213	1224	1236	1252	1278	1294	1307	1325
Expenditures	1313	1431	1496	1549	1433	1453	1450	1473	1499	1507	1506	1525	1551	1560	1561	1582
Purchases	447	446	446	438	445	445	452	447	449	445	441	438	441	439	436	434
Defense	326	315	307	293	314	312	318	312	310	305	300	296	296	292	289	285
Nondefense	121	131	139	145	131	133	134	135	139	140	141	142	145	146	148	149
Other expenditures	866	985	1051	1111	988	1008	998	1026	1050	1062	1065	1087	1110	1121	1125	1148
Surplus/deficit	-194	-286	-283	-267	-289	-303	-292	-291	-286	-283	-270	-273	-274	-266	-254	-257
FISCAL INDICATORS ⁴																
High-employment (HEB) surplus/deficit	-155	-220	-212	-208	-226	-235	-223	-223	-215	-211	-199	-205	-211	-210	-205	-216
Change in HEB, percent of potential GDP	-.4	1.1	-.1	-.1	.5	.1	-.2	0	-.1	-.1	-.2	.1	.1	0	-.1	.2
Fiscal impetus (FI), percent, cal. year	-3.8	-4.2	-4.2	-3.8	-2.5	-.1	.4	-.9	-2.1	-1.3	-1.3	-1.1	-.7	-.8	-.8	-.8

1. OMB's July deficit estimates are \$334 billion in FY92, \$341 billion in FY93 and \$274 billion in FY94. CBO's August deficit estimates are \$314 billion in FY92, \$331 billion in FY93 and \$268 billion in FY94. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's July deficit estimates, excluding deposit insurance spending, are \$323 billion in FY92, \$282 billion in FY93 and \$253 billion in FY94. CBO's March deficit estimates, excluding deposit insurance spending, are \$301 billion in FY92, \$282 billion in FY93 and \$251 billion in FY94.

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 rose appreciably over the intermeeting period. The System's failure to validate widely held expectations of a further easing and anticipated year-end pressures boosted short-term rates 15 to 50 basis points. Intermediate- and long-term rates also rose just after the last meeting when the System did not act, and they increased further as incoming data suggested that the economy was continuing to grow moderately and concerns intensified about the potential for a deficit-expanding fiscal stimulus in 1993. Intermediate-term rates rose as many as 90 basis points, and bond yields climbed 25 to 40 basis points.

M2 accelerated further in October, to a 5 percent annual rate of growth, partly reflecting a lagged response to earlier declines in interest rates. Some of the growth in M2 in recent months is due also to special factors, including a further boost to demand deposits from higher levels of mortgage refinancings and, in October, to a reclassification of certain large time deposits as other checkable deposits following the implementation of a loophole-tightening amendment to Regulation D. Currency, which recently has been boosted by large shipments abroad, also expanded briskly last month, but below recent double-digit rates. M3 was about flat in October, after expanding modestly in August and September; increased runoffs of large time deposits and outflows from institution-only money market mutual funds offset all of the strength of M2.

Bank loans broke out of their doldrums in September, expanding at a 6-1/2 percent pace; business loans, which increased for the first time in a year in September, appear to have been boosted at least in part by some moderation in restructuring activity. In any event, bank loan growth slowed again in October, as business loans

resumed their runoff and other loan categories weakened. There is little evidence yet to indicate that banks have eased their cautious lending posture, even though many appear to have substantially strengthened their capital positions. Most respondents to the November Senior Loan Officer Survey reported that their banks' lending standards and credit terms for businesses were unchanged from three months earlier, and the prime rate remains unusually high relative to market rates.

Overall debt growth in the nonfinancial business sector probably was modest in October. Although acquisition financing boosted commercial paper issuance, this was offset by the downturn in bank loans. At the long end, gross public bond issuance was brisk but was associated primarily with refinancings. Yield spreads on investment-grade corporate bonds widened slightly over the intermeeting period, reflecting a variety of influences, including a resurfacing of event-risk concerns in response to Marriot's plan to split its company into debt-free and debt-laden parts, Moody's placement of General Motors bonds on its credit watch, and reported heavy bond sales by insurance companies to fund hurricane-related payouts. Quality spreads on commercial paper also widened a bit, because of concerns about the ability of the market to absorb more medium-grade paper if GMAC were to be downgraded.

Stock prices have moved up since the last meeting, buoyed by firmer than expected economic data and perhaps also by heightened expectations of a fiscal stimulus package. Even so, gross equity issuance of nonfinancial firms in October remained about in line with the slower pace of the previous few months.

Federal borrowing in the fourth quarter will rise markedly from the relatively low pace of the third quarter. The Treasury has raised the gross sizes of weekly bill auctions, and it increased the

volume of securities sold at the midquarter refunding. The ten-year note component of the refunding is a reopening of the current on-the-run ten-year security in order to alleviate an "acute, protracted shortage." This marks the first reopening under the policy stated in the *Joint Report on the Government Securities Market*.

Gross issuance of tax-exempt bonds has been extraordinarily heavy in recent months, but much of it has been for refunding purposes. Moreover, an increase in retirements of obligations advance-refunded some years ago also has helped hold down the net expansion of state and local debt. Even so, yields on tax-exempt securities underperformed those on Treasuries over much of the intermeeting period, as the major municipal investors--property/casualty companies and tax-exempt mutual funds--sold these instruments to meet cash needs. More recently, however, a rally in the municipal market has kept the net increase in municipal yields since the October FOMC meeting below that on Treasuries. Reversing the pattern in the first two quarters of the year, downgradings of municipal long-term debt exceeded upgradings in the third quarter, mainly because of a large number of downgrades to California agencies.

Mortgage lending has been extremely heavy of late. Although refinancings have accounted for the bulk of the originations, it appears that net mortgage debt formation picked up a bit in the third quarter and probably will show a further step-up in the current quarter as cash-out refinancings and home purchase transactions arranged over the summer are closed. Consumer credit was about flat last quarter, boosted in September by the first advance in consumer installment debt in eight months. This turnaround was paced by a revival of automobile loan growth, which

may have owed in some part to a decline of 2 percentage points in auto loan rates since the spring. More rapid motor vehicle sales in October and fragmentary evidence on financial flows suggest the likelihood of some further growth of consumer credit in the fourth quarter.

Outlook

The staff projection assumes that short-term interest rates will not change very much over the next two years, with some upward tilt perhaps emerging by 1994 as economic activity accelerates. Long-term rates, however, are expected to decline substantially over the coming year--reflecting in part an easing of recent concerns about the prospects for the federal deficit (under our fiscal policy assumptions) and a response on the part of investors to the continuing low levels of short-term interest rates and inflation. Long rates are expected to edge still lower in 1994, as inflationary expectations diminish further.

The ability and willingness of intermediaries to supply credit should improve somewhat. Although commercial banks are unlikely to reverse direction completely with respect to their credit standards, a considerable and continuing improvement in their own capital positions as well as improvements in the balance sheets and income prospects of their customers, should encourage them to work harder to find lending opportunities. Closings of banks under the prompt corrective action stipulations of FDICIA undoubtedly will disrupt some established credit relationships, but the effects on overall loan supplies should be minor. Outside the depository sector, some finance companies and insurers clearly continue to be experiencing stress, but for these institutions too, conditions should improve over the next two years.

Business borrowing is expected to pick up modestly through 1994, as the rise in outlays for inventories and fixed capital exceeds the growth of internal funds. Fewer net funds are likely to be raised in equity markets, with new stock offerings running below the exceptional pace of earlier this year. The composition of business borrowing may tilt back somewhat toward banks, particularly for inventory financing, but net bond issuance is expected to moderate only slightly from its 1992 pace, given the anticipated declines in long-term interest rates. Overall, balance sheet ratios in the corporate sector should improve somewhat further.

Consumer borrowing is expected to strengthen gradually over the forecast period as credit costs ease a bit further and increases in employment and income promote higher spending on credit-financed durable goods. Even so, with the pace of borrowing low, the ratio of consumer installment debt to income is projected to fall further in 1993 and to change little in 1994. Home mortgage borrowing should increase a bit as loan rates decline and activity in housing markets picks up.

Net state and local borrowing also is expected to remain modest through 1994. Gross issuance of tax-exempt securities likely will continue apace in a favorable rate environment, but heavy retirements of bonds issued in the 1980s are expected to hold down net debt growth for several years ahead.

In the forecast, the anticipated strengthening in credit growth of the household and business sectors more than offsets a slight slowing of the continued rapid federal debt growth over the next two years, and growth of the nonfinancial debt aggregate rises from 5 percent this year to 5-3/4 percent next year and to 6 percent in 1994. By 1994, growth of nonfederal debt, at 4-1/2 percent, is only slightly below that expected for nominal GDP.

GROWTH RATES OF DEBT BY SECTOR¹
(Percent, period-end to period-end)

	-----Domestic Nonfinancial Sectors-----							-----Memo-----		
	Total ²	U.S. govt. ²	Non- federal	-----Households-----			Business	State & local govts.	Private financial assets ³	Nominal GDP ⁴
Total				Home mtgs.	Cons. credit					
1983	11.7	18.9	9.9	11.6	11.3	12.6	8.3	9.7	11.7	11.0
1984	14.5	16.9	13.8	13.2	12.0	18.7	15.4	9.1	13.0	9.1
1985	15.0	16.5	14.5	14.3	12.2	15.8	11.5	31.3	13.1	7.0
1986	12.9	13.6	12.7	14.1	17.3	9.6	11.9	10.5	9.1	4.7
1987	9.2	8.0	9.6	11.5	13.7	5.0	7.1	13.4	8.4	8.0
1988	9.1	8.0	9.4	11.1	12.5	7.2	8.3	7.0	8.4	7.7
1989	8.0	7.0	8.2	9.6	11.3	5.6	6.9	8.4	7.1	6.0
1990	6.6	11.0	5.3	7.2	9.0	2.2	3.3	5.9	4.5	4.1
1991	4.2	11.1	2.1	4.2	5.3	-1.6	-0.6	4.5	0.7	3.5
1992	4.9	11.2	2.9	4.4	5.7	-0.0	0.7	4.6	1.2	4.9
1993	5.8	11.6	3.8	5.1	6.2	2.3	2.3	3.7	1.3	4.6
1994	6.2	10.7	4.5	5.9	6.8	4.3	3.1	3.9	2.7	4.8
Seasonally adjusted, annual rates										
1991 -- Q1	4.2	9.1	2.8	4.3	5.7	-1.3	0.9	4.2	4.6	1.8
Q2	5.0	10.9	3.2	5.0	5.8	-1.0	1.1	4.4	1.5	5.2
Q3	3.7	11.1	1.4	3.5	4.4	-3.1	-1.6	4.3	-2.4	4.0
Q4	3.7	11.9	1.0	3.8	4.8	-1.0	-2.8	4.7	-0.9	2.8
1992 -- Q1	5.8	13.3	3.3	5.3	7.2	0.4	0.8	4.6	4.9	6.2
Q2	4.7	12.3	2.2	3.9	4.7	-1.7	-0.9	6.4	-0.3	4.3
Q3	3.8	6.8	2.8	3.9	5.1	0.1	1.5	3.1	-0.7	4.5
Q4	5.1	11.0	3.1	4.4	5.5	1.0	1.4	3.9	0.8	4.5
1993 -- Q1	5.4	11.2	3.3	4.6	5.8	1.5	1.9	3.3	-0.1	4.9
Q2	5.9	11.9	3.7	5.0	6.0	1.9	2.1	4.0	1.6	4.2
Q3	4.8	7.8	3.8	5.0	6.1	2.5	2.5	3.3	0.5	4.5
Q4	6.8	13.7	4.2	5.5	6.3	3.2	2.7	4.0	3.2	4.7

1. Published data through 1992 Q2.

2. Deposit insurance activity raised total debt growth roughly .5 percentage points in 1991 and is expected to increase 1993 growth by a similar amount. There is virtually no effect on debt growth in 1992.

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 HIGHLIGHTS¹
(Billions of dollars, seasonally adjusted annual rates)

	Calendar year				-----1992-----				-----1993-----			
	1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net funds raised by domestic nonfinancial sectors:												
1 Total	470.8	578.5	694.9	774.8	694.2	570.9	450.2	598.8	646.1	710.2	592.1	831.0
2 Net equity issuance	18.3	25.8	10.0	5.0	46.0	36.0	11.0	10.0	13.0	11.0	9.0	7.0
3 Net debt issuance	452.5	552.8	684.9	769.8	648.2	534.9	439.2	588.8	633.1	699.2	583.1	824.0
Borrowing sectors:												
Nonfinancial business												
4 Financing gap ²	-4.4	-19.2	33.0	63.2	-43.1	-14.7	-27.7	8.8	17.5	32.5	39.3	42.8
5 Net equity issuance	18.3	25.8	10.0	5.0	46.0	36.0	11.0	10.0	13.0	11.0	9.0	7.0
6 Credit market borrowing	-22.3	25.5	83.8	113.7	29.4	-30.8	53.8	49.5	68.1	77.7	90.7	98.6
Households												
7 Net borrowing, of which:	158.0	174.6	210.4	253.7	208.8	155.4	157.7	176.3	190.2	208.2	208.5	234.5
8 Home mortgages	137.1	156.9	178.0	207.5	196.0	129.5	144.4	157.5	166.4	174.9	181.2	189.4
9 Consumer credit	-12.6	-0.4	18.0	34.6	3.1	-13.5	1.0	8.0	12.0	15.0	20.0	25.0
10 Debt/DPI (percent) ³	91.7	90.8	90.5	90.8	90.8	90.9	91.5	91.0	90.9	90.9	91.0	91.1
State and local governments												
11 Net borrowing	38.5	41.1	35.0	37.6	41.1	58.4	28.5	36.4	31.4	38.2	31.7	38.6
12 Current surplus ⁴	-39.6	-42.9	-41.5	-28.1	-39.4	-33.8	-50.2	-48.3	-43.6	-43.4	-40.6	-38.2
U.S. government												
13 Net borrowing	278.2	311.7	355.8	364.8	368.9	351.9	199.2	326.6	343.4	75.1	252.2	452.3
14 Net borrowing; quarterly, nsa	278.2	311.7	355.8	364.8	83.4	63.6	77.0	87.7	77.0	69.4	90.2	119.1
15 Unified deficit; quarterly, nsa	266.8	331.2	330.7	346.0	115.5	28.4	62.4	124.9	82.9	37.9	88.7	121.1
Funds supplied by												
16 depository institutions	-61.0	50.0	97.3	104.2	-4.2	1.8	115.1	87.4	96.2	08.6	67.1	117.1
Memoranda: As percent of GDP:												
17 Dom. nonfinancial debt ⁵	193.5	193.1	194.4	196.8	194.0	194.2	193.9	194.2	194.5	95.4	195.6	196.6
18 Dom. nonfinancial borrowing	8.0	9.3	11.0	11.8	11.1	9.1	7.4	9.8	10.4	11.3	9.4	13.1
19 U.S. government ⁵	4.9	5.3	5.7	5.6	6.3	6.0	3.3	5.4	5.6	6.1	4.0	7.2
20 Private	3.1	4.1	5.3	6.2	4.8	3.1	4.0	4.3	4.7	5.3	5.3	5.9

1. Published data through 1992 Q2.
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

The weighted-average foreign-exchange value of the dollar in terms of other G-10 currencies has risen about 9 percent since the October FOMC meeting, well in excess of the 2-1/2 percent appreciation that was built into the September Greenbook projection. As anticipated, the dollar began to rise early in the period, when it became clear that market expectations of a near-term monetary easing by the Federal Reserve would not be realized. The dollar rose further as news of continuing weakness in Germany's economic activity apparently led the Bundesbank to ease interest rates slightly further and raised expectations that the Bundesbank would ease again by year-end. The dollar rose still further later in the period, with the ending of election-related uncertainties and on market expectations that the Clinton administration will adopt a more expansionary fiscal stance, reducing the prospects for further Federal Reserve easing.

The dollar rose about 12 percent against the mark and most other major European currencies, but only 3-1/2 percent against the yen and 1-1/4 percent against the Canadian dollar. The yen fell less than the mark, partly because expectations of monetary easing were more subdued in Japan than in Europe and partly because Japan's external balance widened to record surplus levels whereas Germany's external balance showed a substantial deficit. Downward pressure on the Canadian dollar abated during the intermeeting period, despite the negative outcome for Canada's constitutional referendum, when exit polls taken during the referendum indicated that Canadians continue to favor national unity. However, the Canadian dollar began to slip again toward the end of the period.

Short-term interest rates in major European countries other than Germany have declined sharply since the October 6 FOMC meeting as EMS tensions have eased (see table below). In the United Kingdom, and to a lesser extent Germany and France, short-term rates are now well below their levels on June 2 (the date of the Danish referendum on Maastricht, which marked the early onset of the recent turmoil in the EMS). In Italy, Spain, and Sweden, rates remain above their early-June levels -- Italy's by the greatest margin. As a result of monetary restraint and the passage of several deficit reduction measures by the Italian government, the lira has risen 7-3/4 percent against the mark over the intermeeting period, and has reversed about one-third of its earlier decline.

THREE-MONTH INTEREST RATES
(Interbank loan or nearest equivalent, percent)

	June 2	September Peak	October 6	November 10
Germany	9.65	9.85	8.90	8.85
United Kingdom	9.94	10.56	9.00	6.94
France	9.98	13.00	12.75	9.31
Italy	12.56	20.13	17.06	14.63
Spain	12.50	15.00	15.25	13.90
Sweden	11.42	28.00	15.25	12.33
Japan	4.69	3.98	3.47	3.41
Canada	6.35	7.50	8.00	7.20
United States	3.94	3.34	3.04	3.50

. The desk did not intervene.

In the third quarter, real economic activity in major foreign industrial countries remained sluggish. In Japan, industrial production was about flat, and other economic indicators, on balance, pointed to only slightly positive growth in real GDP. Activity in France, Italy, and the United Kingdom also appear to have been relatively flat. Developments in western Germany have been somewhat more negative, as industrial production fell 2 percent and orders continued to decline, suggesting a second consecutive quarter of decline in real GDP. In Canada, however, recent monthly increases in industrial production and retail sales indicate a third-quarter expansion of real GDP at roughly a 2 percent annual rate.

With real output well below potential in most of these countries, inflation rates have held steady or have eased somewhat in recent months. A notable exception is western Germany, where twelve-month CPI inflation picked up to 3.8 percent in October from an average of 3.5 percent in the third quarter. That increase came despite some easing of German import prices associated with the appreciation of the mark against the pound and the lira during the EMS crisis in September. The initial effects of the pound's depreciation on U.K. inflation began to show up in October price data, as raw material prices jumped 2-1/2 percent above their September level.

Japan's trade surplus widened further in September, and, for the first nine months of the year, the surplus summed to \$79 billion. At the same time, the combined German current account deficit continued to widen in August, bringing that deficit to \$19 billion for the first eight months of 1992.

The nominal U.S. merchandise trade deficit widened sharply in August, and averaged more than \$105 billion at an annual rate in

July-August. The substantial widening of the deficit in recent months reflected continued sluggishness in exports and fairly strong growth of imports. A moderate expansion of exports to developing countries in Latin America and Asia was largely offset by further declines in shipments to Europe. The expansion of imports in July-August reflected a surge in imports of computers and some growth in purchases of machinery and consumer goods. Prices of non-oil imports rose 4-1/2 percent at an annual rate in the third quarter, in part because of the depreciation of the dollar over the summer.

Outlook

An expected stronger path for the dollar and, to a much lesser extent, a slightly weaker outlook for growth abroad contribute to a substantial downward revision in the projected path of real net exports of goods and services. We expect growth of real GDP in foreign economies to remain sluggish in the current quarter, to rise to about 2-1/2 percent in the first half of 1993 (somewhat less than previously forecast), and to 3-3/4 by 1994.

The Dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to remain unchanged from around current levels. This projected path of the dollar for the year ahead is nearly 6 percent above that in the September Greenbook, and it reflects the recent and anticipated further easing of monetary conditions abroad. Against the currencies of key developing countries, the CPI-adjusted value of the dollar is expected to depreciate moderately on average over the forecast period.

Foreign Industrial Countries. Since the September Greenbook, prospects for real growth in Europe, particularly over the next several quarters, have worsened somewhat. At the same time, the outlook for growth in Canada has improved a bit and that for Japan

remains unchanged. All told, we expect growth of real GDP in the major industrial countries (weighted by their shares in U.S. exports) to average about 1 percent at an annual rate during the second half of 1992 and a little less than 2 percent in the first half of 1993. Thereafter, GDP growth is projected to rise fairly quickly to 3-1/4 percent and remain there through 1994. This general pattern holds for most of the major countries, although we expect U.K. output to decline somewhat further in the fourth quarter and GDP growth in Germany and Italy to remain at only about 1 percent through mid-1993.

The anticipated recovery of growth abroad is predicated on the recent significant fiscal expansion in Japan, on improvements in private-sector balance-sheets in several countries, and on the recent and projected further easing of monetary conditions in all of the major countries. We expect over the year ahead short-term interest rates in Germany and France to fall nearly 200 basis points from current levels, rates in the United Kingdom to fall somewhat less, and those in Italy to fall somewhat more. Short-term rates in Canada, too, should come down substantially during 1993. Japanese rates should ease a bit more in the near term but could rise somewhat in the second half of 1993 as GDP growth moves above 3 percent. We expect long-term interest rates in the major foreign countries, on average, to fall about 50 basis points over the year ahead. By the end of the forecast period, the average level of short-term interest rates abroad is about 100 basis points lower than in the previous forecast and that of long-term rates abroad about 50 basis points lower.

We project consumer-price inflation in the major foreign industrial countries to average about 3 percent at an annual rate

through 1993 and slightly less in 1994, about the same as in the previous forecast.

Developing Countries. The outlook for growth in developing countries that are major U.S. trading partners is essentially unchanged from that in the last Greenbook. Real GDP growth is projected to continue in a range of 4-1/2 to 5 percent over the forecast period. This pace of growth should be supported by fiscal easing in some developing countries and by rising GDP growth in industrial countries. Also, some Asian countries are expected to continue to benefit from rapid expansion of domestic demand in China.

U.S. Real Net Exports of Goods and Services. We expect real net exports of goods and services to decline in the fourth quarter almost as much as they did in the third quarter, and then to trend down at a more moderate pace over the next two years. This outlook is significantly more negative than the previous forecast, which incorporated a slight uptrend in net exports over most of the forecast period. Relative to the September Greenbook, the growth of net exports has been revised down \$6 billion in the current quarter, and roughly \$10 billion per year during 1993 and 1994. The revision is based primarily on the higher projected path of the dollar. Recent developments in trade policy have not influenced the forecast, as we have assumed that current frictions in U.S. trade negotiations with the European Community will be contained.

Because the recent appreciation of the dollar has reversed most of the depreciation that occurred earlier this year, we have eliminated much of the previously projected net stimulus to exports stemming from gains in U.S. export price competitiveness. As a result, the projected growth of real nonagricultural exports excluding computers over the next four quarters has been reduced by

nearly 2 percentage points to a little over 5 percent at an annual rate. Most of the projected expansion of these exports is now accounted for by the anticipated pickup in GDP growth abroad. In addition, we continue to expect exports of computers to grow rapidly in real terms, adding at least 2 percentage points to the growth of nonagricultural exports over the next two years. Agricultural exports should decline somewhat in the fourth quarter from abnormally high levels recorded in the third quarter and be little changed over the year ahead.

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

	1992				Projection	
	Q1	Q2	Q3	Q4	1993 Q4	1994 Q4
Nonag. exports	0.2	1.1	-0.4	4.9	7.1	7.3
Agric. exports	6.4	-10.9	40.0	-14.1	0.5	1.2
Non-oil imports	5.2	14.8	8.1	7.4	7.7	6.9
Oil imports	1.7	41.1	8.9	8.8	3.8	10.3

* GDP basis, 1987 dollars.

The quantity of non-oil imports is expected to increase over the next five quarters at slightly less than the relatively strong pace in the third quarter of 1992. Exceptionally rapid growth in imports of computers has contributed about 5 percentage points to the expected growth of non-oil imports over the four quarters of 1992. During the next two years, the growth of total non-oil imports is expected to be maintained at a fairly strong pace by several factors. One factor is continued strong growth in computers, albeit at a substantially slower pace than in 1992. A second is the expected pickup in U.S. GDP growth later in 1993 and in 1994. A third factor is the decline in the relative price of imported goods resulting from the recent appreciation of the dollar. The stimulus to import demand from this lower relative price of

imports is expected to be felt primarily during 1993, and, as a result, we expect import growth to slow a bit in 1994.

The quantity of oil imports is projected to increase in the fourth quarter as domestic consumption increases, as domestic production drops below trend (because of damage to oil facilities associated with Hurricane Andrew), and as stocks remain little changed. Import growth is expected to ease significantly in the first half of 1993 after the hurricane damage is fully repaired, and then to increase in line with the rise in U.S. GDP growth and the secular decline in U.S. oil production.

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 about \$18.60 per barrel for the current quarter, marginally lower than in the last Greenbook. Spot oil prices have softened since mid-October (currently standing at \$20.50 per barrel), largely in response to strong production by Iran and Saudi Arabia and sluggish product demand. We assume that WTI spot prices will, by year's end, move roughly \$1.00 per barrel above current levels as OPEC restrains production, and remain at \$21.50 through the forecast period. This level of spot prices is consistent with an average import price of \$19 per barrel. We continue to assume that Iraq will not resume oil exports under U.N. auspices until the second half of 1993. An earlier return of Iraq to the world oil market could put downward pressure on oil prices.

Prices of Exports and Non-oil Imports. U.S. non-oil import prices are projected to decline slightly in the fourth quarter and to rise only marginally in the first quarter of 1993 because of the recent appreciation of the dollar. After mid-1993, we expect these import prices to rise more in line with inflation abroad. The increase in prices of U.S. nonagricultural exports (excluding computers) should be depressed a bit this quarter and next by the recent rise in the dollar, as U.S. exporters limit the rise in their

foreign-currency prices at least to some extent. We project export prices thereafter to rise roughly in line with U.S. producer prices.

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

	1992				----- Projection -----	
	Q1	Q2	Q3	Q4	1993 Q4	1994 Q4
PPI (exp. wts.)	-0.3	3.9	3.3	-0.3	1.6	1.1
Nonag. exports*	0.1	2.7	4.1	0.9	1.3	1.2
Non-oil imports*	2.1	0.2	4.7	-0.9	1.6	2.6
Oil imports (\$/bl)	15.27	17.47	18.62	18.60	19.00	19.00

* Excluding computers.

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to widen from an estimated annual rate of nearly \$110 billion in the third quarter to more than \$125 billion in the second half of 1993 and more than \$135 billion in 1994. The projected level of the deficit in 1994 exceeds that in the previous forecast by \$10 billion, and the difference is largely accounted for by the higher projected path of the dollar.

After having worsened sharply in the second quarter, the current account probably registered a \$10 billion (annual rate) improvement in the third quarter. That improvement is likely to be transitory, reflecting primarily the expected one-time receipt of payments from foreign reinsurance companies covering losses associated with Hurricane Andrew. We expect gains in net services and net investment income receipts to offset much of the decline in the trade balance over the rest of the forecast period. However, paralleling the revision to the outlook for the trade balance, the projection shows the current account following a significantly more negative path than in the previous projection, reaching a deficit of more than \$80 billion by the end of 1993 and \$90 billion by the end of 1994.

November 10, 1992

STRICTLY CONFIDENTIAL - FR
CLASS II FOMCREAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1990-94
(Percent change from fourth quarter to fourth quarter)

Measure and country	1990	1991	Projection		
			1992	1993	1994
REAL GDP					
Canada	-2.0	-0.0	1.3	2.8	3.2
France	1.5	1.9	1.5	2.3	3.0
Western Germany	5.8	2.0	1.7	1.7	2.4
Italy	1.6	1.7	0.7	1.2	2.2
Japan	5.2	3.0	1.5	2.8	4.3
United Kingdom	-1.0	-1.6	-0.7	2.1	2.6
Average, weighted by 1987-89 GDP	2.7	1.6	1.1	2.2	3.2
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.9	1.7	2.0	3.1	3.7
G-6	0.6	0.8	1.1	2.5	3.2
Developing countries	5.0	5.0	4.4	5.2	5.4
CONSUMER PRICES					
Canada	4.9	4.1	2.0	2.3	2.3
France	3.6	2.9	2.7	2.6	2.5
Western Germany	3.0	3.9	3.4	3.4	2.8
Italy	6.3	6.1	5.5	5.3	3.9
Japan	3.2	3.2	2.3	2.1	2.1
United Kingdom	10.0	4.2	3.1	3.5	4.6
Average, weighted by 1987-89 GDP	4.8	3.9	3.1	3.0	2.9
Average, weighted by share of U.S. non-oil imports					
	4.4	3.8	2.5	2.6	2.5

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

	1990				1991				1992		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991
GDP Net Exports of Goods and Services (87%)	-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9	-73.7	-51.8	-21.8
Exports of G+S	500.2	508.7	508.4	522.6	515.9	536.1	544.2	561.4	565.4	563.4	471.8	510.0	539.4
Merchandise	363.5	368.7	366.7	375.3	377.4	390.1	395.2	407.3	408.1	408.0	343.8	368.5	392.5
Services	136.7	140.0	141.7	147.3	138.5	146.1	149.0	154.0	157.3	155.4	127.9	141.4	146.9
Imports of G+S	558.6	565.6	567.7	555.3	533.8	553.5	575.8	581.8	586.8	607.3	545.4	561.8	561.2
Merchandise	458.3	464.5	465.7	452.7	438.9	454.9	477.9	482.2	488.0	507.8	450.4	460.3	463.5
Oil	55.9	55.6	53.3	43.5	44.2	51.5	52.4	46.5	46.7	50.9	51.3	52.1	48.6
Non-oil	402.4	408.9	412.4	409.1	394.7	403.4	425.5	435.7	441.3	456.8	399.0	408.2	414.8
Services	100.3	101.2	102.0	102.6	94.9	98.5	97.9	99.6	98.8	99.5	95.0	101.5	97.7
Memo:(Percent changes 1/)													
Exports of G+S	10.7	7.0	-0.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4	11.3	7.2	7.4
of which: Goods	10.2	5.8	-2.2	9.7	2.3	14.2	5.3	12.8	0.8	-0.1	10.2	5.8	8.5
Imports of G+S	2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7	2.6	0.1	4.8
of which: Non-oil Goods	-4.4	6.6	3.5	-3.2	-13.4	9.1	23.8	9.9	5.2	14.8	3.1	0.5	6.5
Current Account Balance	-89.5	-85.3	-95.9	-91.0	48.8	9.7	-44.3	-28.9	-23.6	-71.2	-101.1	-90.4	-3.7
Merchandise Trade, net	-109.5	-99.2	-115.6	-111.1	-73.3	-65.6	-80.7	-74.2	-68.9	-97.7	-115.7	-108.9	-73.4
Exports	379.9	386.6	386.2	402.1	402.5	413.3	416.6	431.4	431.8	430.3	361.7	388.7	416.0
Agricultural	43.0	40.5	39.4	37.9	39.2	37.5	40.7	43.2	43.3	42.0	42.2	40.2	40.1
Nonagricultural	337.0	346.1	346.8	364.2	363.3	375.8	375.9	388.2	388.5	388.3	319.5	348.5	375.8
Imports	489.4	485.8	501.7	513.2	475.8	478.9	497.3	505.6	500.7	528.0	477.4	497.6	489.4
Oil	63.2	51.3	61.8	72.9	51.7	51.7	52.5	48.8	41.5	51.9	50.9	62.3	51.2
Non-oil	426.3	434.5	439.9	440.3	424.2	427.1	444.8	456.8	459.2	476.1	426.4	435.3	438.2
Other Current Account	2.7	1.1	2.8	-10.0	94.2	59.6	24.0	35.5	27.4	21.0	0.2	-0.9	53.3
Invest. Income, net	17.3	12.8	16.9	30.1	27.9	15.7	12.3	9.8	17.9	5.5	14.4	19.3	16.4
Direct, net	52.1	51.5	54.0	59.7	61.7	53.0	48.3	48.5	55.3	46.4	47.8	54.3	52.9
Portfolio, net	-34.8	-38.7	-37.1	-29.6	-33.9	-37.3	-36.0	-38.7	-37.4	-40.9	-33.5	-35.1	-36.5
Military, net	-7.5	-6.5	-6.8	-10.5	-10.3	-5.7	-4.0	-2.2	-2.5	-2.6	-6.8	-7.8	-5.5
Other Services, net	36.3	37.2	38.3	47.6	47.7	48.8	52.1	54.7	57.9	54.5	32.6	39.9	50.8
Transfers, net	-26.2	-29.6	-28.8	-47.1	56.8	16.5	-24.0	-17.1	-28.0	-30.9	-25.6	-32.9	8.0

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		
	1992		1993				1994				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994
GDP Net Exports of Goods and Services (87\$)	-51.5	-56.9	-57.9	-63.5	-66.6	-64.3	-64.8	-71.0	-72.5	-70.4	-43.5	-63.1	-69.7
Exports of G+S	566.0	570.6	579.1	587.8	596.6	605.8	614.9	624.2	633.9	643.6	566.4	592.3	629.1
Merchandise	411.0	413.9	420.5	427.0	433.6	440.7	447.8	455.4	463.1	470.7	410.3	430.5	459.2
Services	155.0	156.7	158.7	160.7	163.0	165.1	167.0	168.8	170.8	172.9	156.1	161.9	169.9
Imports of G+S	617.5	627.6	637.1	651.3	663.2	670.1	679.7	695.2	706.4	714.0	609.8	655.4	698.8
Merchandise	517.8	527.3	535.2	548.3	559.5	565.7	574.6	589.4	599.8	606.7	510.2	552.2	592.6
Oil	52.0	53.1	51.3	55.6	58.0	55.1	55.3	61.2	63.1	61.1	50.7	55.0	60.2
Non-oil	465.8	474.2	483.9	492.8	501.5	510.6	519.4	528.2	536.7	545.6	459.5	497.2	532.5
Services	99.7	100.2	101.9	103.0	103.7	104.4	105.1	105.8	106.6	107.3	99.6	103.2	106.2
Memo: (Percent changes 1/)													
Exports of G+S	1.9	3.3	6.1	6.1	6.1	6.3	6.1	6.2	6.3	6.3	1.6	6.2	6.2
of which: Goods	3.0	2.9	6.5	6.4	6.3	6.7	6.6	6.9	6.9	6.7	1.6	6.5	6.8
Imports of G+S	6.9	6.7	6.2	9.2	7.5	4.2	5.9	9.4	6.6	4.4	7.9	6.8	6.6
of which: Non-oil Goods	8.1	7.4	8.5	7.5	7.3	7.4	7.1	7.0	6.6	6.8	8.8	7.7	6.9
Current Account Balance	-63.6	-84.0	-75.9	-81.4	-79.7	-82.0	-79.0	-86.8	-87.3	-92.5	-60.6	-79.7	-86.4
Merchandise Trade, net	-108.9	-114.3	-114.2	-121.8	-126.7	-126.0	-128.5	-137.5	-141.8	-142.9	-97.4	-122.2	-137.7
Exports	432.1	434.3	439.8	446.8	453.7	461.5	469.1	476.9	484.8	492.4	432.1	450.5	480.8
Agricultural	44.7	42.3	42.2	42.4	42.7	43.6	44.3	45.1	45.8	46.5	43.1	42.7	45.4
Nonagricultural	387.4	391.9	397.6	404.4	411.0	417.9	424.8	431.8	439.1	446.0	389.0	407.7	435.4
Imports	541.0	548.6	554.0	568.5	580.5	587.5	597.6	614.4	626.6	635.3	529.6	572.6	618.5
Oil	56.3	57.4	55.8	61.3	64.0	60.8	61.0	67.6	69.6	67.4	51.8	60.5	66.4
Non-oil	484.7	491.2	498.2	507.2	516.5	526.6	536.6	546.8	557.0	567.9	477.8	512.1	552.1
Other Current Account	34.4	23.5	28.0	30.3	33.1	33.0	37.8	39.5	41.2	40.9	26.6	31.1	39.9
Invest. Income, net	10.9	6.8	10.4	10.1	14.0	11.0	11.7	11.1	13.3	9.5	10.3	11.4	11.4
Direct, net	48.4	45.1	44.5	45.2	46.6	46.7	46.3	48.0	48.7	49.2	48.8	45.7	48.0
Portfolio, net	-37.5	-38.3	-34.1	-35.1	-32.7	-35.7	-34.6	-36.8	-35.4	-39.7	-38.5	-34.4	-36.6
Military, net	-2.7	-2.4	-2.0	-1.6	-1.0	-0.6	-0.2	0.2	0.6	1.0	-2.5	-1.3	0.4
Other Services, net	69.3	60.1	61.6	63.5	65.7	67.8	69.4	70.7	72.0	73.7	60.4	64.6	71.5
Transfers, net	-32.2	-34.2	-31.6	-31.6	-31.6	-34.2	-31.4	-31.4	-31.4	-33.8	-31.3	-32.2	-32.0

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