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Strictly Confidential (FR) Class II FOMC

December 16, 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

The latest information indicates that the economy has been considerably stronger in the second half of this year than anticipated in recent Greenbooks. The Commerce Department revised upward its estimate of real GDP in the third quarter, and the available data for the fourth quarter are upbeat. Labor demand strengthened in October and November, and spending indicators for the current quarter, though still limited, also have been fairly strong. All told, the data in hand suggest that real GDP is rising at more than a 3 percent annual rate in the fourth quarter--over a percentage point faster than the pace in our last forecast.

The upside surprise in second-half growth may be a confirmation that cuts in short-term rates can still be a potent stimulative force, even in the face of various financial system strains and other economic imbalances. Or it may indicate that sufficient restructuring has now occurred to weaken the headwinds against which monetary policy has been pushing for some time. In any event, for the very recent period, there are clear indications that a positive shift in psychology has occurred--a shift that our past few forecasts had anticipated would not occur until well into 1993.

There is, of course, a risk that this improvement will prove something of a false start, for there is still a significant undertow in the economy from such factors as the weakness of foreign growth, the excess supply of real properties and associated asset deflation, the contraction of the defense sector, and the difficulties of a variety of financial intermediaries. However, at this point it would be inadvisable to dismiss entirely the signs of stronger expansionary momentum in aggregate demand. Starting from a notably higher level of activity now, we have raised our projection of GDP growth in 1993 slightly. In contrast, we have trimmed a bit from our 1994 growth forecast because we now anticipate a lesser easing of long-term interest rates and a weaker external sector. On average, real GDP still is expected to expand at a 2-3/4 percent per annum pace over the next two years--the same as in the last Greenbook.

Growth in this range, occurring in the context of continuing efforts by businesses to raise productivity, is expected to result in only a gradual reduction in the margin of slack in the economy. From 7-1/4 percent at the present time, the unemployment rate is projected to drift downward to about 6-1/2 percent by the end of 1994. Recent readings on wages and prices have been, on balance, a little less favorable than we had expected--perhaps partly reflecting the greater firmness in activity--but we believe that the disinflationary trends remain intact; with ample supplies of underutilized labor and capital resources, we project that the "core" CPI inflation rate will fall below 2-1/2 percent during the next two years.

In one obvious respect, however, the risks to the staff projection probably are tilted toward the upside at this point: We have not yet incorporated any shift toward fiscal stimulus. Thus, even if all other risks are evenly balanced, economic activity might be expected to expand more over the next two years than shown in our forecast. Under the circumstances, it is appropriate to note that an additional increase in real GDP of a little more than 1 percent over the projection period might exhaust most of the remaining slack in the system. This suggests the possibility of an alternative economic scenario in which the federal funds rate rises sooner or farther to sustain progress toward price stability.

Recent Developments and the Current Quarter

Incoming data suggest that the economy is growing at a fairly good clip in the current quarter. Some of the most positive signals are coming from the labor market, where the unemployment rate fell 0.3 percentage point over the past two months and production-worker hours in October and November were up at an annual rate of 2-3/4 percent from the third quarter. Our simple models relating labor-market developments to aggregate economic activity predict that--barring a significant deterioration in the December report--real GDP will increase 4 percent, at an annual rate, in the current quarter. However, at this point, we lack sufficient hard data on spending to support such a number, and, allowing for the likelihood of some decline in December from the high November workweek, we have gravitated toward an increase in real GDP of 3-1/4 percent.

Spending indicators for the household sector have shown considerable strength of late. Retail sales excluding those at auto dealers rose sharply in October and posted a further increase in November, buoyed by strong gains in real disposable income and a significant improvement in consumer attitudes. Sales of light vehicles also have moved well above their third-quarter pace, and the consumption of services probably is growing moderately. Overall, real PCE is likely to post an increase of about 4-3/4 percent at an annual rate in the current quarter; this increase, given the expected growth in real income, should hold the personal saving rate near its third-quarter value of 4-1/2 percent.

Single-family housing starts have trended upward in recent months, more than offsetting softness in multifamily starts. Given the lags between starts and expenditures, real residential investment spending is expected to post a double-digit increase in the current quarter and to contribute 2/3 percentage point to the growth of real GDP. Other indicators also suggest an ongoing improvement in residential construction activity. Home sales have increased, consumer attitudes toward homebuying remain positive, and homebuilders are more optimistic.

Real business fixed investment is expected to grow substantially in the fourth quarter, with gains in both equipment and nonresidential structures.[1] On the equipment side, nominal orders for computers fell in September and October, and real outlays are expected to be little changed this quarter, after more than a year of extraordinary growth. Business purchases of motor vehicles are projected to rise sharply in the current quarter, boosted by a large increase in the sales of heavy trucks. Outlays for other types of business equipment are expected to post a moderate increase. A projected gain in nonresidential structures in the current quarter largely reflects a spurt in drilling activity, prompted not only by higher natural gas prices but also by the impending year-end expiration of certain tax incentives.

Inventory investment is projected to slow in the fourth quarter--exerting a small drag on the growth of real GDP. The October data for stocks in manufacturing and trade indicated an appreciable drawdown, and we expect to see only a mild increase for the quarter as a whole--leaving nonfarm inventories at year-end quite lean. Meanwhile, this year's bumper crop is projected to add to farm inventories in the current quarter, but at a slower pace than it did in the third quarter (on a seasonally adjusted basis).

1. We are not expecting that there will be a significant amount of shifting of equipment spending from the fourth quarter into 1993 in anticipation of an investment tax credit. Congressional leaders have announced that any investment incentives would be retroactive. Even if some shifting were to occur, the effect on real GDP likely would be offset, at least in part, by a larger accumulation of inventories.

On the inflation front, the CPI is projected to increase at an annual rate of 3-1/2 percent in the current quarter--1/2 percentage point more than in the November Greenbook. The bulk of the upward revision occurred in the CPI excluding food and energy, which rose 0.5 percent in October and 0.3 percent in November and now is expected to rise at a 3-3/4 percent annual pace for the quarter as a whole (versus 2-3/4 percent in the last Greenbook). Energy price increases also have been a bit on the high side, reflecting a larger-than-expected rise in natural gas prices in the aftermath of Hurricane Andrew; given the recent declines in spot prices, we anticipate a reversal of these increases in coming months. In the case of wages, the only recent news of note was the 0.6 percent increase in average hourly earnings of production workers in November; however, the twelve-month change in that measure still was only 2.7 percent.

The Outlook for 1993 and 1994

Relative to the November Greenbook, we have raised our real GDP growth forecast slightly in 1993 and lowered it in 1994; reflecting the additional strength in the second half of 1992, however, the level of activity is higher throughout the projection period. We anticipate that the recent pickup in activity, with its positive effects on income and expectations, will engender a greater momentum to consumer spending and fixed investment in early 1993 than in our previous forecast; however, this additional strength is partially offset next year by more restraint from the external sector arising mainly from slower growth abroad. In 1994, the weaker path for net exports--reflecting a higher foreign exchange value of the dollar--is the biggest element in the downward revision to the projection, but a lesser decline in long-term interest rates damps growth through domestic channels as well.

Reflecting current labor-market conditions, as well as the revised output path, the unemployment rate now is projected to be 1/2 percentage point lower by the end of next year than in the previous forecast; with less output growth in 1994, the downward revision to the unemployment rate diminishes to 1/4 percentage point. Because of somewhat greater inflation in 1992 and less slack in the economy over the remainder of the forecast period, we have raised our forecast for the CPI excluding food and energy by 0.3 percentage point in 1993 and 0.4 percentage point in 1994.

STAFF ECONOMIC PROJECTIONS
(Percent change: Q4 to Q4)

	1991	1992	1993	1994
Real GDP	.1	2.9	2.7	2.9
Previous	.1	2.3	2.4	3.2
Gross domestic purchases	-.2	3.6	3.2	3.2
Previous	-.2	3.0	2.5	3.3
Civilian unemployment rate[1]	6.9	7.3	7.0	6.6
Previous	6.9	7.5	7.5	6.8
CPI excluding food and energy	4.5	3.5	2.8	2.4
Previous	4.5	3.2	2.5	2.0

1. Average for the fourth quarter.

Key assumptions

The staff's central monetary policy assumption is little changed from that in the November Greenbook: We have assumed no significant change in the federal funds rate through 1993 and only a mild firming over the course of 1994--by which time credit-supply constraints should have eased perceptibly. In the bond market, yields already have retraced some of the run-up that occurred in advance of the elections; rather than simply heightening concerns about prospective rate pressures, positive economic news has reduced market participants' fears of a new, budget-busting fiscal initiative, and the appointments to President-elect Clinton's economic team also appear to have been reassuring to investors. We continue to project that long-term rates will ease somewhat further in coming months, reflecting, in part, a diminution of inflationary expectations, but we have shaved the rate decline in light of the greater underlying buoyancy of aggregate demand embodied in this forecast.

Despite the faster growth in nominal income in the second half of his year, the monetary aggregates have remained quite sluggish; both M2 and M3 are projected to fall below the lower bound of their announced target ranges in 1992. We expect the factors that have depressed money growth in 1992--the lure of stock and bond mutual funds and the restructuring of household, business, and depository balance sheets--will moderate somewhat in 1993 and 1994 but will still imply significant increases in the velocity of M2 and M3.

The staff's fiscal policy assumptions are unchanged from the previous Greenbook. We continue to assume no new initiatives that would deviate substantially from the OBRA budget guidelines. Although we remain mindful of the intention of the incoming administration to make some tax and expenditure policy changes, we are reluctant to attempt to predict the outcome of the legislative process. More important, the signs are that the better economic news has lowered the probability that a package will be enacted that involves a large short-run macro stimulus. On these assumptions, the staff expects the unified budget deficit to rise from $290 billion in FY1992 to $312 billion in FY1993 and $327 billion in FY1994. The FY1993 and FY1994 figures are about $20 billion below the projections in the November Greenbook and incorporate lower spending on deposit insurance in FY1993 and higher levels of economic activity in both fiscal years.[2]

Incoming data on economic activity in other industrialized countries (Japan and Germany, in particular) have been weaker than expected, and we have marked down our forecast for foreign growth. Economic activity abroad still is projected to accelerate over the next two years, but foreign real GDP growth averages 1/4 to 1/2 percentage point less than in the November Greenbook. The trade-weighted foreign exchange value of the dollar has been about unchanged since the last FOMC, but we expect it to drift upward through 1994.

Crude oil prices have fallen almost $1.50 per barrel over the past month, reflecting continued high levels of OPEC production and softness in world oil demand. As a result of the current excess supply conditions, the spot price of West Texas Intermediate crude oil now is projected to average $19.30 per barrel in the first quarter of 1993--$2.20 less than in the November Greenbook. The combination of some additional production restraint by Iran and Saudi Arabia and a modest pickup in world economic activity is expected to cause oil prices to stabilize at $20 per barrel by mid-1993--$1.50 less than in the last forecast.

Consumer spending. After rising at a 4-1/4 percent annual rate in the second half of 1992, real PCE is expected to grow at a more moderate 3 percent annual pace over the remainder of the forecast period. The personal saving rate has fallen considerably since the first half of 1992, and despite the recent improvement in consumer confidence, we do not think it likely that consumers will reduce their saving much further. As a result, real PCE is expected to

2. Funding for Operation Restore Hope is expected to be met largely out of monies already appropriated for military pay and training exercises. As a result, it does not materially affect our projection of the unified budget deficit.

grow only a shade faster than real disposable personal income over the rest of the projection period.[3]

Outlays on consumer durables are expected to be the fastest-growing element of consumption, rising 6-3/4 percent in 1993 and 7-1/4 percent in 1994. This rise reflects an increase in demand for motor vehicles, as consumers make a small dent in the pent-up demand that has developed over the past two years. Growth also is projected to be strong for other durable goods, as, with the economy improving, households are expected to feel more secure in purchasing big-ticket items. Expenditures on consumer nondurables and services are expected to post moderate gains over the next two years, increasing at annual rates of about 2 percent and 2-1/2 percent, respectively.

Housing. Residential construction activity is expected to strengthen gradually over the next two years. Mortgage rates are low by the standards of recent decades and are expected to move still lower in 1993 and 1994. With concerns about employment security receding and income rising, homebuying is projected to increase. Home prices also are likely to firm somewhat as the expansion proceeds, strengthening the investment motive for owning a home. On balance, we expect single-family housing starts to move up from 1.03 million units this year to 1.21 million units in 1994.

We also project an increase in multifamily starts over the forecast period. With economic activity picking up, we anticipate some decline in multifamily rental vacancy rates and a firming in real rents. The resultant improvement in profitability in this

3. In the November Greenbook, the personal saving rate had been projected to drift upward into early 1993 until job growth raised consumer confidence. It now appears that the election and better economic news have produced the same result. Although the saving rate now is expected to be lower than in the prior forecast through 1994, the projected level is about the same as the pre-recession average--at least until the next annual NIPA revision rewrites the history of the past three years.

sector is likely to induce banks to increase the flow of credit to developers. As a result, we see multifamily housing starts rising gradually from 170,000 units this year to about 220,000 units in 1994--still an exceptionally low level historically.

Business fixed investment. Efforts to improve productivity are likely to be an ongoing stimulus to capital spending, and real BFI is projected to increase about 8 percent in 1993 and 1994. Equipment spending is expected to be by far the strongest component, rising 10-3/4 percent in 1993 and another 9-1/4 percent in 1994. As in the previous forecast, we have not assumed the enactment of an investment tax credit; this is a definite upside risk to our projection for equipment outlays. Purchases of computers are projected to be strong next year, reflecting the introduction of the next generation of microprocessors. With cash flow improving and business sales picking up, we also expect greater strength in other types of equipment investment; we think there already has been a pick-up in such spending, and a further acceleration is likely. Purchases of communications equipment are projected to remain especially strong, boosted, in part, by the movement of the regional telephone companies to fiber-optic networks. One part of PDE that is not likely to participate in this growth is commercial aircraft; with airlines continuing to cut back on orders in response to excess capacity, we expect spending on new planes to trend down over the forecast period.

Investment in nonresidential structures is projected to remain essentially flat in 1993 but to increase 3-1/2 percent in 1994. We anticipate drilling activity will drop back in early 1993 after expiration of tax incentives, and the latest data on permits and contracts suggest little change in aggregate spending on other projects in the near term. Although office construction is expected to move lower over the forecast period, we foresee a pickup in 1994 in industrial building and in the construction of other commercial structures. The requirements of the Clean Air Act are expected to augment spending by public utilities.

Business inventories. Businesses are expected to continue implementing changes in production and distribution processes that minimize the need for inventories. Nonetheless, stocks appear quite lean at the moment, and we believe that there will be a need to step up inventory investment next year to satisfy sales and production requirements. This pickup in real nonfarm inventory investment contributes almost 1/2 percentage point to projected real GDP growth in 1993. Thereafter, inventory accumulation is an essentially neutral influence on real output growth, and we anticipate a slight further decline, on balance, in inventory-sales ratios over the projection period.

Government purchases. After a 1-1/2 percent decline in 1992, real federal purchases are projected to drop 5-1/2 percent in 1993 and another 4 percent in 1994. As noted earlier, these declines are concentrated in defense. Real nondefense purchases are expected to rise slowly.

In the state and local sector, continuing fiscal difficulties are expected to limit increases in expenditures over the next two years. Real state and local purchases are projected to rise 1 percent in 1993 and 2 percent in 1994. Much of the increase is expected to be in construction, while governments attempt to hold the line on growth in other categories of spending. Nonetheless, with red ink persisting, we anticipate a significant round of tax increases in mid-1993. These tax hikes, together with higher levels of economic activity, are sufficient to reduce the deficit (on operating and capital account) from more than $40 billion this year to $12 billion in 1994.

Net exports. An expected acceleration in economic activity abroad is projected to boost the growth of real exports of goods and services to a 5-3/4 percent annual pace, on average, over the next two years. However, real imports of goods and services are expected to rise 9-1/4 percent in 1993 and 8 percent in 1994. Consequently, the deficit on real net exports widens from around $42 billion in 1992 to almost $95 billion in 1994. (A detailed discussion of these projections is contained in the International Developments section.)

LABOR MARKET PROJECTIONS
(Percent change; Q4 to Q4)

	1991	1992	1993	1994
Output per hour, nonfarm business sector	1.3	2.5	1.8	1.2
Labor force participation rate[1]	65.9	66.1	66.3	66.5
Civilian labor force	.5	1.3	1.3	1.2
Civilian employment, household survey	-.6	.9	1.6	1.7
Civilian unemployment rate[1]	6.9	7.3	7.0	6.6

1. Average for the fourth quarter.

Labor markets. As the result of the stronger output path, we now anticipate that the unemployment rate will fall over the course of 1993. Nonetheless, we expect the progress in reducing unemployment to be slow. The improved economic environment is likely to attract more people into the labor force, while at the same time employers, intent on raising productivity, remain cautious in expanding their staffs. On balance, we expect the unemployment rate to fall to 7 percent by the end of next year. In 1994, productivity gains are likely to slow a bit as restructuring wanes, and the jobless rate falls to 6.6 percent by the fourth quarter.

Wages and prices. Although the downsizing of the defense establishment is expected to cause some extra frictional unemployment over the next two years, considerable effective slack still is projected to remain in labor markets. As a result, we expect further progress in reducing wage and price inflation. ECI hourly compensation is projected to decelerate about 1/2 percentage point over the forecast period to a 2-3/4 percent rate of increase in 1994. We anticipate a slowdown in wages and salaries and in the cost of employer-provided benefits. Although some type of health-care reform may well emerge in the next session of the Congress, we have not incorporated such reform into the forecast. Rather, the downtrend in benefits reflects some success on the part of employers and insurance companies in containing costs.

Reflecting the moderation in labor cost increases as well as relative stability in the prices of imported goods, consumer price inflation is expected to slow further. After an increase of just over 3 percent in 1992, the CPI is projected to rise 2-3/4 percent in 1993 and 2-1/2 percent in 1994. The CPI excluding food and energy is expected to decelerate from a 3-1/2 percent increase in 1992 to less than 2-1/2 percent in 1994. The increase in energy prices in 1993 is expected to be a bit less than in the prior forecast, reflecting the lower path for crude oil prices; energy prices accelerate in 1994, as tougher environmental regulations and increases in demand raise the prices of electricity and natural gas.

STAFF INFLATION PROJECTIONS
(Percent change; Q4 to Q4)

	1991	1992	1993	1994
Consumer price index	3.0	3.1	2.7	2.4
Previous	3.0	2.9	2.7	2.1
Food	1.7	1.7	2.4	2.0
Previous	1.7	2.0	2.3	1.8
Energy	-8.0	2.4	2.9	3.5
Previous	-8.0	2.4	5.0	3.4
Excluding food and energy	4.5	3.5	2.8	2.4
Previous	4.5	3.2	2.5	2.0
ECI for compensation, private industry workers[1]	4.4	3.3	3.1	2.8
Previous	4.4	3.3	3.0	2.7

1. December to December.

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

December 16, 1992

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	11/12/92	12/16/92	11/12/92	12/16/92	11/12/92	12/16/92	11/12/92	12/16/92	11/12/92	12/16/92
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	4.5	4.8	1.8	2.1	3.0	3.0	3.0	3.0	7.4	7.4
1993	4.5	5.5	2.2	2.9	2.6	2.8	2.8	2.9	7.6	7.1
1994	4.8	5.0	3.0	2.7	2.1	2.4	2.2	2.6	7.1	6.8
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]	4.5	5.6	2.7	3.9	2.1	2.2	2.6	2.6	7.6	7.6
Q4	4.5	6.2	2.0	3.3	2.8	3.3	3.0	3.5	7.5	7.3
1993 Q1	4.9	6.0	2.0	2.7	3.0	3.3	3.1	2.4	7.6	7.3
Q2	4.2	5.0	2.0	2.7	2.4	2.5	2.7	3.0	7.6	7.2
Q3	4.5	5.1	2.5	2.7	2.2	2.5	2.5	2.9	7.6	7.1
Q4	4.7	4.9	2.9	2.6	2.0	2.4	2.3	2.6	7.5	7.0
1994 Q1	5.2	5.3	3.1	2.7	2.5	2.8	2.3	2.5	7.3	6.9
Q2	4.7	4.9	3.2	2.7	1.9	2.2	2.1	2.4	7.2	6.8
Q3	4.6	4.9	3.2	3.0	1.7	2.2	2.0	2.3	7.0	6.7
Q4	4.6	4.9	3.3	3.0	1.7	2.1	2.0	2.2	6.8	6.6
TWO-QUARTER[3]										
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	4.5	5.9	2.3	3.6	2.4	2.8	2.8	3.0	.0	-.2
1993 Q2	4.5	5.5	2.0	2.7	2.7	2.9	2.9	2.7	.1	-.1
Q4	4.6	5.0	2.7	2.6	2.1	2.4	2.4	2.7	-.1	-.2
1994 Q2	5.0	5.1	3.2	2.7	2.2	2.5	2.2	2.5	-.3	-.2
Q4	4.6	4.9	3.2	3.0	1.7	2.1	2.0	2.3	-.4	-.2
FOUR-QUARTER[4]										
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	4.9	5.6	2.3	2.9	2.9	3.1	2.9	3.1	.6	.4
1993 Q4	4.6	5.2	2.4	2.7	2.4	2.7	2.7	2.7	.0	-.3
1994 Q4	4.8	5.0	3.2	2.9	1.9	2.3	2.1	2.4	-.7	-.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)

December 16, 1992

Item	Unit[1]	1986	1987	1988	1989	1990	1991	Projected 1992	Projected 1993	Projected 1994
EXPENDITURES										
Nominal GDP	Bill. $	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5949.5	6276.7	6591.6
Real GDP	Bill. 87$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4921.2	5063.7	5202.7
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	2.9	2.7	2.9
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	3.6	3.2	3.2
Final sales		3.3	2.7	4.2	1.5	.6	-.6	2.8	2.4	2.9
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	4.2	3.9	4.0
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	3.3	3.1	3.2
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	8.6	6.8	7.3
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	3.0	2.0	2.2
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.3	2.7	2.6
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.1	7.9	7.8
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	11.0	10.7	9.3
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-1.9	.8	3.4
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	12.8	7.6	7.0
Exports		9.9	12.6	13.5	11.3	7.2	7.4	3.5	5.6	5.9
Imports		6.7	4.7	3.6	2.6	.1	4.8	9.2	9.3	7.9
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.2	-1.6	-.3
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-1.6	-5.6	-4.1
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	1.5	1.1	2.1
Change in bus. invent.	Bill. 87$	8.6	26.3	19.9	29.8	6.2	-9.3	7.4	28.8	28.7
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	5.0	29.4	29.8
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-42.3	-74.4	-93.6
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	5.6	5.2	5.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.4	109.7	111.7
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	7.1	6.8
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	1.7	4.3	3.9
Capacity util. rate-mfg.	%	79.5	82.6	84.2	83.5	81.9	78.5	77.8	78.8	79.3
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.32	1.44
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.34	8.78	9.33
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.23	6.60	6.95
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.18	2.38
INCOME AND SAVING										
Nominal GNP	Bill. $	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5958.5	6277.3	6589.6
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	5.3	5.2	4.9
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	5.2	5.9	5.9
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.5	2.8	3.2
Personal saving rate	%	6.0	4.3	4.4	4.0	4.3	4.7	4.8	4.5	4.4
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	17.2	7.6	3.0
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.5	6.9	6.8
Federal surpl./def.	Bill. $	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-297.0	-265.1	-244.8
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.3	29.3	44.3
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.4	-27.6	-12.3
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.6	2.5	2.1
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	3.1	2.7	2.3
Gross domestic purchases fixed-wt. price index		2.3	3.9	4.1	4.3	5.3	2.8	3.1	2.6	2.3
CPI		1.3	4.5	4.3	4.6	6.3	3.0	3.1	2.7	2.4
Ex. food and energy		3.9	4.3	4.5	4.4	5.3	4.5	3.5	2.8	2.4
ECI, hourly compensation[2]		3.2	3.3	4.8	4.8	4.6	4.4	3.3	3.1	2.8
Nonfarm business sector										
Output per hour		1.2	1.8	.5	-1.4	.1	1.3	2.5	1.8	1.2
Compensation per hour		4.6	3.8	3.8	3.1	6.3	4.2	3.4	3.3	3.0
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.8	.9	1.5	1.8

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

Strictly Confidential (FR)
Class II FOMC

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

December 16, 1992

Item	Unit	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 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
ominal GDP	% change	7.7	5.8	2.7	.1	1.8	5.2	4.0	2.8	6.2	4.3
LOYMENT 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]	%	82.9	82.9	82.9	78.7	78.7	78.7	78.7	77.8	77.8	77.8
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
I		7.2	4.1	7.0	6.9	3.3	2.4	2.7	3.6	2.9	3.5
x. 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 FOMC

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

December 16, 1992

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	5982.5	6073.0	6162.0	6237.5	6315.9	6391.5	6474.3	6551.5	6630.7	6709.9
Real GDP	Bill. 87$	4939.4	4979.3	5013.1	5047.1	5081.0	5113.6	5147.7	5182.4	5220.6	5259.9
Real GDP	% change	3.9	3.3	2.7	2.7	2.7	2.6	2.7	2.7	3.0	3.0
Gross domestic purchases		4.3	3.6	3.5	3.5	3.1	2.6	3.0	3.4	3.3	3.1
Final sales		2.9	3.8	2.1	2.1	2.3	3.0	2.8	2.7	3.0	3.1
Private dom. final purch.		3.3	5.8	4.0	4.0	3.7	3.9	3.9	4.1	4.0	3.9
Personal cons. expend.		3.7	4.7	3.0	2.9	3.1	3.3	3.2	3.3	3.2	3.0
Durables		9.5	11.4	7.0	5.5	6.9	8.0	7.9	7.7	7.4	6.2
Nondurables		2.5	5.6	2.0	2.0	2.0	2.0	2.3	2.3	2.2	2.1
Services		3.0	2.7	2.5	2.8	2.8	2.8	2.5	2.8	2.7	2.6
Business fixed invest.		1.9	7.9	7.8	10.1	6.8	7.1	7.5	7.8	7.8	7.9
Producers' dur. equip.		9.2	8.6	10.8	14.0	9.0	8.9	9.1	9.4	9.3	9.3
Nonres. structures		-14.4	6.1	.1	.0	.9	2.0	3.0	3.3	3.6	3.9
Res. structures		.8	18.6	12.6	6.9	5.2	5.7	6.8	6.6	6.6	8.0
Exports		9.4	3.6	4.5	5.7	6.0	6.4	6.1	5.9	5.8	5.9
Imports		12.8	6.2	10.4	11.8	9.0	6.1	7.9	10.3	7.6	5.8
Government purchases		3.3	-2.7	-2.1	-1.9	-1.4	-.8	-.6	-.3	-.2	-.1
Federal		6.3	-6.6	-6.1	-5.9	-5.4	-5.0	-4.5	-4.0	-4.0	-4.1
Defense		6.7	-10.2	-9.4	-8.9	-8.3	-7.7	-7.1	-6.4	-6.5	-6.6
State and local		1.4	.0	.6	.8	1.2	1.8	1.9	2.0	2.1	2.2
Change in bus. invent.	Bill. 87$	20.2	14.0	21.6	29.5	34.5	29.6	28.1	28.9	29.3	28.4
Nonfarm		14.8	9.7	22.3	29.5	34.8	31.0	29.4	30.1	30.3	29.2
Net exports		-49.8	-54.1	-63.6	-73.9	-79.7	-80.5	-84.7	-93.3	-97.6	-99.0
Nominal GDP	% change	5.6	6.2	6.0	5.0	5.1	4.9	5.3	4.9	4.9	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.5	108.6	109.0	109.5	110.0	110.4	110.9	111.4	111.9	112.5
Unemployment rate[1]	%	7.6	7.3	7.3	7.2	7.1	7.0	6.9	6.8	6.7	6.6
Industrial prod. index	% change	2.1	2.4	5.4	4.5	3.5	3.8	3.7	3.6	4.1	4.3
Capacity util. rate-mfg[1]	%	77.8	77.9	78.5	78.7	78.9	79.0	79.1	79.2	79.4	79.6
Housing starts	Millions	1.19	1.24	1.28	1.31	1.34	1.37	1.40	1.43	1.45	1.48
Auto sales in U.S.		8.21	8.32	8.65	8.70	8.80	8.95	9.10	9.25	9.40	9.55
North American produced		6.24	6.31	6.55	6.55	6.60	6.70	6.80	6.90	7.00	7.10
Other		1.97	2.01	2.10	2.15	2.20	2.25	2.30	2.35	2.40	2.45
INCOME AND SAVING											
Nominal GNP	Bill. $	5993.1	6072.0	6162.9	6237.3	6318.5	6390.7	6474.2	6549.0	6630.0	6705.1
Nominal GNP	% change	5.8	5.4	6.1	4.9	5.3	4.7	5.3	4.7	5.0	4.6
Nominal personal income		2.5	8.4	6.5	5.9	5.2	6.1	6.9	5.4	5.4	5.8
Real disposable income		.4	4.5	3.0	2.8	1.9	3.4	3.9	2.9	2.7	3.3
Personal saving rate[1]	%	4.5	4.6	4.6	4.6	4.3	4.3	4.5	4.4	4.3	4.3
Corp. profits, IVA&CCAdj	% change	-17.3	45.6	19.0	3.8	4.1	4.3	1.3	5.2	-1.0	6.7
Profit share of GNP[1]	%	6.2	6.7	6.9	6.9	6.9	6.9	6.8	6.8	6.7	6.7
Federal govt. surpl./def.	Bill. $	-301.9	-294.1	-279.5	-270.6	-253.8	-256.4	-257.0	-249.6	-235.6	-237.0
State/local surpl./def.		9.0	18.0	22.6	24.1	33.9	36.8	40.1	42.3	47.1	47.7
Ex. social ins. funds		-48.2	-39.2	-34.5	-32.9	-23.0	-20.0	-16.6	-14.3	-9.5	-9.0
PRICES AND COSTS											
GDP implicit deflator	% change	1.7	2.8	3.2	2.2	2.4	2.2	2.5	2.1	1.9	1.8
GDP fixed-wt. price index		2.2	3.3	3.3	2.5	2.5	2.4	2.8	2.2	2.2	2.1
Gross domestic purchases fixed-wt. price index		2.5	3.1	2.8	2.6	2.5	2.3	2.7	2.2	2.1	2.1
CPI		2.6	3.5	2.4	3.0	2.9	2.6	2.5	2.4	2.3	2.2
Ex. food and energy		2.5	3.7	3.0	2.8	2.7	2.6	2.5	2.4	2.3	2.2
ECI, hourly compensation[2]		3.2	3.4	3.3	3.1	3.1	3.0	2.9	2.9	2.8	2.7
Nonfarm business sector											
Output per hour		3.0	1.7	3.2	1.6	1.3	1.2	1.1	1.2	1.3	1.2
Compensation per hour		3.5	3.8	3.8	3.2	3.2	3.1	3.4	3.0	2.9	2.8
Unit labor cost		.6	2.1	.6	1.6	1.9	1.9	2.3	1.8	1.6	1.6

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

Strictly Confidential (FR)
Class II FOMC

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

December 16, 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	140.8
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	174.5
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	134.4
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	165.8
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	108.0
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	35.8
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	31.0
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	41.1
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	35.0
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	37.8
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	-2.9
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	6.5
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	16.7	.7	-56.8	37.4	-2.1
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	8.5
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	-33.6
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	19.9
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	53.6
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	2.3
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	-6.2
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	5.5
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	8.5

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

December 16, 1992

Item	Projected											Projected		
	1992		1993				1994							
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993	1994
Real GDP	47.0	39.9	33.8	34.0	33.9	32.6	34.1	34.7	38.2	39.3	4.7	140.8	134.2	146.4
Gross domestic purchases	52.9	44.3	43.2	44.3	39.7	33.3	38.4	43.3	42.5	40.6	-7.5	174.5	160.6	164.9
Final sales	34.6	46.1	26.2	26.1	28.8	37.5	35.6	33.9	37.8	40.2	-29.7	134.4	118.7	147.5
Private dom. final purch.	32.9	56.9	40.6	40.8	38.0	40.2	41.1	43.2	42.7	41.9	-36.5	165.8	159.5	168.8
Personal cons. expend.	29.9	38.6	24.6	24.3	26.1	27.6	27.2	28.7	27.8	25.9	1.0	108.0	102.5	109.6
Durables	9.9	12.0	7.7	6.2	7.9	9.2	9.3	9.3	9.0	7.8	-10.5	35.8	31.0	35.4
Nondurables	6.6	14.4	5.4	5.3	5.3	5.4	6.2	6.2	6.0	5.8	-16.0	31.0	21.4	24.2
Services	13.4	12.2	11.5	12.8	12.9	13.0	11.7	13.2	12.8	12.4	27.6	41.1	50.2	50.0
Business fixed invest.	2.4	10.0	10.0	13.0	9.2	9.6	10.3	11.0	11.2	11.6	-37.2	35.0	41.8	44.2
Producers' dur. equip.	8.1	7.8	9.9	13.0	8.8	8.9	9.3	9.8	9.9	10.1	-12.4	37.8	40.7	39.1
Nonres. structures	-5.7	2.1	.0	.0	.3	.7	1.1	1.2	1.3	1.5	-24.8	-2.9	1.1	5.0
Res. structures	.4	8.3	6.0	3.5	2.7	3.0	3.6	3.5	3.6	4.4	-.2	22.6	15.2	15.1
Change in bus. invent.	12.4	-6.2	7.6	7.9	5.1	-5.0	-1.4	.8	.4	-.9	34.3	6.5	15.6	-1.2
Nonfarm	8.8	-5.1	12.6	7.2	5.4	-3.9	-1.5	.7	.2	-1.1	37.4	-2.1	21.3	-1.8
Farm	3.5	-1.0	-5.0	.7	-.3	-1.1	.1	.1	.2	.2	-3.0	8.5	-5.7	.6
Net exports	-5.9	-4.3	-9.4	-10.3	-5.9	-.7	-4.2	-8.6	-4.3	-1.4	12.2	-33.6	-26.3	-18.5
Exports	12.8	5.1	6.4	8.2	8.8	9.4	9.1	9.0	9.0	9.2	38.8	19.9	32.8	36.4
Imports	18.6	9.5	15.8	18.5	14.6	10.1	13.3	17.6	13.3	10.6	26.5	53.6	59.1	54.9
Government purchases	7.6	-6.4	-4.9	-4.4	-3.3	-1.9	-1.3	-.7	-.5	-.3	-5.4	2.3	-14.5	-2.8
Federal	5.7	-6.4	-5.8	-5.5	-5.0	-4.5	-4.0	-3.5	-3.5	-3.5	-9.1	-6.2	-20.8	-14.5
Defense	4.3	-7.1	-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	1.5	.6	.5	.3	.3	.3	.3	.3	.3	.3	5.7	5.5	1.4	1.2
State and local	1.9	.0	.9	1.1	1.7	2.6	2.7	2.8	3.0	3.2	3.7	8.5	6.3	11.7

1. Annual changes are from Q4 to Q4.

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

Item	Fiscal year 1991[a]	Fiscal year 1992[a]	Fiscal year 1993	Fiscal year 1994	1992 Q1[a]	1992 Q2[a]	1992 Q3[a]	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1054	1092	1158	1219	239	322	276	257	254	353	294	268	273	377	301	281
Outlays[1]	1324	1382	1469	1547	355	350	338	385	334	373	378	387	382	391	387	398
Surplus/deficit[1]	-269	-290	-312	-327	-116	-28	-62	-128	-80	-20	-84	-119	-109	-14	-86	-117
On-budget	-322	-340	-367	-387	-121	-60	-62	-138	-88	-53	-89	-131	-117	-51	-89	-132
Off-budget	52	50	56	60	6	31	-1	10	8	33	5	12	8	37	3	15
Surplus excluding deposit insurance[2]	-203	-287	-291	-279	-105	-25	-69	-135	-82	-8	-65	-106	-98	0	-75	-108
Means of financing																
Borrowing	293	311	298	352	83	62	77	80	84	49	86	117	103	44	88	109
Cash decrease	-1	-17	19	0	29	-27	-12	41	-2	-19	0	10	10	-20	0	10
Other[3]	-23	-4	-5	-24	4	-7	-3	8	-2	-10	-1	-8	-4	-10	-2	-2
Cash operating balance, end of period	41	59	40	40	20	47	59	18	21	40	40	30	20	40	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1118	1144	1228	1305	1143	1150	1155	1187	1226	1241	1256	1273	1299	1316	1331	1350
Expenditures	1313	1433	1502	1554	1433	1453	1457	1482	1505	1511	1510	1529	1556	1566	1567	1587
Purchases	447	446	447	439	445	445	454	448	450	446	442	439	442	440	437	434
Defense	326	315	307	293	314	312	318	312	311	305	300	296	296	293	289	285
Nondefense	121	132	140	146	131	133	136	136	140	141	142	143	146	147	148	149
Other expenditures	866	987	1055	1115	988	1008	1003	1034	1055	1065	1068	1090	1114	1126	1129	1152
Surplus/deficit	-194	-288	-275	-250	-289	-303	-302	-295	-280	-271	-254	-256	-257	-250	-236	-237
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-155	-224	-221	-211	-226	-235	-238	-236	-224	-219	-206	-212	-216	-213	-204	-211
Change in HEB, percent of potential GDP	-.4	1.2	0	-.2	.5	.1	.1	0	-.2	-.1	-.2	.1	.1	0	-.1	.1
Fiscal impetus (FI), percent, cal. year	-3.8	-4	-4.3	-4	-2.5	-.1	1.1	-1.4	-2.1	-1.3	-1.3	-1.1	-.7	-.9	-.9	-.9

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

Since the last FOMC meeting, further evidence of a quickened pace of economic expansion has driven from the market any lingering expectation of near-term Fed easing. Against that backdrop and with the Treasury increasing its reliance on bill issuance to finance a bulge in the federal deficit, short-term Treasury rates edged up over the intermeeting period. Meanwhile, yields on private money market instruments in the three- to six-month maturity ranges have reversed their early autumn increases, reportedly reflecting in part a lessening of pressures associated with year-end positioning.[1]

Bond yields posted small declines over the intermeeting period, at least in part because the increased vigor of the economic expansion was seen as reducing the likelihood of a large fiscal stimulus; President Clinton's nominees for top economic slots also suggested to market participants a relatively conservative budgetary posture. Talk of a noticeable shortening in the maturity of future Treasury debt issuance added to the price gains on longer-term securities but may have put upward pressure on intermediate yields. Municipal yields fell a bit relative to Treasury yields, benefiting from reduced supply pressures and the view that marginal tax rates on upper incomes will be higher next year. With bond rates down and a sense of a more buoyant economy pervasive in the marketplace, most

1. Those year-end pressures became visible for the first time in one-month interest rates during the intermeeting period. Although they have eased a bit from their earlier highs, such rates are still about 1/2 percentage point above mid-November levels, implying year-end financing costs in the neighborhood of 7 percent. While quite high relative to the federal funds rate currently at 3 percent, implied quotes for funds on the weekend beginning December 31 are down about 5 percentage points from readings taken one month ago. Reportedly, weaker credits already have locked in funding for the year-end, so that current quotes reflect transactions by more creditworthy borrowers.

equity indexes posted substantial gains, from 2 to 4 percent over the intermeeting period.

M2 decelerated somewhat in November, to an annual rate of around 3-1/2, in part reflecting the backup in money market rates that month. Two special factors--a change in Regulation D and apparent heavy mortgage refinancings--account for much of the expansion of M2 in November, suggesting that the underlying trend of demand for M2 has remained weak. Even with the boost from special factors, M2 in November remained a little below the 2-1/2 percent lower bound of its annual target range. M3 growth picked up a bit in November, to a 2 percent annual rate, placing the broad aggregate fractionally below the lower bound of its target range.

Bank credit continued to grow, increasing at a 4-3/4 percent annual rate over the past two months, fueled more by lending than it had been through the first three quarters of 1992. The expansion of securities portfolios slowed to a 9 percent rate in November, as compared with a 15 percent pace in the third quarter. An acceleration in total loans, to a 3 percent rate in November, mostly reflected a step-up in business lending. An increased willingness to borrow short-term was strikingly evident in the commercial paper market: The volume of outstanding issues by nonfinancial firms posted annualized increases of 20 percent and 50 percent in October and November respectively. Part of that surge probably reflected efforts earlier than the norm to lock in funding over the turn of the year, and there is also a sense that some firms temporarily withdrew from the capital market in response to the backup in longer-term rates in October. Gross public offerings of bonds by nonfinancial firms fell to $8 billion in November, about half the monthly rate of issuance in the third quarter. The edging down lately of long-term yields has enticed some firms back into the market, producing a notable pickup in offerings thus far this month.

In the household sector, consumer installment credit edged up in October after a 2-1/2 percent (annual rate) increase in September; adjusted for securitizations, consumer loans made by banks eked out a small increase in November. Real estate loans at commercial banks expanded at a pace below that of September and October, but this still marked a considerable strengthening compared to the prior period. However, it is not clear that this step-up in credit growth signals a renewed willingness of households to borrow, especially since the magnitudes are minor in comparison with the surge in consumer spending.

October's backup in longer-term yields took a toll on municipal bond issuance in November; the volume of gross offerings fell from the elevated level of $21 billion in October to about $14 billion last month. The drop-off has been especially marked for refunding activity; analysts have noted that the hectic pace of such offerings earlier in the year has virtually exhausted the stock of candidates for refunding.

A more-than-seasonal increase in the federal deficit, to $128 billion in the fourth quarter, will result in about $75 billion of marketable borrowing and a substantial decline in the Treasury's cash balance. Since the third quarter, Treasury issuance has shifted somewhat toward bills relative to coupon securities.

Outlook

The staff projection anticipates that the steepness of the yield curve will diminish appreciably over the next two years. Short-term rates are assumed to remain close to their current levels through next year, and long-term rates are expected to decline as inflationary expectations ebb. Short-term rates are assumed to turn up and long-term rates are projected to level out in 1994, as credit-supply conditions improve more noticeably and the amount of slack in the economy diminishes further.

The staff flow-of-funds projection shows a pickup in the growth of private credit to a 4 percent annual rate in the fourth quarter, as compared with an average pace of 2-1/2 percent over the first three quarters of the year. One element in the acceleration is an expected bulge in net home mortgage borrowing, as some households cash out equity in connection with loan refinancings. Although the expansion of nonfederal debt is likely to slow a bit in the first quarter of 1993, when the refinancing activity slows, this is expected to be only a temporary pause; over the next two years, the growth rate of private credit is projected to creep back upward, to something over 4 percent in 1994.

The staff estimates that there has been a modest upturn in net borrowing by nonfinancial firms in the fourth quarter--to about a 2 percent annual rate of growth. We project only a slight quickening from that pace in 1993 and 1994. Continuing recent trends, this borrowing will likely be directed mainly toward the bond markets at first--though net offerings are projected to run a bit below the record pace of the first half of this year. In the near term, many firms have lengthened their debt structures sufficiently that they may be loath to forgo the interest savings afforded by relying on short-term borrowing with a steep yield curve. Moreover, as time passes, firms are expected to step up their use of shorter-term funding for inventory finance and other purposes; a banking industry with strengthened capitalization and a liquid balance sheet should then reassert itself as an important source of funds.

With expenditures on durable goods expected to contribute importantly to the growth of consumption over the forecast period, the use of installment credit should expand. Private borrowers, emboldened by the continuing economic expansion, will likely increase their willingness to take on debt as well. Rising housing starts and an increasing turnover of existing homes should buoy mortgage borrowing. In sum, household borrowing is expected to keep pace with nominal income in 1993 but move ahead in 1994.

Little, if any, pick-up in net state and local government borrowing is expected in 1993 and 1994. Although some progress toward reducing recent budgetary imbalances is likely, gross bond offerings should remain substantial to finance increased capital outlays; however, a heavy slate of retirements of prerefunded securities scheduled for 1993 and 1994 is expected to hold down net debt growth.

The federal government is expected to continue its outsized reliance on the credit market, with U.S. government debt increasing at a double-digit clip for some time to come. Although the quickening of economic activity should help to pare the deficit, the RTC will re-emerge as a demander of funds, probably at the end of the second quarter of 1993, and bank resolutions should play some role as well; altogether, such activity is expected to add about 1/4 percentage point to total nonfinancial sector debt growth in 1993.

Total nonfinancial debt is expected to accelerate to a 5-3/4 percent rate of increase in 1993 and to 6 percent in 1994, expanding faster than nominal GDP in both years.

Confidential FR Class II
December 16, 1992

GROWTH RATES OF DEBT BY SECTOR[1]
(Percent, period-end to period-end)

	Domestic Nonfinancial Sectors			Households					Memo	
	Total[2]	U.S. govt.[2]	Non-federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets[3]	Nominal GDP[4]
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	31.4	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	6.9	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	10.9	3.0	4.7	6.0	0.0	0.5	5.4	0.1	5.6
1993	5.7	10.9	3.9	5.1	5.9	2.6	2.7	3.5	0.8	5.2
1994	6.0	10.1	4.4	5.7	6.4	4.6	3.1	3.8	1.8	5.0
				Seasonally adjusted, annual rates						
1992 -- Q1	6.0	13.3	3.5	5.5	7.4	0.4	1.0	5.1	5.2	6.2
Q2	4.7	12.3	2.2	3.6	4.1	-1.6	-0.6	6.9	-1.2	4.3
Q3	3.3	6.5	2.2	3.7	5.0	0.1	-0.3	5.4	-4.1	5.6
Q4	5.4	9.8	3.9	5.5	6.9	1.1	2.0	3.9	0.5	6.2
1993 -- Q1	5.8	12.1	3.5	4.7	5.6	1.8	2.2	3.0	0.3	6.0
Q2	5.2	9.2	3.7	4.8	5.8	2.2	2.6	3.8	0.3	5.0
Q3	4.8	7.2	4.0	5.0	5.9	2.9	2.9	3.2	0.0	5.1
Q4	6.7	13.5	4.3	5.5	6.0	3.5	2.9	3.9	2.5	4.9
1994 -- Q1	6.7	13.1	4.3	5.4	6.0	3.9	3.0	3.7	2.3	5.3
Q2	5.3	7.8	4.4	5.5	6.2	4.4	3.1	4.0	1.2	4.9
Q3	5.1	6.7	4.4	5.7	6.5	4.8	3.1	3.3	0.9	4.9
Q4	6.4	11.3	4.5	5.7	6.4	5.0	3.1	4.0	2.7	4.9

1. Published data through 1992 Q3.
2. Deposit insurance activity raised total debt growth roughly 0.5 percentage point in 1991 and is expected to raise growth by 0.3 percentage point in both 1993 and 1994; there is 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.

2.6.3 FOF

FLOW OF FUNDS PROJECTION HIGHLIGHTS[1]
(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	470.9	578.5	686.2	750.0	713.5	571.1	390.9	638.3	689.7	630.5	592.4	832.2
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	452.7	552.7	676.2	745.0	667.5	535.1	379.9	628.3	676.7	619.5	583.4	825.2
	Borrowing sectors:												
	Nonfinancial business												
4	Financing gap[2]	-4.4	-20.9	24.7	57.4	-43.1	-14.8	-23.7	-1.9	9.6	23.9	30.2	35.1
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	-22.1	18.2	96.8	115.5	35.4	-23.4	-11.7	72.5	81.1	92.7	105.6	107.6
	Households												
7	Net borrowing, of which:	158.0	183.3	210.1	248.4	217.1	143.3	148.1	224.8	195.2	198.2	212.6	234.5
8	Home mortgages	137.1	163.4	172.2	197.5	202.2	114.2	139.7	197.5	161.4	169.9	176.2	181.4
9	Consumer credit	-12.6	0.0	20.8	37.6	3.1	-12.4	0.4	9.0	14.0	18.0	23.0	28.0
10	Debt/DPI (percent)[3]	91.7	91.0	90.4	90.2	91.6	91.3	91.8	91.2	91.0	90.8	90.9	90.8
	State and local governments												
11	Net borrowing	38.5	49.0	33.5	37.5	46.1	63.4	50.0	36.4	28.4	36.2	31.3	38.2
12	Current surplus[4]	-39.6	-43.9	-32.7	-22.1	-49.8	-38.2	-47.0	-40.5	-36.3	-34.1	-32.0	-28.1
	U.S.government												
13	Net borrowing	278.2	302.2	335.8	343.7	368.9	351.9	193.4	294.6	372.0	292.4	233.9	444.9
14	Net borrowing;quarterly, nsa	278.2	302.2	335.8	343.7	83.4	63.6	75.5	79.7	84.2	48.7	85.7	117.3
15	Unified deficit;quarterly, nsa	266.8	334.5	302.9	324.8	115.6	28.4	62.4	128.1	79.8	19.7	84.2	119.3
	Funds supplied by												
16	depository institutions	-61.0	41.9	124.3	128.0	-14.4	-23.2	79.7	125.4	124.8	125.6	112.1	134.8
	Memoranda: As percent of GDP:												
17	Dom. nonfinancial debt[3]	193.5	193.1	192.8	194.4	194.8	195.0	194.0	193.7	193.7	193.8	193.7	194.6
18	Dom. nonfinancial borrowing	8.0	9.3	10.8	11.3	11.4	9.1	6.4	10.3	11.0	9.9	9.2	12.9
19	U.S. government[5]	4.9	5.1	5.4	5.2	6.3	6.0	3.2	4.9	6.0	4.7	3.7	7.0
20	Private	3.1	4.2	5.4	6.1	5.1	3.1	3.1	5.5	4.9	5.2	5.5	6.0

1. Published data through 1992 Q3.
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 declined slightly on balance since the November FOMC meeting. The dollar showed a moderate upward trend during the first half of the period, reflecting relatively more favorable news about economic developments in the United States than abroad. Those gains were more than reversed in thin trading late in the period, particularly against European currencies after Bundesbank officials reiterated their anti-inflationary stance and opposition to a near-term easing of German official interest rates.

Significant pressures on exchange rates among European currencies reemerged during the intermeeting period.

, on November 19 the Bank of Sweden allowed the krona to float, and it declined about 14 percent against the DM. The floating of the krona was followed by moderate downward adjustments in the currencies of Spain and Portugal within the ERM, and the floating of the Norwegian krone. Spain and Portugal lifted the capital controls that were imposed in September. The French franc, Irish punt, and Danish krone also have come under pressure in recent weeks.

. The desk did not intervene.

During the intermeeting period, short-term interest rates have backed up slightly in Germany and Japan. French rates are up 150 basis points and Swedish rates down 250 basis points (to about 10 percent) in response to developments in foreign exchange markets.

Long-term rates in the major countries have been little changed over the intermeeting period. Several countries announced money growth targets for the year ahead. In Germany, M3 growth was in excess of 10 percent at an annual rate over the first ten months of 1992, and the target for 1993 was raised 1 percentage point to a range of 4-1/2 to 6-1/2 percent. The target for French M3 growth was increased somewhat less, to 4 to 6-1/2 percent. The targets for Swiss Central Bank Money and Italian M2 were left unchanged.

Real GDP in the major foreign industrial countries, on average, was weaker than expected in recent quarters. In Japan, where continued slow, but positive, growth had been widely expected, real GDP declined in the third quarter -- and in the second quarter as well after revision. Western Germany also has registered two consecutive quarters of real GDP decline, with GDP falling at a 2 percent annual rate in the third quarter. More recent indicators in Japan and Germany suggest continued weakness in the fourth quarter, with industrial production and new orders in both countries continuing to fall in October. In the third quarter, GDP was flat in the United Kingdom, but showed moderate increases in Canada and France.

The twelve-month CPI inflation rate through November persisted at about 3-3/4 percent in Germany, but underlying inflation eased to about 2 percent in Japan. Inflation continued to trend downward in the United Kingdom and Italy through November. Twelve-month inflation was a little over 2 percent in France through November and 1-3/4 percent in Canada through October.

Japan's trade surplus was $107 billion at an annual rate over the first eleven months of the year. The combined German current account deficit was $26 billion at an annual rate over the first ten months of the year.

The nominal U.S. merchandise trade deficit narrowed slightly in September but widened further to $106 billion at a seasonally adjusted annual rate for the third quarter as a whole. After having been sluggish earlier in the year, exports expanded fairly strongly in the third quarter, with most of the increase going to developing countries in Latin America and Asia. Shipments to Europe continued their recent downward trend. Imports rose even more strongly than exports, however, with consumer goods, computers, and oil accounting for most of the increase. The U.S. current account deficit narrowed $14 billion in the third quarter, to a rate of $57 billion: receipts from foreign insurance companies to cover hurricane losses accounted for most of the narrowing of the deficit. (Developments in U.S. trade in October will be described in the Greenbook supplement.)

Outlook

A weaker outlook for growth abroad and a projected modest upward drift in the foreign exchange value of the dollar have contributed to a significant 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 and the first quarter of 1993 and then to recover only gradually to an average annual rate of about 3-1/2 percent by the end of 1993 and for 1994.

The Dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to rise about 5 percent by the end of 1994. This forecast is consistent with our expectation that European interest rates will decline relative to U.S. interest rates, against a background of an expanding U.S. economy and sluggish growth in other major industrial countries for much of the forecast period. Against the currencies of key developing countries, the CPI-adjusted value of the dollar is expected to show a moderate depreciation on average through 1994.

Foreign Industrial Countries. The recent weakness of economic activity abroad and the absence of positive forward-looking indicators or policy actions that suggest a rapid rebound have led us to revise down the projected rate of growth of real GDP in the G-6 foreign industrial countries by about 1/2 percentage point over the year ahead and by a bit less in 1994. We now expect G-6 growth (weighted by shares in U.S. exports) to average less than 1 percent during the fourth quarter of 1992 and the first quarter of 1993, then to recover gradually to nearly 3 percent by the end of 1993, and to remain about 3 percent through 1994.

Prospects for a significant recovery of Japanese growth in the near term have dimmed since the November Greenbook. Private domestic demand in Japan appears to have been depressed more severely than previously thought by declining confidence and financial problems related to asset price deflation. Nevertheless, the fiscal measures that have recently been adopted, along with an expected modest further easing of monetary conditions, should foster a slow recovery of growth in domestic demand in Japan over the year ahead.

Growth in Canada is expected to be around 2 percent through the first half of 1993, before rising to more than 3 percent in 1994. This outlook has been revised down somewhat because of the Canadian Government's recent announcement of federal spending cuts. However, we continue to expect that the Canadian economy will benefit from economic expansion in the United States, especially in light of the recent depreciation of the Canadian dollar.

The recent weakness of leading indicators in Germany and the United Kingdom has led us to project further declines in real GDP in those two countries through the first quarter of 1993, followed by recovery of growth to a little over 2-1/2 percent by the end of 1993. France is expected to have somewhat stronger growth and Italy somewhat weaker growth than Germany during 1993 and 1994. The anticipated recovery of growth in Europe is predicated in part on an easing of monetary policy in Germany. We expect German short-term interest rates to fall nearly 300 basis points from current levels over the year ahead. Rates in other major European countries are projected to fall mutatis mutandis. We expect long-term interest rates in the foreign G-10 countries on average to decline more than 100 basis points over the forecast period, somewhat more than in the previous forecast.

We project consumer-price inflation in the major foreign industrial countries to average less than 3 percent in 1993 and 2-1/2 percent in 1994, somewhat less than projected in November.

Developing Countries. The projected growth of real GDP in the developing countries that are major U.S. trading partners is lower than that in the November Greenbook. This reflects in part the weaker outlook for growth in industrial countries, on average, and in part the influence of tighter policies in several developing countries. Nonetheless, some relaxation of contractionary policies, as well as a pickup in demand in industrial countries, is assumed to support higher growth in 1993-94 than in 1992.

U.S. Real Net Exports of Goods and Services. We project real net exports of goods and services to decline substantially throughout the forecast period, though at a somewhat slower pace than they have during 1992. This outlook is significantly more negative than the previous forecast: it reduces the growth of real net exports $19 billion for 1993 and $12 billion for 1994. The worsening of net exports in 1993 results from a combination of slower growth abroad and somewhat faster growth in the United States, and to a slight extent, the appreciation of the dollar. In 1994, the rise in the dollar and, to a lesser extent, slower growth abroad are the main factors underlying the further deterioration in the outlook for net exports.

The growth of real merchandise exports is projected to slow to about 4 percent at an annual rate in the current quarter and then to average about 6-1/2 percent over the next two years. Excluding shipments of agricultural commodities (which are expected to remain little changed on average) and computers (which are expected to to continue to expand rapidly over the forecast period), export growth is projected to average about 5 percent in 1993 and 4 percent in 1994. Export growth slows over the forecast period because the depressing effects of the rising dollar more than offset the stimulative effects of the gradual pick-up in GDP growth abroad.

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

	1992		Projection 1993				1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
Exports							
Agricultural	58.7	-9.2	-10.5	-0.5	2.1	6.4	0.6
Computers	38.5	21.2	17.0	17.0	19.3	20.6	25.1
Other nonag.	7.0	2.9	4.9	5.1	5.0	4.7	3.8
Imports:							
Oil	15.8	3.8	0.6	43.3	11.0	-15.6	11.6
Computers	82.3	18.4	23.9	23.9	23.9	23.9	19.2
Other non-oil	7.5	5.8	9.7	8.2	7.6	6.9	6.3

* GDP basis, 1987 dollars.

The recent strengthening of U.S. economic activity has added to the projected growth of U.S. imports through the first half of 1993. We now expect total merchandise imports to expand at an average rate of 10 percent during 1993 and a bit less in 1994. Declines in relative prices of imports and rapid growth in imports of computers contribute importantly to the projected strong growth of imports. Even so, the growth of computer imports is expected to slow from the exceptionally rapid rates recorded during 1992.

The quantity of oil imports is projected to increase in the current quarter as consumption increases and domestic production declines (partly the result of damage associated with Hurricane Andrew). Thereafter, projected movements in oil imports largely reflect seasonal fluctuations in demand and the secular decline in U.S. oil production.

Oil Prices. Over the past two months, spot oil prices have fallen roughly $3.00 per barrel on lackluster product demand, strong production by Saudi Arabia and Iran, and the market's perception that the November OPEC agreement will have limited effects on near-term OPEC production. The spot price of West Texas Intermediate crude oil currently stands just above $19.00 per barrel. The decline in spot prices has led us to reduce the projected level of the oil import unit value $0.70 per barrel in the current quarter and $3.00 per barrel in the first quarter of 1993, when the import unit value should average $15.70 per barrel.

Beyond the first quarter, we expect production restraint on the part of OPEC and the expected pickup in world economic activity to push up spot and import prices gradually. (This outlook also assumes that Iraq will not resume oil exports under U.N. auspices until the second half of 1993.) Nevertheless, the recent emergence of Iran as a producer with significant excess capacity, coupled with a weaker recovery of world economic activity over the forecast period, has led us to mark down the longer-term path of oil prices relative to the previous forecast. We now assume that the oil import unit value will rise to $17.50 per barrel (consistent with a spot price for WTI of $20.00 per barrel) by the middle of 1993 and remain there through the end of 1994, $1.50 less than the price path in the November Greenbook.

Prices of Non-oil Imports and Nonagricultural Exports. Owing to the appreciation of the dollar in recent months, 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. We expect these import prices to continue rising less rapidly than domestic prices abroad after mid-1993 because of the projected appreciation of the dollar. The increase in prices of U.S. nonagricultural exports (excluding computers) should roughly keep pace with increases in U.S. producer prices.

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

			Projection				
	1992		1993				1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
PPI (exp. wts.)	3.5	-1.0	0.8	2.6	2.0	1.6	1.4
Nonag. exports*	3.2	0.4	0.5	2.1	1.6	1.6	1.3
Non-oil imports*	4.7	-0.6	0.5	1.0	1.2	1.2	1.3
Oil imports ($/bl)	18.55	17.95	15.70	17.00	17.50	17.50	17.50

* Excluding computers.

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to widen from an annual rate of $106 billion in the third quarter of 1992 to about $130 billion in the second half of 1993 and nearly $150 billion in 1994. The projected level of the deficit in 1994 exceeds that in the previous forecast by $8 billion. The worsening of the outlook for the nominal trade balance is substantially less than that for real net exports of goods because the projected terms of trade have improved relative to the November forecast.

We expect that the current account deficit will widen to about $85 billion at an annual rate in the fourth quarter, and further to nearly $110 billion (or more than 1-1/2 percent of GDP) in 1994. We expect gains in net services to offset some of the declines in the trade balance and net investment income receipts over the forecast period. However, the projection shows the current account following a more negative path than that in the previous forecast, partly because of the revision to the trade balance, and partly because lower foreign growth, lower oil prices, and the higher dollar depress net services and investment income.

December 16, 1992

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1990-94
(Percent change from fourth quarter to fourth quarter)

Measure and country	1990	1991	Projection 1992	Projection 1993	Projection 1994
REAL GDP					
Canada	-2.0	-0.0	1.1	2.6	3.2
France	1.5	1.7	1.8	1.9	3.0
Western Germany	5.8	2.0	0.9	1.4	2.4
Italy	1.6	1.7	0.7	1.2	2.2
Japan	4.7	3.0	0.5	1.8	3.2
United Kingdom	-1.0	-1.6	-0.9	1.5	2.6
Average, weighted by 1987-89 GDP	2.6	1.5	0.6	1.7	2.8
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.8	1.6	1.7	2.7	3.4
G-6	0.6	0.8	0.8	2.1	3.0
Developing countries	5.0	4.9	4.1	5.0	5.2
CONSUMER PRICES					
Canada	4.9	4.1	2.0	2.3	2.3
France	3.6	2.9	2.6	2.5	2.2
Western Germany	3.0	3.9	3.7	3.3	2.3
Italy	6.3	6.1	5.0	5.6	3.9
Japan	3.2	3.2	1.2	2.2	1.6
United Kingdom	10.0	4.2	3.1	2.6	3.0
Average, weighted by 1987-89 GDP	4.8	3.9	2.6	3.0	2.4
Average, weighted by share of U.S. non-oil imports	4.4	3.8	2.1	2.6	2.2

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	-98.2	-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	429.9	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	41.9	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	388.0	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	528.1	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	51.7	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	476.4	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	19.3	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	7.7	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	48.0	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	-40.3	-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	-2.5	-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	53.0	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	-31.2	-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$)	-49.8	-54.2	-63.7	-74.0	-79.8	-80.6	-84.8	-93.4	-97.7	-99.1	-42.4	-74.5	-93.7
Exports of G+S	576.2	581.3	587.7	595.9	604.7	614.0	623.1	632.2	641.2	650.4	571.6	600.6	636.7
Merchandise	422.2	426.1	431.2	437.7	444.7	452.4	459.8	467.2	474.5	482.0	416.1	441.5	470.9
Services	154.0	155.1	156.5	158.2	160.0	161.7	163.4	165.0	166.7	168.4	155.5	159.1	165.9
Imports of G+S	625.9	635.4	651.3	669.7	684.4	694.5	707.8	725.5	738.8	749.4	613.9	675.0	730.4
Merchandise	526.0	535.1	548.6	566.0	579.7	589.0	601.3	618.0	630.5	640.2	514.2	570.8	622.5
Oil	52.8	53.3	53.4	58.4	59.9	57.4	58.5	64.2	65.7	64.1	50.9	57.3	63.1
Non-oil	473.2	481.8	495.2	507.6	519.7	531.5	542.7	553.8	564.8	576.1	463.3	513.5	559.3
Services	100.0	100.5	102.8	103.9	104.8	105.7	106.7	107.6	108.4	109.3	99.7	104.3	108.0
Memo: (Percent changes 1/)													
Exports of G+S	9.4	3.6	4.5	5.7	6.0	6.4	6.1	5.9	5.8	5.9	3.5	5.6	5.9
of which: Goods	14.7	3.8	4.8	6.1	6.6	7.1	6.7	6.6	6.4	6.4	4.6	6.2	6.5
Imports of G+S	12.8	6.2	10.4	11.8	9.0	6.1	7.9	10.3	7.6	5.8	9.2	9.3	7.9
of which: Non-oil Goods	15.2	7.4	11.6	10.4	10.0	9.4	8.7	8.4	8.2	8.2	10.6	10.3	8.4
Current Account Balance	-56.9	-84.9	-80.7	-93.2	-95.3	-99.3	-99.1	-109.0	-110.7	-118.4	-59.2	-92.1	-109.3
Merchandise Trade, net	-106.2	-111.5	-111.3	-124.5	-131.4	-131.5	-135.8	-144.8	-150.1	-152.7	-96.2	-124.7	-145.9
Exports	443.2	444.7	448.0	454.6	461.9	469.8	477.0	483.9	490.1	496.2	437.4	458.6	486.8
Agricultural	46.4	43.8	42.4	42.6	43.1	44.3	44.9	45.5	46.0	46.5	43.8	43.1	45.7
Nonagricultural	396.8	400.9	405.5	411.9	418.7	425.5	432.1	438.4	444.1	449.6	393.6	415.4	441.1
Imports	549.4	556.1	559.3	579.1	593.3	601.3	612.8	628.7	640.2	648.9	533.6	583.2	632.7
Oil	56.9	55.5	48.6	57.8	60.9	58.3	59.5	65.2	66.8	65.1	51.4	56.4	64.1
Non-oil	492.5	500.7	510.7	521.2	532.4	543.0	553.4	563.5	573.5	583.8	482.2	526.8	568.5
Other Current Account	35.0	20.0	22.1	23.9	26.0	25.4	29.3	30.7	32.4	31.6	25.4	24.4	31.0
Invest. Income, net	14.2	6.6	8.5	7.4	10.1	6.7	7.4	5.1	6.9	2.7	11.6	8.2	5.5
Direct, net	51.8	44.7	42.6	42.6	43.2	42.9	42.7	43.5	43.8	43.9	50.0	42.8	43.5
Portfolio, net	-37.6	-38.1	-34.0	-35.2	-33.0	-36.1	-35.3	-38.4	-36.9	-41.2	-38.3	-34.6	-37.9
Military, net	-2.2	-1.6	-2.0	-1.6	-1.0	-0.6	-0.2	0.2	0.6	1.0	-2.2	-1.3	0.4
Other Services, net	64.7	55.2	55.5	56.9	58.4	59.6	60.7	61.7	63.0	64.2	57.7	57.6	62.4
Transfers, net	-27.5	-33.6	-31.4	-31.4	-31.4	-33.6	-31.2	-31.2	-31.2	-33.6	-30.1	-31.9	-31.8

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