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Strictly Confidential (FR) Class II FOMC

August 11, 1993

SUMMARY AND OUTLOOK

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

Overview

Judging mainly from the incoming data on employment, the economy appears to have entered the second half of 1993 on a moderate expansion path. As in the last Greenbook, we do not see a compelling rationale for anticipating that growth over the next year and a half will diverge greatly from the 2 1/2 percent average growth pace recorded for the past six quarters. Under these circumstances, the unemployment rate likely would not decline much, if at all, through 1994.

To achieve even this middling economic performance, we believe it probably will be necessary to maintain a relatively low federal funds rate. Moreover, we anticipate that credit supply conditions will continue to ease and that intermediate and long-term interest rates will decline further. Also on the plus side looking ahead are an expected pickup in economic activity abroad, which should lessen the drag now coming from the external sector, and rebuilding in areas of the Midwest affected by the floods, which should give a small boost to production over the next several quarters. By our reckoning, these positive factors are necessary if growth is to be sustained at or above potential in the face of substantial fiscal restraint and the ongoing uncertainty about health care reform and other government policies.

The projected slack in labor and product markets, coupled with a tempering of inflation expectations, should put downward pressure on wage and price inflation: We are forecasting the twelve-month change in the CPI excluding food and energy to slow from around 3-1/2 percent in mid-1993 to almost 3 percent in 1994. However, no slowing is expected in the total CPI, as the projected reduction in core inflation is offset by higher food and energy prices over the next year and a half.

SUMMARY OF THE STAFF PROJECTION
(Percent change, at annual rates, except as noted)

	1993 H1	1993 Q3	1993 Q4	1993	1994
Real GDP	1.2	2.3	2.4	1.7	2.5
Previous	1.6	2 2	2.5	2.0	2 6
Civilian unemployment rate[1]	7.0	6.9	6.9	6.9	6.8
Previous	7.0	7.0	6.9	6.9	6.8
CPI inflation	3.4	1.9	4.2	3.2	3.2
Previous	3.4	2.4	4.0	3.3	3.1

1. Averages for final quarter of period shown.

Key assumptions. Short-term interest rates are assumed to remain close to current levels through 1994. Bond yields are projected to fall somewhat further over the next few quarters as net demands on the capital markets remain subdued and as disappointing yields on cash and the absence of a buildup in inflationary pressures encourage investors to reach out the term structure for yield. The availability of credit to businesses appears to be improving: The Senior Loan Officer survey and other reports suggest that commercial banks are pursuing loans more aggressively, and the securities markets have been more receptive to issues even by riskier firms.

The broad monetary aggregates have shown few signs of life lately. M2 growth was sluggish in July, despite a substantial boost provided by special factors, while M3 declined. Again, banks continued to fund credit with sources outside the monetary aggregates. Looking forward, corporations are expected to continue to rely heavily on financing through the issuance of securities and, with the yield curve remaining steep, households are likely to persist in shifting funds from deposits to capital market instruments, including mutual funds. Consequently, the broad monetary aggregates are expected to finish the year near the lower bounds of their annual growth cones, and to accelerate only modestly in 1994.

The staff's fiscal policy assumptions have been modified just slightly, mainly to reflect the Omnibus Budget Reconciliation Act of 1993 and $5 billion in additional budget authority for flood relief. In line with OBRA 93, we have shifted the effective date for the higher marginal tax rates on upper-income individuals back to the beginning of the year and have scaled back the energy tax from what was assumed in the last Greenbook. A new forecast uncertainty has been introduced by the talk among Congressional and Administration officials about enacting additional spending cuts this fall. On the assumption that any action taken would have little effect on FY94 outlays, we have trimmed our expenditure forecast only marginally; we have not anticipated significant financial market effects, which conceivably could flow from further meaningful deficit reduction. As it is, fiscal policy is quite contractionary: On a national income accounts basis, the deficit is projected to shrink about $100 billion between calendar years 1992 and 1994, with cyclical developments playing only a small role.

The trade-weighted foreign exchange value of the dollar is expected to change little over the projection period. The expansion of the bands of the ERM likely will facilitate earlier reductions in interest rates in some European countries, but the net effect of these developments on economic activity abroad is likely to be small. As in the June Greenbook, we still are looking for only a gradual acceleration in the pace of foreign economic growth through 1994.

The projected path of crude oil prices has been revised downward from the June Greenbook. With OPEC members exceeding their production quotas, prices have dropped this summer, and the spot price of West Texas Intermediate crude oil now is projected to average $2 per barrel less this quarter than in the last forecast. We foresee prices firming some in the fall, as foreign economic activity picks up. Over the longer term, the apparent inability of OPEC to agree on- and adhere to--a price/production strategy is likely to keep markets relatively flush with oil. As a result, the spot WTI price is projected to rise to only $19.50 per barrel in 1994--$1 less than in the June Greenbook.

Recent Indicators of Economic Activity

The disparate movements of employment and output in recent quarters have made it more difficult to judge how one should translate the recent labor market indicators into an estimate of GDP growth.[1] At this point, however, with no major spending indicators for the third quarter in hand, we must rely heavily on the signals emanating from the labor market to get at least a rough handle on the direction of the economy. As noted above, those signals seem to be point to moderate growth. Private payroll employment rose almost 160,000 in July, or about 1-3/4 percent at an annual rate. Initial claims for unemployment insurance have

1. In calibrating our forecast for the third quarter, we have discounted somewhat the currently published estimates of real GDP growth in the first half of the year. BEA currently estimates first-half real GDP growth at just over 1 percent at an annual rate, and we would not be surprised to see this figure strengthened in the upcoming revision of the NIPA at the end of August. Growth at the currently estimated pace does not square with the increases in hours over this period and implies two consecutive quarters of rather large declines in labor productivity. Although some retrenchment in output per hour early this year looked reasonable, the cumulative loss as of the second quarter seems inconsistent with the continuing reports of corporate restructuring and productivity improvement. In addition, the decline in the unemployment rate over the first half of the year seems out of sync with real GDP growth that is significantly below its potential rate.

returned to their spring levels, after spiking in late July mainly because of the GM shutdown. Production-worker hours increased last month to a level about 0.2 percent above the second-quarter average; given even a modest rebound in productivity this quarter, such growth in labor input seems consistent with an increase in real GDP of 2 percent (annual rate) or more. The official unemployment rate inched lower in July, but it was unchanged--at the second-quarter level on BLS's concurrent seasonal adjustment; this, too, suggests that output may be growing somewhere around the estimated potential rate of a bit more than 2 percent.

Indicators of industrial activity have been mixed recently; output appears to have turned upward again last month. July's hot weather gave a temporary boost to electricity generation, but, more fundamentally, manufacturing output appears to have risen somewhat, despite a decline in motor vehicle assemblies. Vehicle production is slated to jump in August and is expected to contribute almost 1/2 percentage point to real GDP growth this quarter, after a drag of a similar magnitude in the second quarter.

Looking at available demand indicators, the most concrete information in hand is the figures on July motor vehicle sales. Sales of cars and light trucks slipped a bit from the second-quarter pace, but this reportedly was due in part to flood disruptions and short supplies of some popular vehicles at the end of the model year. Consumer surveys suggest reasonable stability of late in perceptions of current conditions but a further deterioration in expectations for the economy.

In the housing market, data on mortgage loan applications and builder reports of sales activity point to an extension into July of the recent uptrends in starts and sales--although, clearly, the floods will cut a little into third-quarter construction in the Midwest

Data on orders for nondefense capital goods through June hint at a deceleration in equipment spending, especially in the important computer category. Contracts and permits for nonresidental construction, however, have been relatively upbeat and bode well for a continuation of the upturn observed in the second quarter.

As regards inflation trends, the CPI excluding food and energy registered only modest increases in May and June, after rising at a relatively rapid rate on average over the prior months of the year On a year over year basis, however, the rate of increase in the "core" CPI has remained at around the 3-1/2 percent level observed since mid-1992. A similar story holds for labor cost data; notably, the June reading on the Employment Cost Index for private industry showed compensation increases still running on a roughly 3-1/2 percent trend.

The Outlook for the Economy through 1994

Real GDP is expected to increase at about a 2 1/2 percent annual rate through the end of next year. Growth is projected to blip upward in the first quarter of next year; this results solely from our assumption of a rebound in farm output to more normal levels and does not reflect an acceleration in the underlying pace of economic activity. Previously postponed replacement demand for cars, rising housing activity, and strong business investment are expected to offset the drags on income associated with contractionary fiscal policy and, in the near term, unfavorable trade developments.

Consumer spending. Real personal consumption expenditures are projected to grow moderately through 1994, averaging 2-1/4 percent, at an annual rate. Motor vehicles are a relatively strong component of consumption in the projection. The stock of autos aged considerably over the past few years of weak sales, and the first half pickup only put a small dent in the pent up replacement demand Spending on other durables showed some strength in the first half, and we are projecting an appreciable further increase in coming quarters, especially for appliances and furniture -purchases associated with rising home sales (and recovery from the floods)

Consumer spending generally will be constrained by the limited growth in real disposable income, which will reflect not only the generally lackluster expansion of aggregate activity but also higher taxes and continuing soft real wages. We think that high-income households probably have begun to react to their increased tax liabilities and that the adjustment of their spending to the reduction in their "permanent" income will extend over the next several quarters. We do not anticipate a marked deterioration in consumer demand next spring, when tax payments are due: even if an installment option had not been offered those affected by retroactivity, we would think that most of the affected households would have enough liquidity to smooth their spending. However, as in previous forecasts, we anticipate a decline in the measured personal saving rate early next year because the NIPA treats personal taxes on a cash basis.

Residential investment. Housing construction is projected to rise moderately over the forecast period. Rebuilding in flood-affected areas is expected to give a small boost to expenditures later this year and in early 1994. But, more important, the key determinants of housing demand generally point in a positive direction. Falling mortgage rates and rising incomes will enhance the cash-flow affordability of homeownership -already perceived by households to be quite favorable, according to the SRC survey.

Continuing growth in employment should help to make potential homebuyers more confident of their ability to make the financial commitment involved in home purchase. Moreover, the investment motive for the purchase of a home may also strengthen: house prices have firmed in several areas of the country, and, with marginal tax rates rising for high-income individuals, homeownership will be an even more attractive tax shelter. On the supply side, we would anticipate some improvement in financing for smaller builders, for whom construction loans reportedly have become more readily available, but for whom land acquisition and development loans are still hard to find.

The largest gains undoubtedly will come in the single family portion of the market: Single-family housing starts are projected to rise from an annual pace of 1.08 million units in the second quarter of this year to 1.22 million units in 1994. Apartment rental vacancy rates remain high, and we expect multifamily starts to edge up to only about 180,000 units next year.

Business fixed investment. Real BFI is projected to increase at about an 8 percent annual rate through the end of 1994. The slowdown relative to the double digit gains in the first half of this year is in equipment spending and mainly reflects a lowering in business expectations of sales growth and a flattening of corporate cash flow. Outlays for computers are expected to slow to about a 25 percent average annual rate of increase after a huge gain in the first half of the year. Business purchases of light vehicles are projected to be fairly flat, after a large increase in the second quarter; leading manufacturers of heavy trucks reportedly are operating almost flat out, limiting the room for further growth of deliveries in the near term. Purchases of new commercial aircraft are expected to trend lower over the projection period in response to the continuing excess capacity in the airline industry and the resultant decline in orders.

Investment in real nonresidential structures is expected to trend upward over the forecast period, rising 4 percent at an annual rate in the second half of this year and at a similar pace in 1994. Although office construction is expected to remain dormant, we project moderate gains in industrial, other commercial, and institutional construction. In addition, structures investment by public utilities is expected to remain quite strong, stimulated by requirements of the Clean Air Act and the need to augment generation capacity.

Business inventories At this point, nonfarm business inventories appear to be lean enough that they should not constitute a significant impediment to further increases in production. Nonetheless, with businesses intent on keeping stocks as low as possible, the projected growth in final demand likely will elicit only a mild step-up in stockbuilding. As a result, we project nonfarm inventory investment to make only a small contribution to output growth in the second half of 1993 and in 1994 Aggregate inventory-sales ratios are projected to decline slightly over the period.

Farm inventory investment. The staff estimates the loss in real gross farm product resulting from the floods in the Midwest and the drought in the Southeast at between $2 billion and $3 billion this year.[2] This loss is in addition to a decline of a similar magnitude that had been expected based on planned acreage cutbacks

2. The output loss is derived mainly by estimating the reductions in the USDA's forecasts of national crop production since mid-June and valuing those reductions in 1987 prices. The calculations take into account both the revisions announced by the USDA in mid-July and our predictions of the revisions that the agency will be releasing later today. Actual data from today's USDA report will be discussed in the Greenbook supplement.

and the return to more normal crop yields following the bumper harvest in 1992. If the BEA follows past practice,[3] it will record the loss mainly as a negative swing in farm inventory investment in the second half of 1993. Assuming normal weather and crop yields, we anticipate an increase in agricultural output of roughly $3 billion in 1994, which is reflected in a large positive swing in farm inventory investment in the first quarter of next year.[4]

Net exports. Real net exports are projected to decline by an amount equal to slightly more than 1/2 percentage point of real GDP this year and 1/4 percentage point in 1994. The growth of real exports is expected to be stimulated by the firming in economic activity abroad over the projection period; however, growth of real merchandise imports remains rapid. (A detailed discussion of these developments is contained in the International Developments section.)

Government purchases. After a small increase in the third quarter of 1993, real federal purchases are expected to decline over the remainder of the projection period, led by cutbacks in defense. Real defense spending is expected to turn up slightly in the third quarter as expenditures move back into line with appropriations; thereafter, spending is projected to decline at an 8 1/2 percent annual rate in the fourth quarter and another 6-3/4 percent in 1994. In contrast, increases in real nondefense purchases are projected to average about 1-1/2 percent at an annual rate over the projection

3. During the 1988 drought, BEA spread the crop loss across the second, third, and fourth quarters of the year. The entire rebound in farm output was allocated to the first quarter of 1989.

4. In the upcoming annual revision of the National Income and Product Accounts, the staff expects to see an upward revision to the level of real farm inventory investment in 1992. As a result, to correctly gauge the effect of farm output on real GDP, we have used a "best-change" methodology that focuses on the change in farm inventory investment.

period. These increases reflect additional spending for law enforcement and for science and research, while nondefense compensation is expected to decrease slightly as the result of cutbacks in federal employment.[5]

Real state and local government purchases are projected to grow modestly over the projection period, boosted a bit in the near term by infrastructure repair in the flood-affected areas of the Midwest. Although many states and localities continue to be under considerable fiscal pressure, their ability to cut back on the provision of essential services (particularly for health care and corrections) is limited. Thus, as units attempt to improve their financial condition, additional tax hikes are likely to be enacted. These tax increases, together with continued restraint on spending, are projected to reduce the sector's deficit, excluding social insurance funds, from just under $50 billion in the second quarter of 1993 to around $25 billion by the end of 1994.

STAFF LABOR MARKET PROJECTIONS
(Percent change, Q4 TO Q4, except as noted)

	1992	1993	1994
Output per hour, nonfarm business	2.9	.1	1.5
Previous	2.9	.5	1.5
Nonfarm payroll employment	.7	1.7	1.5
Previous	.7	1.7	1.7
Civilian unemployment rate[1]	7.3	6.9	6.8
Previous	7.3	6.9	6.8

1. Average for the fourth quarter.

5. The federal pay increase scheduled for the beginning of 1994 was approved as part of the budget reconciliation act, but agencies were not given additional funds to pay for it. Rather than face the prospect of furloughs of federal workers, the Congress is assumed to rescind the scheduled pay increase this fall.

Labor markets. Labor demand is projected to grow moderately over the projection period with payroll increases averaging somewhere around 135,000 per month. Hiring is expected to be restrained not only by the less than robust growth of economic activity, but also by the continuing efforts of businesses to cut costs and improve efficiency. Unless and until employers are assured that they will not face higher mandated costs for health-care or other benefits, they will be wary of adding to their payrolls. Reflecting these influences, we are projecting a resumption of healthier gains in labor productivity. After a substantial rebound in the current quarter, growth in nonfarm output per hour is expected to average a bit over 1-1/2 percent (annual rate) over the remainder of the projection period.

The mild employment growth that is projected is likely to do little to raise perceptions of job availability; consequently, we have anticipated only a small rise in the labor force participation rate. Even so, that increase contributes to the persistence of unemployment in the 6-3/4 to 7 percent range.

Labor compensation. We continue to expect a slight slowing in the rate of increase in hourly compensation. A key element in this projection is the overall level of resource utilization in labor markets. Even allowing for the possibility that structural changes in the economy may be raising the natural rate of unemployment temporarily, we think the slack will be sufficient to put some downward pressure on compensation increases. That underlying tendency obviously was not in evidence in the first half of 1993, but this may have reflected earlier expectations of more buoyant business growth as well as the anticipation that prices would accelerate; with growth subdued and inflation remaining steady, compensation may decelerate a bit.

We project that increases in ECI hourly compensation will slow from the 3-1/2 percent pace posted in the year ending in June to 3-1/4 percent in 1994. Some deceleration is expected in both wages and benefits, but the gap between the rates of increase in the two components is likely to remain wide. Despite widespread efforts to curb health-insurance costs, the rise has remained rapid. Costs of legally required benefits still appear to be increasing sharply, and the decline in interest rates over recent years likely will require at least some employers to raise or resume their contributions to defined benefit pension plans.

Prices. The CPI rose 3.1 percent in 1992, and aggregate price inflation is projected to remain close to that pace in 1993 and 1994. Core inflation, as measured by the CPI excluding food and energy, is projected to slow from 3.4 percent in 1992 to about 3 percent in 1994. In addition to the deceleration in labor costs, ample industrial capacity and the absence of bottlenecks are expected to contribute to the decline in price inflation. And, given the relatively slow pace of economic growth in this projection, the so-called "speed effects," which may have intensified price pressures in early 1993, are not likely to have a major influence on overall inflation over the next year and a half. We also anticipate that the firmness in the foreign exchange value of the dollar, coupled with continued slack in foreign industrial economies, will contribute to the disinflation process by damping price increases for imported goods and their domestic substitutes.

The projection for consumer food prices has been revised upward in this forecast, reflecting the expected decline in farm output this year. Higher crop prices associated with the floods are expected to be passed through quickly into retail food prices:

After a decline in June and a small increase in July, food prices are expected to rise 0.4 percent a month for the rest of this year.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 TO Q4, except as noted)

	1992	1993	1994
Consumer price index	3.1	3.2	3.2
Previous	3.1	3.3	3.1
Food	1.6	3.0	3.2
Previous	1.6	2.6	2.6
Energy	2.4	2.4	3.9
Previous	2.4	4.9	3.8
Excluding food and energy	3.4	3.3	3 1
Previous	3.4	3.3	3 1
ECI for compensation of private industry workers[1]	3.5	3.6	3.3
Previous	3.5	3.4	3.3
Non oil import prices	1.7	.5	1.6
Previous	1.7	.7	1.9

1. December to December.

This results in a pickup in CPI food price inflation from 2 percent at an annual rate in the third quarter to a 4-3/4 percent annual pace in the fourth quarter and a 4 percent annual rate in the first quarter of 1994. Food price increases are expected to moderate in the second half of next year as crop production bounces back, but the food price rise over 1994 as a whole is expected to be slightly above that of 1993.

Consumer energy prices are expected to rise a bit less over the projection period than in the June Greenbook, reflecting the lower path for crude oil prices and the elimination in the final budget agreement of new excise taxes on fuel oil, electricity, and natural gas. After a decline in the third quarter, prices are projected to increase at a double-digit pace in the fourth quarter, as the 4.3 cents per gallon gasoline tax goes into effect on October 1 and crude oil prices firm. Cutting through the quarterly swings, CPI energy prices are projected to rise 2-1/2 percent in 1993- a downward revision of 2-1/2 percentage points from the last forecast- and 4 percent in 1994.

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

August 11, 1993

Interval	Nominal GDP 6/30/93	Nominal GDP 8/11/93	Real GDP 6/30/93	Real GDP 8/11/93	GDP fixed-weight price index 6/30/93	GDP fixed-weight price index 8/11/93	Consumer price index[1] 6/30/93	Consumer price index[1] 8/11/93	Unemployment rate (level except as noted) 6/30/93	Unemployment rate (level except as noted) 8/11/93
ANNUAL										
1990[2]	5.2	5.2	.8	.8	4.6	4.6	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[2]	4.8	4.8	2.1	2.1	2.9	2.9	3.0	3.0	7.4	7.4
1993	5.2	5.0	2.5	2.3	3.2	3.2	3.2	3.1	7.0	6.9
1994	5.1	5.0	2.5	2.4	2.8	2.9	3.3	3.3	6.9	6.8
QUARTERLY										
1991 Q1[2]	1.8	1.8	-3.0	-3.0	4.9	4.9	3.6	3.6	6.5	6.5
Q2[2]	5.2	5.2	1.7	1.7	3.5	3.5	2.1	2.1	6.7	6.7
Q3[2]	4.0	4.0	1.2	1.2	2.9	2.9	2.7	2.7	6.7	6.7
Q4[2]	2.8	2.8	.6	.6	2.4	2.4	3.3	3.3	7.0	7.0
1992 Q1[2]	6.2	6.2	2.9	2.9	3.4	3.4	3.5	3.5	7.3	7.3
Q2[2]	4.3	4.3	1.5	1.5	2.9	2.9	2.9	2.9	7.5	7.5
Q3[2]	5.3	5.3	3.4	3.4	2.2	2.2	2.9	2.9	7.5	7.5
Q4[2]	7.1	7.1	4.7	4.7	3.4	3.4	3.2	3.2	7.3	7.3
1993 Q1[2]	4.3	4.3	.7	.7	4.3	4.3	3.7	3.7	7.0	7.0
Q2[2]	5.2	4.0	2.5	1.6	2.6	2.6	3.1	2.8	7.0	7.0
Q3	4.4	4.8	2.2	2.3	2.4	2.4	2.4	1.9	7.0	6.9
Q4	5.5	5.4	2.5	2.4	3.3	3.3	4.0	4.2	6.9	6.9
994 Q1	5.1	5.4	2.5	2.8	2.9	3.0	3.5	3.7	6.9	6.9
Q2	5.1	4.9	2.6	2.3	2.8	2.9	3.1	3.2	6.9	6.8
Q3	4.9	4.8	2.6	2.4	2.6	2.7	2.9	3.0	6.8	6.8
Q4	4.9	4.7	2.7	2.4	2.6	2.6	2.9	2.9	6.8	6.8
TWO-QUARTER[3]										
1991 Q2[2]	3.5	3.5	-.7	-.7	4.2	4.2	3.0	3.0	.7	.7
Q4[2]	3.4	3.4	.9	.9	2.6	2.6	3.0	3.0	.3	.3
1992 Q2[2]	5.2	5.2	2.2	2.2	3.2	3.2	3.2	3.2	.5	.5
Q4[2]	6.2	6.2	4.1	4.1	2.8	2.8	2.9	2.9	-.2	-.2
1993 Q2[2]	4.7	4.2	1.6	1.2	3.4	3.4	3.4	3.4	-.3	-.3
Q4	4.9	5.1	2.3	2.3	2.8	2.8	3.2	3.0	-.1	-.1
1994 Q2	5.1	5.1	2.5	2.5	2.9	2.9	3.3	3.4	.0	-.1
Q4	4.9	4.7	2.6	2.4	2.6	2.7	2.9	3.0	-.1	.0
FOUR-QUARTER[4]										
1990 Q4[2]	4.1	4.1	-.5	-.5	4.7	4.7	6.2	6.2	.6	.6
1991 Q4[2]	3.5	3.5	.1	.1	3.4	3.4	3.0	3.0	1.0	1.0
1992 Q4[2]	5.7	5.7	3.1	3.1	3.0	3.0	3.1	3.1	.3	.3
1993 Q4	4.8	4.6	2.0	1.7	3.1	3.1	3.3	3.2	-.4	-.4
1994 Q4	5.0	4.9	2.6	2.5	2.7	2.8	3.1	3.2	-.1	-.1

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)

August 11, 1993

Item	Unit[1]	1986	1987	1988	1989	1990	1991	1992	Projected 1993	Projected 1994
EXPENDITURES										
Nominal GDP	Bill. $	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5950.7	6249.4	6563.8
Real GDP	Bill. 87$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4922.6	5036.2	5157.7
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	3.1	1.7	2.5
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	3.7	2.3	2.8
Final sales		3.3	2.7	4.2	1.5	.6	-.6	3.1	1.8	2.1
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	4.5	3.3	3.1
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	3.4	2.4	2.1
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	9.2	5.1	3.1
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	3.3	1.1	1.3
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.2	2.5	2.3
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.9	9.5	7.5
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	12.6	11.8	8.7
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-3.0	3.2	3.9
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	14.1	2.2	6.4
Exports		9.9	12.6	13.5	11.3	7.2	7.4	4.8	3.2	5.6
Imports		6.7	4.7	3.6	2.6	.1	4.8	9.5	7.3	7.6
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.4	-1.7	-.3
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-.8	-6.6	-4.1
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-2.2	-9.5	-6.7
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.3	1.6	2.0
Change in bus. invent.	Bill. 87$	8.6	26.3	19.9	29.8	6.2	-9.3	5.0	12.1	18.3
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	2.6	15.1	18.7
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-41.8	-71.5	-89.3
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	5.7	4.6	4.9
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.3	102.0	105.2	107.9	109.4	108.3	108.5	110.1	111.8
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	6.9	6.8
Industrial prod. index	% change	1.5	6.3	3.2	-.1	-.2	-.3	3.2	3.2	3.0
Capacity util. rate-mfg.	%	79.1	81.6	83.6	83.1	81.1	77.8	78.8	80.7	81.3
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.25	1.39
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.35	8.82	9.12
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.25	6.79	7.13
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.03	1.99
INCOME AND SAVING										
Nominal GNP	Bill. $	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5962.0	6255.8	6568.4
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	5.6	4.6	5.0
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	5.2	5.1	5.6
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.5	2.1	2.0
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.8	4.8	4.4	4.0
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	23.5	.2	2.4
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.6	6.8	6.7
Federal surpl./def.	Bill. $	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-298.0	-257.4	-206.8
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.5	11.7	22.6
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.1	-43.4	-31.4
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.9	2.4
GDP fixed-wt. price index		2.6	3.4	4.2	4.4	4.7	3.4	3.0	3.1	2.8
Gross domestic purchases fixed-wt. price index		2.3	3.9	4.1	4.4	5.3	2.8	2.8	2.9	2.8
CPI		1.3	4.5	4.3	4.6	6.2	3.0	3.1	3.2	3.2
Ex. food and energy		3.9	4.3	4.5	4.4	5.2	4.5	3.4	3.3	3.1
ECI, hourly compensation[2]		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.3
Nonfarm business sector										
Output per hour		1.3	1.9	.5	-1.4	-.2	1.3	2.8	.1	1.5
Compensation per hour		4.7	3.9	3.8	3.1	6.0	4.1	3.4	3.0	3.4
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.8	.6	2.9	1.9

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)

August 11, 1993

						Projected					
		1992		1993				1994			
Item	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	5978.5	6081.8	6145.8	6206.9	6280.8	6364.2	6448.0	6525.9	6602.6	6678.4
Real GDP	Bill. 87$	4933.7	4990.8	4999.9	5019.5	5047.8	5077.7	5112.8	5141.8	5172.6	5203.7
Real GDP	% change	3.4	4.7	.7	1.6	2.3	2.4	2.8	2.3	2.4	2.4
Gross domestic purchases		4.1	4.4	2.4	1.5	2.2	2.9	3.1	2.9	2.7	2.6
Final sales		2.8	5.2	-1.2	3.7	2.8	2.1	2.2	1.8	2.2	2.3
Private dom. final purch.		3.5	6.6	2.3	4.4	2.9	3.5	3.3	3.0	3.1	3.0
Personal cons. expend.		3.7	5.1	.8	3.8	2.3	2.6	2.0	2.1	2.2	2.3
Durables		9.4	14.0	-.8	14.2	1.5	5.9	2.8	3.1	3.2	3.3
Nondurables		2.5	6.8	-2.7	2.4	2.3	2.4	1.2	1.2	1.5	1.5
Services		3.1	2.1	3.2	2.2	2.6	1.9	2.2	2.3	2.4	2.5
Business fixed invest.		3.1	9.7	13.1	13.3	5.4	6.3	7.3	7.6	7.4	7.5
Producers' dur. equip.		9.5	14.5	18.3	16.5	5.7	7.4	8.9	8.8	8.5	8.5
Nonres. structures		-11.3	-1.9	.0	4.8	4.7	3.4	2.8	4.0	4.2	4.7
Res. structures		.2	25.1	1.4	-9.5	6.7	11.5	14.3	5.5	4.4	2.0
Exports		9.2	8.9	-2.8	6.7	4.5	4.6	5.2	5.2	5.5	6.4
Imports		14.8	5.7	11.2	5.7	3.9	8.4	7.5	9.3	6.9	6.8
Government purchases		3.8	-2.6	-7.1	.2	1.8	-1.3	-.6	-.3	-.3	-.1
Federal		7.5	-4.7	-17.9	-3.0	.8	-5.3	-4.9	-4.0	-3.8	-3.7
Defense		8.3	-3.5	-25.9	-1.5	.5	-8.5	-7.8	-6.5	-6.2	-6.2
State and local		1.4	-1.1	.5	2.3	2.4	1.3	2.0	1.9	1.9	2.1
Change in bus. invent.	Bill. 87$	15.0	9.8	33.5	8.2	1.8	4.9	12.0	18.2	20.8	22.2
Nonfarm		9.6	5.6	30.5	9.0	8.0	12.9	13.0	18.5	21.2	22.2
Net exports		-52.7	-49.0	-70.3	-69.9	-69.6	-76.4	-81.1	-88.9	-92.5	-94.7
Nominal GDP	% change	5.3	7.1	4.3	4.0	4.8	5.4	5.4	4.9	4.8	4.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.6	108.9	109.4	110.0	110.4	110.7	111.1	111.5	112.0	112.4
Unemployment rate[1]	%	7.5	7.3	7.0	7.0	6.9	6.9	6.9	6.8	6.8	6.8
Industrial prod. index	% change	.8	6.7	5.5	1.9	2.2	3.2	3.0	3.0	3.0	3.0
Capacity util. rate-mfg[1]	%	78.7	79.6	80.5	80.6	80.7	81.1	81.2	81.3	81.4	81.4
Housing starts	Millions	1.18	1.25	1.16	1.24	1.28	1.31	1.35	1.38	1.41	1.42
Auto sales in U.S.		8.21	8.38	8.29	9.04	8.92	9.05	9.04	9.04	9.14	9.24
North American produced		6.24	6.38	6.31	6.94	6.89	7.01	7.05	7.05	7.15	7.25
Other		1.97	2.01	1.97	2.10	2.03	2.04	1.99	1.99	1.99	1.99
INCOME AND SAVING											
Nominal GNP	Bill. $	5992.0	6086.8	6155.1	6214.1	6287.5	6366.4	6454.2	6528.3	6609.1	6682.0
Nominal GNP	% change	5.7	6.5	4.6	3.9	4.8	5.1	5.6	4.7	5.0	4.5
Nominal personal income		2.7	8.0	6.1	4.0	3.7	6.7	6.5	4.8	5.1	5.9
Real disposable income		.5	4.3	2.7	1.3	1.7	2.6	1.7	.8	2.9	2.7
Personal saving rate[1]	%	4.6	4.4	4.9	4.3	4.2	4.2	4.1	3.8	4.0	4.1
Corp. profits, IVA&CCAdj	% change	-13.9	72.1	-4.0	-1.4	3.4	3.0	4.3	3.3	3.7	-1.4
Profit share of GNP[1]	%	6.2	7.0	6.9	6.8	6.8	6.7	6.7	6.7	6.7	6.6
Federal govt. surpl./def.	Bill. $	-304.4	-295.5	-272.1	-254.2	-253.4	-250.0	-223.1	-199.5	-199.2	-205.3
State/local surpl./def.		9.2	18.3	10.1	8.1	13.2	15.5	19.2	18.7	25.8	26.5
Ex. social ins. funds		-48.0	-38.1	-45.5	-47.1	-41.8	-39.2	-35.3	-35.5	-28.0	-27.0
PRICES AND COSTS											
GDP implicit deflator	% change	1.8	2.3	3.5	2.4	2.5	3.0	2.5	2.6	2.3	2.2
GDP fixed-wt. price index		2.2	3.4	4.3	2.6	2.4	3.3	3.0	2.9	2.7	2.6
Gross domestic purchases fixed-wt. price index		2.5	2.9	3.5	2.7	2.0	3.4	3.0	2.8	2.7	2.6
CPI		2.9	3.2	3.7	2.8	1.9	4.2	3.7	3.2	3.0	2.9
Ex. food and energy		2.7	3.6	4.1	3.5	2.5	3.1	3.5	3.1	3.0	3.0
ECI, hourly compensation[2]		3.2	3.5	4.2	3.5	3.3	3.3	3.3	3.3	3.4	3.3
Nonfarm business sector											
Output per hour		2.7	3.2	-1.6	-2.5	2.7	1.9	1.5	1.5	1.6	1.5
Compensation per hour		3.5	3.9	3.2	1.6	3.8	3.5	3.9	3.3	3.3	3.3
Unit labor cost		.7	.6	4.8	4.2	1.1	1.6	2.4	1.8	1.7	1.8

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)

August 11, 1993

Item	1992 Q3	1992 Q4	Projected 1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1991	1992	Projected 1993	Projected 1994
Real GDP	41.3	57.1	9.1	19.6	28.3	29.8	35.1	29.1	30.8	31.1	4.7	152.3	86.9	126.1
Gross domestic purchases	50.1	53.4	30.3	19.2	28.0	36.7	39.8	36.8	34.4	33.3	-7.5	180.8	114.2	144.3
Final sales	34.1	62.3	-14.7	45.0	34.7	26.8	28.0	22.9	28.2	29.8	-29.7	150.1	91.8	108.8
Private dom. final purch.	34.1	64.8	23.8	44.1	30.3	36.6	34.2	31.4	32.4	32.2	-36.5	174.9	134.9	130.2
Personal cons. expend.	29.9	41.5	6.6	31.6	19.7	22.2	16.8	17.7	19.2	19.8	1.0	110.9	80.1	73.5
Durables	9.8	14.6	-.9	15.3	1.8	6.8	3.3	3.6	3.8	3.9	-10.5	38.3	23.0	14.7
Nondurables	6.4	17.4	-7.2	6.4	6.0	6.4	3.2	3.2	4.1	4.1	-16.0	33.8	11.6	14.6
Services	13.7	9.6	14.6	9.9	11.9	9.0	10.3	10.8	11.3	11.9	27.6	38.8	45.5	44.2
Business fixed invest.	4.0	12.2	16.6	17.4	7.5	8.8	10.4	10.9	10.9	11.2	-37.2	38.8	50.4	43.3
Producers' dur. equip.	8.4	12.9	16.6	15.7	5.8	7.6	9.3	9.4	9.3	9.5	-12.4	43.2	45.7	37.5
Nonres. structures	-4.4	-.7	.0	1.7	1.7	1.2	1.0	1.5	1.6	1.8	-24.8	-4.4	4.6	5.8
Res. structures	.1	11.0	.7	-5.0	3.2	5.6	7.0	2.9	2.4	1.1	-.2	25.0	4.5	13.3
Change in bus. invent.	7.2	-5.2	23.7	-25.3	-6.4	3.0	7.1	6.2	2.6	1.4	34.3	2.3	-4.9	17.3
Nonfarm	3.6	-4.0	24.9	-21.5	-1.0	4.8	.1	5.5	2.7	1.0	37.4	-6.2	7.3	9.3
Farm	3.5	-1.1	-1.2	-3.8	-5.4	-1.8	7.0	.7	-.1	.4	-3.0	8.4	-12.2	8.0
Net exports	-8.8	3.7	-21.3	.4	.3	-6.8	-4.7	-7.8	-3.6	-2.2	12.2	-28.5	-27.4	-18.3
Exports	12.5	12.4	-4.1	9.6	6.6	6.9	7.8	7.8	8.4	9.8	38.8	26.9	18.9	33.9
Imports	21.3	8.7	17.2	9.1	6.3	13.7	12.5	15.6	12.1	12.0	26.5	55.5	46.3	52.2
Government purchases	8.8	-6.2	-17.2	.5	4.0	-3.0	-1.5	-.8	-.6	-.2	-5.4	3.7	-15.7	-3.1
Federal	6.8	-4.5	-18.0	-2.7	.7	-4.8	-4.4	-3.5	-3.3	-3.2	-9.1	-3.2	-24.8	-14.4
Defense	5.3	-2.4	-19.1	-.9	.3	-5.4	-4.8	-3.9	-3.7	-3.6	-14.8	-6.0	-25.1	-16.0
Nondefense	1.5	-2.2	1.2	-1.8	.4	.6	.4	.4	.4	.4	5.7	2.7	.4	1.6
State and local	2.0	-1.6	.7	3.2	3.3	1.8	2.9	2.7	2.7	3.0	3.7	7.0	9.0	11.3

1. Annual changes are from Q4 to Q4.

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

Item	Fiscal year				1992				1993				1994			
	1991[a]	1992[a]	1993	1994	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1[a]	Q2[b]	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1054	1091	1150	1222	239	321	275	265	262	331	291	274	273	370	305	290
Outlays[1]	1324	1381	1414	1492	354	350	338	386	325	349	354	371	371	371	379	382
Surplus/deficit[1]	-269	-290	-264	-270	-116	-28	-62	-120	-62	-18	-63	-97	-98	-1	-74	-92
On-budget	-322	-340	-310	-329	-121	-60	-62	-108	-90	-49	-64	-110	-106	-37	-76	-107
Off-budget	52	50	47	59	6	31	-1	-13	27	31	1	13	8	36	2	15
Surplus excluding deposit insurance[2]	-203	-287	-292	-266	-105	-25	-69	-128	-68	-25	-71	-95	-99	2	-74	-90
Means of financing																
Borrowing	293	311	250	267	83	62	77	81	60	61	48	87	86	36	58	87
Cash decrease	-1	-17	11	8	29	-27	-12	29	8	-39	13	17	11	-30	10	10
Other[3]	-23	-4	2	-4	4	-7	-3	10	-6	-4	2	-6	1	-5	6	-5
Cash operating balance, end of period	41	59	48	40	20	47	59	30	22	61	48	31	20	50	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1118	1144	1220	1312	1143	1150	1155	1193	1214	1231	1242	1265	1311	1335	1336	1350
Expenditures	1313	1433	1489	1530	1433	1453	1460	1489	1486	1486	1495	1515	1534	1534	1535	1555
Purchases	447	446	444	436	445	445	455	452	441	441	443	440	437	435	433	431
Defense	326	315	309	297	314	312	320	318	304	305	307	302	298	295	292	289
Nondefense	121	132	136	139	131	133	136	133	137	136	136	138	139	140	141	142
Other expenditures	866	987	1045	1094	988	1008	1005	1037	1045	1045	1052	1075	1097	1099	1103	1124
Surplus/deficit	-194	-289	-269	-218	-289	-303	-304	-296	-272	-254	-253	-250	-223	-200	-199	-205
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-153	-218	-203	-152	-221	-229	-232	-232	-207	-186	-186	-182	-156	-133	-134	-141
Change in HEB, percent of potential GDP	-.4	1.1	-.3	-.8	.5	.1	0	0	-.4	-.3	0	-.1	-.4	-.4	0	.1
Fiscal impetus (FI), percent, cal. year	-3.9	-4.2	-5.8	-7.2	-2.6	-.1	1.3	-1.2	-5.5	-.3	1.1	-2.2	-3.4	-2.5	-1.2	-1.2

1. OMB's April deficit estimates, including the President's proposals, are *$322 billion in FY93 and $264 billion in FY94*. CBO's preliminary deficit estimates of the President's proposals are $308 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 April deficit estimates, excluding deposit insurance spending, are $319 billion in FY93 and $256 billion in FY94. CBO's preliminary deficit estimates, excluding deposit insurance spending, are $315 billion in FY93 and $263 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 2.2 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.

b--Unified and NIPA data are actuals except for NIPA corporate profit tax total which is a staff projection.

Recent Developments

Money market conditions are essentially unchanged from those prevailing at the time of the July FOMC meeting. Long-term Treasury yields have declined about 25 basis points, on net, as indications of slower inflation and the passage of the deficit-reduction package more than offset the concerns about possible Federal Reserve tightening that were aroused by the Chairman's Humphrey Hawkins testimony. Most private rates followed the path of Treasuries, keeping measures of risk spreads on the tight side. Major equity indexes extended their recent runup, with several posting record highs.

M2 advanced at only about a 1 percent annual rate in July, after increasing at a rate of 2 percent in June. A 1-1/4 percent rate of contraction of M3 in June was followed by a 2 percent rate of decline in July. Even these figures may understate the fundamental weakening of the aggregates, as special factors more than accounted for July's expansion in M2. Currency growth remained strong, most likely because of foreign demands, and a bulge in demand deposits associated in part with increased mortgage refinancings contributed some to growth. M1, as a consequence, continued at a double-digit clip in July. The broader aggregates were boosted by a large bank's acquisition of a primary dealer, whose RP liabilities were added to the money totals. People are apparently making do without increments to their money balances: With portfolio shifts toward stock and bond mutual funds continuing, the portion of M2 related to household holdings in July was about the same as its level in May.

The growth of bank credit edged down to an 7-3/4 percent pace in July from the 9-1/2 percent rate recorded in June. But the bank purchase of a primary dealer accounted for a good part of the increase in the month, mostly posted in the government securities account and in securities loans; without that shift in ownership, bank credit would have recorded a 4 percent rate of expansion. Total loan growth remained brisk, fueled by healthy additions to consumer and real estate loans that only were partly offset by a runoff of business loans. C&I lending had mounted a bit of a comeback in May and June, but July's figures suggest widespread weakness at domestic banks. With bank lending rates still relatively high and inventory investment apparently slow, underlying demands for business loans have probably not been strong. For their part, commercial banks, according to recent surveys, have made some efforts to ease terms and standards on business loans as their capital positions have improved. Still, for most firms with access to the securities markets, bank loans--even with some easing in terms--still look relatively unattractive.

Gross public debt offerings and equity issuance have been running at a rapid rate. In general, corporations are taking the opportunity provided by the drop in long-term rates and the buoyancy of equity markets to lock in long-term financing. Risk spreads have narrowed and investors have even been willing to buy 100-year bonds offered by Disney and Coca-Cola. Overall, the evidence suggests that debt of the nonfinancial business sector, after running off early in the year, expanded at a 2 percent growth rate in the second quarter.

Households have similarly responded to the opportunity provided by the recent decline in long-term rates by engaging in another wave of mortgage refinancings. Rising home sales and perhaps some cashing out of equity in connection with refinancing transactions appear to have bolstered net mortgage borrowing in the second quarter Faster growth in total consumer credit in recent quarters, along with brisk commercial bank lending to individuals in July, may be evidence that households have become more comfortable with their debt service obligations and are more willing to let their balances increase.

Gross borrowing by state and local governments remained elevated in July, although it was off a bit from the torrid pace of the second quarter. While much of the bond issuance was for refunding purposes, the demands for new capital were sizable--about comparable to flows in the second quarter. This full slate of municipal issues pushed up yields over the intermeeting period, elevating the ratio of tax-exempt to taxable yields even as legislation imposing higher marginal tax rates passed through the Congress

In the federal sector, the second-quarter bulge in debt growth did not extend into July. The Treasury was able to slow the recent uptrend in the gross sizes of its bill auctions a bit by relying on its newly fattened cash balance, which will be partly replenished by the August midquarter refunding. The August refunding inaugurates the semiannual auction schedule for thirty-year coupon securities, which was one aspect of the Treasury's program to shorten the maturity of its debt. As the Treasury intends to reduce its thirty-year coupon sales by 40 percent, the switch from a quarterly cycle requires boosting the volume at its semiannual sales, from $8-1/4 billion at the last refunding to $11 billion at its current auction

<u>Outlook</u>

The staff forecast continues to assume that short-term nominal interest rates will change little, if at all, through 1994 We project that long-term rates will fall further, however, in contradiction to the expectations apparently embodied in the current term structure. This flattening of the yield curve would extend the recent pattern, as we expect that the market will continue to be pleasantly surprised by the absence of a cyclical upswing in inflation or a tightening of policy and that investors will become more receptive to long-term instruments as they become impatient with low cash yields.

In the staff view, the growth of nonfederal debt, smoothing through quarterly gyrations, will follow a shallow uptrend through 1994, as the moderate pace of economic expansion, stable short- and lower long-term interest rates, and the progress already made in bolstering balance sheets will entice many households, firms, and municipalities to borrow more. The debt of the nonfederal sector is anticipated to grow at nearly a 4 percent pace over the balance of 1993 and 1994. Implementation of the deficit-reduction package should trim the growth of federal debt to 8 percent next year. On balance, the growth of total domestic nonfinancial debt is expected to level out at 5 percent through 1994, around that of nominal GDP.

The staff anticipates that the capital outlays of nonfinancial corporations will outstrip internally generated funds by a widening margin through the end of 1994, pushing those firms to outside sources of financing. Banks, with their own balance sheets largely repaired and profits margins high, will likely be a growing source of funds, particularly for smaller firms. But many larger firms will continue to rely on the bond markets for the bulk of their needs As many corporations have already taken advantage of elevated share prices to return leverage ratios to levels viewed more favorably by rating agencies, equity offerings are likely to slow somewhat. After increasing only slightly on net in the first half of 1993, the debt of nonfinancial businesses is expected to rise at near a 1-1/2 percent rate over the next six quarters.

Household borrowing is anticipated to pick up toward the end of this year and rise still further in 1994. The growth of consumer credit increases over the coming quarters in the staff forecast, as the lingering hesitancy to borrow dissipates further with strengthened confidence in income and employment prospects. With housing activity expected to expand steadily, home mortgage borrowing is projected to tilt upward over the forecast period.

Net borrowing by state and local governments is anticipated to slow in coming quarters, as many issues that were refunded in advance will reach their call or maturity date and be retired. Over the balance of 1993 and 1994, the debt of state and local governments, driven by infrastructure needs, is expected to expand at about a 4 percent rate.

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS[1]
(Billions of dollars)

		Calendar year				1993				1994			
		1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Seasonally Adjusted Annual Rates							
	Net funds raised by domestic nonfinancial sectors												
1	Total	479.2	601.1	602.4	642.0	549.7	738.4	429.5	692.0	739.9	613.1	497.8	716.9
2	Net equity issuance	18.3	26.8	27.3	17.5	27.0	32.0	25.0	25.0	20.0	18.0	16.0	16.0
3	Net debt issuance	461.0	574.4	575.2	624.5	522.7	706.4	404.5	667.0	719.9	595.1	481.8	700.9
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	-4.3	-30.0	14.6	41.5	17.5	16.5	6.5	18.1	27.7	39.8	46.6	52.0
5	Net equity issuance	18.3	26.8	27.3	17.5	27.0	32.0	25.0	25.0	20.0	18.0	16.0	16.0
6	Credit market borrowing	-15.9	0.8	35.0	45.9	-34.8	71.7	52.1	51.1	43.9	40.6	48.1	51.1
	Households												
7	Net borrowing, of which:	160.2	222.6	235.0	271.5	224.1	231.7	232.3	252.0	257.6	272.9	274.2	281.2
8	Home mortgages	139.5	190.6	182.3	200.0	172.1	193.2	174.4	189.4	194.2	199.9	199.6	206.4
9	Consumer credit	-13.1	9.3	34.5	54.0	27.8	30.2	36.0	44.0	48.0	54.0	55.0	59.0
10	Debt/DPI (percent)[3]	91.8	91.5	92.1	92.8	92.2	92.6	93.0	92.8	93.0	93.5	93.6	93.7
	State and local governments												
11	Net borrowing	38.5	47.0	49.9	39.5	58.8	61.2	37.3	42.2	37.6	40.6	36.5	43.1
12	Current surplus[4]	-39.6	-42.9	-41.4	-36.9	-41.5	-43.1	-38.7	-42.4	-39.1	-40.5	-34.0	-33.9
	U.S.government												
13	Net borrowing	278.2	304.0	255.3	267.6	274.7	341.8	82.8	321.7	380.9	241.1	123.0	325.4
14	Net borrowing;quarterly, nsa	278.2	304.0	255.3	267.6	59.8	61.1	47.9	86.5	86.4	35.9	57.9	87.4
15	Unified deficit;quarterly, nsa	266.8	326.8	240.4	265.2	62.4	17.8	63.1	97.2	98.3	0.7	74.0	92.2
	Funds supplied by												
16	depository institutions	-60.9	30.2	132.8	121.8	117.0	155.1	135.1	124.1	127.5	94.4	118.5	146.6
	MEMO: (percent of GDP)												
17	Dom. nonfinancial debt[3]	193.6	193.5	193.4	193.3	194.1	195.1	194.4	194.5	194.7	194.7	194.2	194.7
18	Dom. nonfinancial borrowing	8.1	9.7	9.2	9.5	8.5	11.4	6.4	10.5	11.2	9.1	7.3	10.5
19	U.S. government[5]	4.9	5.1	4.1	4.1	4.5	5.5	1.3	5.1	5.9	3.7	1.9	4.9
20	Private	3.2	4.5	5.1	5.4	4.0	5.9	5.1	5.4	5.3	5.4	5.4	5.6

1. Data after 1993:1 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

2.6.4 FOF

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CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS[1]
(Percent)

			Nonfederal						MEMO	
				Households						
	Total[2]	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
1980	9.4	11.8	8.9	8.7	11.1	0.7	10.2	3.6	9.7	9.9
1981	9.8	11.6	9.4	7.9	7.6	4.8	11.6	5.2	10.6	9.3
1982	9.4	19.7	7.0	5.6	4.8	4.4	7.8	9.3	10.4	3.2
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	4.3	11.1	2.2	4.2	5.4	-1.6	-0.4	4.5	0.9	3.5
1992	5.1	10.9	3.2	5.6	7.0	1.2	0.0	5.2	1.3	5.7
1993	4.9	8.3	3.7	5.6	6.2	4.3	1.0	5.3	-0.7	4.6
1994	5.0	8.0	3.9	6.2	6.4	6.4	1.3	3.9	-0.4	4.9
Quarter (seasonally adjusted annual rates)										
1992:1	6.0	13.3	3.6	5.9	7.9	-0.2	0.7	5.1	5.3	6.2
2	4.9	12.3	2.4	3.9	4.8	-1.9	-0.4	6.9	-0.7	4.3
3	4.2	6.5	3.4	5.9	7.3	1.2	0.1	5.4	-2.1	5.3
4	5.0	10.0	3.2	6.4	7.2	5.7	-0.4	3.0	2.6	7.1
1993:1	4.4	8.9	2.8	5.4	5.9	3.4	-1.0	6.2	-1.1	4.3
2	5.9	10.9	4.2	5.5	6.5	3.7	2.0	6.3	1.6	4.0
3	3.3	2.6	3.6	5.4	5.8	4.4	1.4	3.8	-2.9	4.8
4	5.5	9.9	3.9	5.8	6.2	5.3	1.4	4.3	-0.6	5.4
1994:1	5.8	11.4	3.7	5.9	6.2	5.7	1.2	3.8	-0.1	5.4
2	4.7	7.0	3.9	6.1	6.3	6.3	1.1	4.0	0.2	4.9
3	3.8	3.5	3.9	6.0	6.2	6.3	1.3	3.6	-1.3	4.8
4	5.5	9.2	4.0	6.1	6.3	6.7	1.4	4.2	-0.4	4.7

1. Data after 1993:1 are staff projections. Year-to-year change in nominal GDP measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes measured from end of preceding period to end of period indicated.
2. Deposit insurance outlays raised total debt growth roughly 0.4 percentage point in 1991; it had little effect on debt growth in 1992 and is not anticipated to affect debt growth significantly in 1993 or 1994. On a quarterly average basis, total debt growth is projected to be 4.8 in 1993 and 5.0 percent in 1994.

Recent Developments

Since the July FOMC meeting, the weighted-average foreign exchange value of the dollar in terms of other G-10 currencies has risen 1 percent, on balance. The dollar declined nearly 4 percent against the yen, as the market continued to focus on Japanese trade surpluses.

The dollar rose about 1/2 percent against the mark since the FOMC meeting and substantially more against most other currencies in the EC Exchange Rate Mechanism (ERM). Pressures developed in the ERM during July as news that suggested greater weakness in the French economy and a possible turnaround in the German economy fed expectations that French officials would prefer to reduce interest rates faster than would German officials. The French, Belgian, Danish and Iberian currencies came under growing pressure, forcing sharp increases in short-term interest rates in those countries. When widespread expectations that the Bundesbank would respond by lowering its discount rate on July 29 were disappointed, an ERM crisis resulted.

. On balance over the period, German short-term interest rates declined 80 basis points while long-term interest rates were down 35 basis points. French short-term rates ended the period 75 basis points above their level on July 7, but French long-term rates fell 40 basis points. During the intermeeting period, European stock markets rallied sharply; for ERM members other than Germany, these gains mostly came at the time of the ERM crisis in anticipation of relaxation of monetary policies.

. The Desk did not intervene.

.

Real growth in the second quarter was mixed in the foreign industrial countries. In Japan, June data for economic activity suggest some recovery from a slowdown in April and May. Industrial production grew 1.3 percent (s.a.) after declines of about 2-1/2 percent in each of the two previous months. New car registrations and housing starts in June also partially reversed decreases during the previous two months. However, the index of leading indicators fell below the boom/bust demarcation line in May for the first time in five months.

In western Germany, industrial production declined only slightly in the second quarter after falling sharply in the preceding two quarters. Some other indicators, such as manufacturing orders and retail sales, also levelled off after previous declines. In France, monthly indicators suggest that the decline in real GDP may have lessened in the second quarter after output fell 2 percent (s.a.a.r.) in the first quarter. Industrial production rose in May after decreasing in April. Retail sales and consumption of manufactured products recovered sharply in June after being depressed in May by holiday closings of stores. However, in Germany and France, unemployment rates rose further in recent months.

Provisional estimates of second-quarter real GDP in the United Kingdom show growth of 1.8 percent (s.a.a.r.), the same rate as in the first quarter. Canadian economic activity also appears to have expanded further in the second quarter, but not as rapidly as in the first. On average, industrial production for April and May was slightly higher than in the first quarter. Factory shipments and retail sales also rose over this period, but new orders dropped.

Inflation has remained low and fairly steady in most of the foreign industrial countries. However, in western Germany, consumer price inflation in July rose slightly as a result of special factors; and in Japan, the fresh food component of consumer prices was particularly higher as a result of poor weather. Slack in the British and Italian economies has held inflation down despite the depreciation of their respective currencies last September.

The nominal U.S. merchandise trade deficit in May was $8.4 billion (seasonally adjusted, Census-basis), much smaller than the deficits recorded in either March or April. Imports dropped significantly in May, and exports rose slightly. In April and May combined, the trade deficit was larger than in the first quarter by more than $11 billion at a seasonally adjusted annual rate; both exports and imports rose substantially from first-quarter levels. Exports of machinery were especially strong. The increase in imports was spread over most trade categories, with the largest rises in imports of machinery and oil.

Outlook

Over the forecast period, the growth of imports is projected to continue to exceed that of exports; the rate of decline in the real net export balance of goods and services is slightly more than that in the last Greenbook. The dollar is projected to remain about unchanged from its present level. We continue to project that real

GDP growth abroad will strengthen some in the second half of this year and rise further during next year.

The dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to remain about unchanged from current levels through the end of the forecast period. The dollar's path has been moved up in the near term in part to incorporate the rise in the dollar that has occurred since the last forecast. We expect that some ERM countries will move relatively quickly to take advantage of the opportunity provided by the wider margins of exchange rate fluctuation to lower interest rates, but by the end of the forecast period these rates are projected to be as forecast in the June Greenbook. The average of G-10 industrial country interest rates relative to U.S. rates is also projected to be unchanged from the previous forecast by the end 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 the end of the forecast period.

Foreign industrial countries. After having reached a trough of virtually no growth in the second half of last year, we expect growth in the G-6 countries (weighted by their shares in U.S. exports) to rise to 2 percent in the second half of 1993 and to 2-3/4 percent during 1994, roughly the same pace as that in the June forecast. Upward revision to the outlook for some European countries is offset by a small downward revision for Canada.

In response to some favorable outcomes for recent economic indicators, we have reduced the rate of decline in western German real GDP a bit for the second half of this year. As in the June Greenbook, however, projected growth does not become positive until the first quarter of next year, and over the four quarters of 1994 it is expected to be only about 1-3/4 percent. For those European countries that are participating in the ERM, the widening of the exchange rate bands will permit some greater flexibility in monetary policy. Because we expect primarily the timing, but not the magnitude, of European interest rate reductions will be altered by these ERM developments, the effect on GDP growth abroad is likely to be small. French GDP is projected to grow at less than a 1/2 percent annual rate for the remainder of this year; growth in 1994, however, has been revised upward about 1/2 percentage point to nearly 2-1/2 percent. In the United Kingdom, whose currency was withdrawn from the ERM last September, growth is projected to be about 2-1/4 percent, annual rate, for the next 6 quarters.

Real GDP in Japan is projected to grow at about a 1-1/2 percent rate for the remainder of this year and then at 2-3/4 percent during 1994, rates that are unchanged from the previous forecast. This recovery in activity results mainly from the stimulative effects of the fiscal policy package that has already been passed by the Diet.

The economic expansion in Canada shows signs of having slowed. We have lowered growth for the remainder of this year by about 1/4 percentage point, to 2-3/4 percent. Growth next year is again expected to be about 3 percent.

Favorable price developments in several foreign industrial countries have led us to lower projected inflation, resulting in about 2-1/2 percent inflation (Q4/Q4) for the year. During 1994, continued slack will restrain underlying inflationary pressures, and average CPI inflation is expected to remain at about the 1993 rate.

Foreign short-term interest rates, on average, are projected to decline nearly 100 basis points from current levels by the end of this year and then to fall an additional 50 basis points by mid-1994 before beginning to rise gradually. This path for interest rates is slightly lower, particularly during the remainder of this year, than in the last Greenbook. We expect German rates to fall 200 basis points through the second quarter of next year, a projection unchanged from the previous one. Rates in France are expected to decline somewhat farther and faster than German rates, but then to converge to German rates by the end of 1994. After declining nearly 75 basis points since the last forecast, Canadian rates are projected to fall another 25 basis points through the end of this year and then rise gradually during 1994. We continue to expect Japanese short-term rates to ease slightly over the next few months. Long-term interest rates in the major foreign countries should decline on average about 25 basis points over the forecast period.

Developing countries. The outlook for real GDP growth in the developing countries that are major U.S. trading partners is essentially unchanged from the last Greenbook. Real GDP growth slowed to 4 percent in 1992, as weak import demand in industrial countries and tight macroeconomic policies in several developing countries restrained economic activity. Growth is projected to increase slightly to 4-1/4 percent in 1993 and 4-1/2 percent in 1994. Output growth is projected to rise in 1993 in a number of Asian countries, including Hong Kong, Korea, Malaysia, and Singapore, partly because of some relaxation of contractionary policies. However, we expect real GDP growth in Mexico to slow to an annual rate of 2 percent in 1993 because of a tightening of macroeconomic policies and concerns about the approval of NAFTA by the U.S. Congress.

U.S. real net exports. We project that real net exports of goods and services will decline \$7 billion at an annual rate over the second half of 1993 and another \$18 billion during 1994. This outlook is marginally weaker than projected in June.

After rebounding in the second quarter, the quantity of merchandise exports is projected to grow at about a 6 percent annual rate over the next year and a half. This rate of growth is about 1/2 percentage point less than in the previous forecast, largely because of the recent appreciation of the dollar. Although growth in total agricultural exports is expected to resume this quarter, on balance it is likely to be slow over the remainder of the forecast period. Exports of computers are expected to grow at a rapid pace for the remainder of the forecast period, as economic activity abroad picks up.

TRADE QUANTITIES*
(Percent change from preceding period shown, s.a.a r.)

	1992		1993		--- Projection --		1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
Exports							
Total	12.7	13.7	-6.6	8.9	6.0	5.6	6.2
Agricultural	58.7	-5.6	-20.3	-4.0	5.7	3.5	2.4
Computers	35.4	33.5	-2.8	18.4	17.5	23.4	27.6
Other nonag.	5.1	13.2	-5.4	9.1	4.1	3.8	2.7
Imports							
Total	15.5	6.8	12.4	8.0	4.1	9.5	8.5
Oil	13.2	-3.0	6.3	23.8	-22.5	8.3	7.4
Computers	81.2	19.0	32.8	27.6	19.8	26.3	24.7
Other non-oil	8.3	6.2	10.1	3.0	5.3	6.7	5.5

* GDP basis, 1987 dollars.

Given the absence of special factors, the quantity of imports (excluding oil and computers) is expected to be driven by the projected expansion of U.S. domestic expenditures and the fairly high income elasticity of U.S. import demand. Imports of computers are expected to increase at about the same rapid pace in real terms as domestic expenditures on computers.

The quantity of oil imports is projected to decline in the current quarter, after heavy stockbuilding throughout the second quarter. Over the remainder of the forecast period, imports are likely to remain on an upward trend as U.S. oil production continues to decline.

Oil prices. Since the June Greenbook, oil prices have on balance fallen. Prices declined on the apparent progress in talks between Iraq and the United Nations, the frictions within OPEC on the appropriate response to this progress, and strong production by a number of OPEC countries in recent months. The recent bickering between Saudi Arabia and Iran does not bode well for OPEC solidarity and has kept oil prices from rebounding as prospects for an Iraqi sale have dimmed. Currently, the near-term futures contract for West Texas Intermediate is trading near $17.70 per barrel.

Relative to the last Greenbook, both the near-term and long-term oil price assumptions have been lowered. We continue to assume that Iraq will not sell any oil until early 1995. However, the divisions within OPEC point to higher rates of production than had been assumed in the last Greenbook. For the remaining two quarters of 1993, the assumption for the oil import unit value has been lowered by an average of $1.75 per barrel, while the assumption for 1994 has been lowered by $1.00 per barrel. The staff projects that oil prices will gradually strengthen over the next five months, with the near-term futures contract for WTI reaching $19.50 by year-end. Thus, the oil import unit value is assumed to reach $17.00 per barrel by year-end.

Prices of non-oil imports and exports. The slightly stronger path for the dollar in the near term has led us to revise down a bit the projected rate of increase in non-oil import prices (excluding computers). We expect these prices to rise at a 1 percent annual rate in the second half of 1993 and then nearly 2 percent during 1994, about 1/4 percentage point slower than in the previous forecast. The increase in prices of U.S. nonagricultural exports (excluding computers) should keep pace with increases in U.S. producer prices.

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

	1992		1993		---- Projection ----		1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
PPI (exp. wts.)	3.1	-1.6	1.8	2.3	-0.1	2.8	2.0
Nonag. exports*	3.2	0.5	1.2	2.6	-0.1	2.2	1.8
Non-oil imports*	4.7	1.0	-2.3	3.1	0.7	1 6	1.9
Oil imports (level, $/bl)	18.50	17.90	16.40	17.10	15.00	16.30	17.00

* Excluding computers.

<u>Nominal trade and current account balances</u>. The merchandise trade deficit increased to an estimated $126 billion at an annual rate in the second quarter. It is projected to fluctuate near that rate over the rest of 1993 and then to rise to $150 billion by the end of 1994. We expect that net service receipts will continue to expand slowly from an annual rate of $60 billion in the second quarter of 1993 to nearly $70 billion by the end of 1994. Investment income receipts are expected to roughly offset investment income payments throughout the forecast period. The net effect on the current account of the above developments is a projected deterioration of about $19 billion over the last three quarters of 1993 and another $14 billion during 1994, to reach an annual rate of $122 billion by the end of 1994; this is about a $6 billion larger decline than presented in the June Greenbook.

August 11, 1993

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1991-94
(Percent change from fourth quarter to fourth quarter)

Measure and country	1991	1992	Projection 1993	Projection 1994
REAL GDP				
Canada	-0.1	0.8	2.9	3.2
France	1.1	0.7	-0.4	2.4
Western Germany	2.0	0.4	-2.3	1.7
Italy	1.7	-0.2	0.7	1.8
Japan	3.0	0.0	1.3	2.7
United Kingdom	-1.7	0.2	2.0	2.3
Average, weighted by 1987-89 GDP	1.4	0.2	0.6	2.3
Average, weighted by share of U.S. nonagricultural exports				
Total foreign	1.6	1.2	2.1	3.1
G-6	0.7	0.5	1.7	2.7
Developing countries	4.9	3.9	4.3	4.6
CONSUMER PRICES				
Canada	4.1	1.8	1.7	1.5
France	2.9	1.8	2.5	1.9
Western Germany	3.9	3.7	3.6	2.4
Italy	6.1	4.8	4.7	4.7
Japan	3.2	0.9	1.4	1.2
United Kingdom	4.2	3.1	1.8	4.0
Average, weighted by 1987-89 GDP	3.9	2.4	2.4	2.4
Average, weighted by share of U.S. non-oil imports	3.8	1.9	2.0	1.8

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	368.6	392.5
Services	136.7	140.0	141.7	147.3	138.5	146.1	149.0	154.0	157.3	155.4	128.0	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	48.7
Non-oil	402.4	408.9	412.4	409.1	394.7	403.4	425.5	435.7	441.3	456.8	399.1	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	95.1	101.5	97.7
Memo: (Percent change 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	11.5	7.3	7.8
of which: Goods	10.2	5.8	-2.2	9.7	2.3	14.2	5.3	12.8	0.8	-0.1	10.6	5.9	8.6
Imports of G+S	2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7	2.7	0.2	5.6
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	3.2	0.6	7.4
Current Account Balance	-89.3	-83.1	-100.2	-94.7	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-101.6	-91.9	-8.3
Merchandise Trade, net	-108.9	-99.0	-115.8	-112.4	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-115.2	-109.0	-73.8
Exports	381.1	389.3	385.7	401.0	405.3	416.8	415.1	430.5	433.4	433.2	362.1	389.3	416.9
Agricultural	43.1	41.5	38.7	37.4	39.5	38.5	39.7	42.8	43.3	42.6	42.2	40.2	40.1
Nonagricultural	338.0	347.9	347.0	363.6	365.8	378.3	375.4	387.7	390.0	390.6	319.9	349.1	376.8
Imports	490.0	488.3	501.5	513.4	480.5	482.1	493.6	506.7	504.4	532.4	477.4	498.3	490.7
Oil	63.2	51.3	61.8	72.9	52.4	52.3	53.0	49.4	41.9	52.4	50.9	62.3	51.8
Non-oil	426.9	437.0	439.7	440.6	428.1	429.8	440.7	457.4	462.5	480.0	426.4	436.0	439.0
Other Current Account	0.9	-1.1	0.7	-13.2	89.7	60.7	24.6	34.8	26.6	22.6	-1.2	-3.2	52.5
Invest. Income, net	18.7	16.9	14.9	30.9	23.1	11.6	6.5	10.9	17.7	3.6	14.8	20.3	13.0
Direct, net	54.4	56.7	52.4	61.4	60.3	52.8	45.1	52.8	57.6	47.6	48.9	56.2	52.8
Portfolio, net	-35.7	-39.8	-37.5	-30.5	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-34.0	-35.9	-39.7
Military, net	-7.6	-6.5	-6.3	-10.9	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-6.7	-7.8	-5.9
Other Services, net	35.3	36.2	36.7	45.7	43.4	50.8	55.6	57.2	58.5	57.5	31.6	38.5	51.7
Transfers, net	-26.9	-30.7	-29.7	-48.0	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-26.1	-33.8	6.6

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

Strictly Cc ential (FR) Class II-FOMC

OUTLOOK FOR U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1992		1993		Projection						Projection ANNUAL		
							1994						
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994
GDP Net Exports of Goods and Services (87$)	-52.7	-49.0	-70.3	-69.9	-69.7	-76.5	-81.2	-89.0	-92.6	-94.8	-41.8	-71.6	-89.4
Exports of G+S	575.9	588.3	584.2	593.8	600.4	607.2	615.0	622.9	631.3	641.1	573.3	596.4	627.6
Merchandise	420.4	434.1	426.7	435.9	442.3	448.4	454.9	461.3	468.2	476.3	417.7	438.3	465.2
Services	155.5	154.2	157.5	157.8	158.0	158.7	160.1	161.5	163.0	164.7	155.6	158.0	162.3
Imports of G+S	628.6	637.3	654.5	663.6	669.9	683.6	696.1	711.7	723.8	735.8	615.0	667.9	716.9
Merchandise	526.4	535.1	551.0	561.7	567.4	580.4	592.2	607.0	618.4	629.9	514.3	565.1	611.9
Oil	52.5	52.1	52.9	55.8	52.4	53.4	52.9	56.3	56.4	57.4	50.6	53.6	55.8
Non-oil	473.9	483.0	498.1	505.9	515.1	527.0	539.2	550.7	562.0	572.5	463.7	511.5	556.1
Services	102.2	102.2	103.5	102.0	102.6	103.3	104.0	104.8	105.4	106.0	100.7	102.8	105.1
Memo: (Percent change 1/)													
Exports of G+S	9.2	8.9	-2.8	6.7	4.5	4.6	5.2	5.2	5.5	6.4	4.9	3.3	5.6
of which: Goods	12.7	13.7	-6.6	8.9	6.0	5.6	5.9	5.8	6.1	7.1	6.8	3.5	6.2
Imports of G+S	14.8	5.7	11.2	5.7	3.9	8.4	7.5	9.3	6.9	6.8	9.7	7.3	7.6
of which: Non-oil Goods	15.8	7.9	13.1	6.4	7.5	9.6	9.6	8.8	8.5	7.7	10.9	9.1	8.6
Current Account Balance	-71.1	-94.7	-89.0	-99.1	-92.7	-107.6	-105.2	-115.2	-114.0	-121.6	-66.4	-97.1	-114.0
Merchandise Trade, net	-110.4	-103.8	-116.3	-126.4	-119.4	-128.0	-134.2	-141.9	-146.5	-150.3	-96.1	-122.5	-143.2
Exports	438.0	456.0	446.5	456.4	458.6	462.4	468.6	474.2	479.7	486.0	440.1	456.0	477.1
Agricultural	44.7	45.5	43.4	42.4	42.4	42.4	43.0	43.5	43.7	44.6	44.0	42.7	43.7
Nonagricultural	393.3	410.4	403.1	414.0	416.2	420.0	425.6	430.7	436.1	441.4	396.1	413.3	433.4
Imports	548.4	559.8	562.8	582.8	578.0	590.4	602.9	616.0	626.2	636.4	536.3	578.5	620.4
Oil	57.2	54.9	51.0	56.0	46.5	51.2	53.1	56.4	56.5	57.4	51.6	51.2	55.8
Non-oil	491.2	505.0	511.8	526.8	531.5	539.2	549.8	559.7	569.7	578.9	484.7	527.3	564.5
Other Current Account	32.5	12.3	26.2	27.7	28.2	26.6	31.0	32.6	34.3	33.4	23.5	27.2	32.8
Invest. Income, net	6.8	-3.2	1.1	-0.3	-1.6	-6.2	-2.1	-5.9	-1.8	-4.7	6.2	-1.7	-3.6
Direct, net	47.1	40.8	46.5	46.5	42.5	42.1	43.3	43.0	44.0	45.0	48.3	44.4	43.8
Portfolio, net	-40.3	-44.0	-45.4	-46.9	-44.1	-48.2	-45.4	-49.0	-45.8	-49.8	-42.0	-46.1	-47.5
Military, net	-2.5	-3.3	-1.5	-1.5	-1.5	-1.1	-0.6	-0.2	0.2	0.6	-2.8	-1.4	0.0
Other Services, net	63.6	57.1	60.0	61.0	61.5	62.3	63.4	64.6	65.9	67.4	59.2	61.2	65.3
Transfers, net	-28.6	-41.4	-32.3	-31.8	-31.8	-34.6	-31.8	-31.8	-31.8	-34.6	-32.9	-32.6	-32.5

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