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September 15, 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

The incoming information since the August Greenbook went to press has suggested that growth in the nonfarm economy currently could well be falling short of even the moderate pace we projected at that time. However, this dark cloud has a silver lining: Prices have been softer than anticipated, and the bond market has rallied, pushing long-term rates below the levels that we expected earlier. We continue to project somewhat better growth ahead, but the outlook remains fraught by uncertainties related not only to the behavior of our economy but also to developments abroad.

The annual revision to the GDP figures provided few major insights that might help in projecting future trends. Perhaps most noteworthy is the stronger growth of labor productivity now indicated for recent years. Based on the new data, we have raised our estimate of the underlying--that is, the cyclically adjusted--rate of productivity advance since 1990 by a few tenths of a percent, to somewhere between 1-1/4 and 1-1/2 percent per year. Assuming that this pace of structural improvement is maintained and that labor force growth remains relatively slow,[1] we now estimate the current growth rate of potential GDP at just under 2-1/2 percent--roughly a quarter percentage point more than we had previously assumed and quite close to the pace of actual GDP growth during the current expansion.

1. The civilian labor force has expanded at less than a 1 percent annual rate since 1990:Q2, compared with an average of 1-1/2 percent per year in the 1980s. We continue to believe that part of the recent weakness in labor force participation is related to the slow recovery in employment, and we are forecasting a moderate rise in participation as the expansion lengthens. However, our best guess is that the eventual increases in participation in the 1990s will not match those in the 1980s and, thus, that the overall rate of labor force growth in the 1990s will average slightly below that in the 1980s.

Our forecast shows economic growth running close to its potential rate through the end of 1994. As before, we believe that achievement of this middling expansion path may well require maintenance of relatively low real short-term rates--to counter the contractionary effects of fiscal restraint, uncertainty about government policies, and, at least in the near term, slow growth of foreign industrial economies. To an important degree, the monetary policy stimulus is going to be transmitted via the capital markets; and, given the current dynamics of the economy and financial markets, we are projecting some additional easing of bond yields.

All other things equal, we would expect the predicted pattern of moderate growth and essentially unchanged resource utilization to produce at least some further decline in inflation over the coming year. And we do foresee a small deceleration in the "core" component of the CPI, from the 3.3 percent increase of the past twelve months to a touch below 3 percent in 1994. However, overall CPI inflation appears likely to run a little above the core pace through next year, with food prices being elevated by the recent supply disruptions and the prices of gasoline and other items boosted by higher indirect taxes. Moreover, we have not factored in a minimum wage increase or possible higher costs associated with health care reform, which could further impede disinflation.

<u>Key Assumptions</u>

We continue to assume that Federal Reserve policy will hold the nominal federal funds rate close to the current level through 1994. Despite the bond market rally to date, the term structure of rates remains steeply sloped, and should economic activity continue to be lethargic and inflation subdued, a greater decline in long rates would be a natural result--and, in our view, quite possibly an essential ingredient in sustaining growth of aggregate demand in the face of fiscal drag and other adversities in the economic environment.[2] We might have built into our forecast an even deeper decline in long rates if we had not seen signs that other aspects of the financial picture, namely balance sheet positions and credit supply conditions, have improved a good deal--and should continue to move in a positive direction, further lifting an unusual constraint on spending.

The broad monetary aggregates are still growing only slowly. M2 expanded in August at about the same sluggish pace as in recent months, with no apparent slackening in the popularity of bond and equity mutual funds. M3 eked out just a small increase as banks slowed their issuance of nondeposit liabilities. Both aggregates continue to track the lower bounds of their target ranges. They are expected to remain near those lower bounds through the end of the year and then to accelerate modestly in 1994.

The staff's fiscal policy assumptions are little changed from those in the previous Greenbook. For the fiscal year now ending, we are predicting a budget deficit of $258 billion, well below the official OMB estimate. As in the last forecast, in addition to incorporating the constraints of OBRA-93, we have allowed for some small additional cuts in spending--a nod in the direction of recent proposals to "re-invent" government. Nonetheless, we expect the deficit to edge down to $253 billion in FY94, as outlays in the deposit insurance category swing from negative this year to positive next year with the assumed passage of RTC funding. Excluding

2. Indeed, simple econometric models of term structure behavior, in which long-term rates are essentially a moving average of past short rates, would suggest that, if short rates were to remain near recent levels, bond yields would drop a great deal further in coming quarters. Such backward-looking models have proven remarkably reliable in the past and have done very well in tracking the decline in long rates to date.

deposit insurance, the deficit is expected to be $288 billion in FY93 and $250 billion in FY94.

The trade-weighted foreign exchange value of the dollar is projected to retrace much of its recent decline by mid-1994 and then to be unchanged over the remainder of the projection period. The latest developments in Europe and Japan have led us to shave our projections of foreign economic growth for the second half of this year. But we continue to expect economic activity abroad to pick up soon and to post a moderate advance during 1994.

In the market for crude oil, supplies remain abundant, and prices have dropped somewhat further than we had previously projected. We still anticipate that oil prices will firm as world demand picks up in coming quarters, with the spot price of WTI crude climbing from its recent level of around $17.00 to $19.50 in 1994.

Recent Developments and the 1993:Q3 Projection

The August job market report conveyed some mixed signals, but labor market indicators generally point to continued moderate growth of employment. But, at the same time, anecdotal reports--and the available statistics on sales--have suggested that concerns about the economic outlook are still weighing on households and businesses, muting their response, in terms of spending, to the plunge in financing costs. Integrating the available pieces of information as best we can, we are projecting that real GDP will increase at around a 1-1/4 percent annual rate in the third quarter; excluding crop losses, growth would be closer to a 2 percent rate.

Our projection of current-quarter GDP growth has been trimmed appreciably from that in the August Greenbook. A major reason is our understanding that the BEA will allocate most of the loss in farm output associated with the flood to the current quarter, rather than spread it more evenly over the third and fourth quarters.[3] Thus, we have deepened the decline in farm inventories this quarter; the reduced drawdown of stocks in the fourth quarter augments GDP growth in that period, and a lesser positive swing is implied for the opening quarter of 1994, when it is assumed that crop production will return to "normal."

THE EFFECT OF CROP LOSSES ON GROWTH OF REAL GDP
(Percentage change; annual rate)

	1993		1994
	Q3	Q4	Q1
Real GDP	1.2	3.4	3.0
Previous	2.3	2.4	2.8
Excluding crop losses	1.8	3.0	2.8
Previous	2.6	2.5	2.4

A second important factor in the lower current-quarter estimate of GDP growth is the shortfall in production of motor vehicles relative to our August projection. Earlier published reports of scheduled assemblies proved to be in error, and actual production has fallen below even the corrected numbers. Thus, production of motor vehicles is now estimated to have reduced growth of real GDP 3/4 percentage point this quarter rather than to have contributed the almost 1/2 percentage point anticipated in the August Greenbook.

We still expect final domestic purchases--that is, GDP excluding the change in inventories and net exports--to rise at close to a 3 percent rate this quarter. Consumption, which is projected to grow at a 3-1/4 percent rate, now looks to have been somewhat stronger than we had anticipated; much of the additional spending has occurred in the services category, where hot weather

3. We anticipate that those losses will total about $2-3/4 billion (not at an annual rate), which is toward the upper end of the range that we used when putting together the August forecast.

boosted energy consumption substantially. Business spending on equipment is expected to decelerate this quarter, to about a 6 percent rate. A decline in purchases of motor vehicles has been one principal element in this slowing; the other significant development is an expected retrenchment in deliveries of civilian aircraft to domestic companies. We also are projecting a modest gain in spending for nonresidential structures this quarter, led by another sizable increase in oil and gas drilling. Residential investment still is anticipated to be a small plus as well, despite some disappointing slippage in starts and sales of new single-family homes in July; based on the positive indications from surveys of households, builders, and mortgage bankers, we are looking for considerable improvement over the remainder of the quarter.

The forecast anticipates that the change in net exports will be noticeably less negative in the third quarter than they were over the first half. Exports are projected to expand at only a 3 percent rate. But the surge in non-oil merchandise imports is expected to moderate, and oil imports are estimated to be dropping back a bit.

The July data on manufacturing and trade inventories excluding motor vehicles showed little net change, but we are looking for an appreciable increase over the remainder of the quarter, producing a net advance somewhat below the second-quarter pace. By and large, businesses appear to have weathered the slowdown in sales during the first half of 1993 without any serious imbalances in their stocks; as of July, most inventory-sales ratios were at or below the levels at the end of 1992. The weakness in motor vehicle production this quarter is expected to be mirrored in a greater liquidation of inventories than in the second quarter, leaving dealer stocks reasonably lean as the new model year commences.

Regarding inflation, both the overall CPI and the index excluding food and energy rose 0.2 percent, on average, in July and August, and we are expecting similar increases in September. All told, the overall CPI is projected to be up at just a 1-1/2 percent annual rate in the third quarter. Wage inflation, as measured by the average hourly earnings series, picked up in August, but the 0.5 percent increase followed no net change over the preceding two months, and the twelve-month change was a tame 2-1/4 percent. In commodity markets, prices of precious metals and a variety of industrial materials have dropped in recent weeks.

The Outlook for the Economy Through 1994

Growth of real GDP (excluding the effects of crop losses) is projected to average close to a 2-1/2 percent annual rate over the next five quarters. The step-up from the sluggish pace observed thus far this year derives in part from a projected strengthening in outlays for residential construction and in merchandise exports, along with some slowing in non-oil imports. Throughout the period, consumer spending is expected to rise moderately, business investment to continue expanding much faster than overall output, and federal purchases to decline steadily, offsetting modest gains in state and local spending. Inventory investment likely will make a small contribution to output growth.

Consumer spending. Real personal consumption expenditures are projected to increase at a 2-1/4 percent annual rate over the next five quarters. Over this period, gains in real disposable personal income will be limited by cautious hiring, meager real wage gains, and a larger tax bite. We continue to believe that the adjustment to the higher income tax liabilities payable beginning in 1994 is already under way, implying no great departure from spending trends next spring; as in previous forecasts, we are showing a decline in the measured personal saving rate early next year because taxes are treated on a cash basis in the NIPA.

Although sales have fallen short of our expectations of late, we continue to project that motor vehicles will be one of the stronger components of consumer spending over the projection period. The higher level of sales this year probably has not exhausted deferred replacement demand, and financing costs have declined appreciably. We believe that we have made due allowance for the potential "sticker shock" that may be associated with the substantial increases in the prices of Japanese cars (because of yen appreciation) and the efforts of domestic manufacturers to boost margins through new "value" pricing strategies that make previously optional equipment standard.[4] Spending on other durable goods is projected to receive some further support from purchases of appliances and home furnishings associated with the projected pickup in homebuying.

Residential investment. The projection assumes that the fundamentals favoring a strengthening of homebuilding will take hold in the near term. Rates on thirty-year fixed-rate mortgages have moved below 7 percent for the first time since the 1960s, and we project that they will edge down further in coming months. Households apparently perceive that housing has become quite affordable; at the same time, prices may have firmed enough in some markets to dissuade potential buyers from postponing purchases. The insecurity about job and income prospects will tend to mute the response to these positive factors; nonetheless, we expect to see sales improve and starts of single-family homes move above 1.2 million units (annual rate) in 1994. In contrast, the market for

4. As an aside, we should note that, if automakers continue to shift toward generous leasing plans as an alternative to other marketing devices, some of the gain in consumer sales could be recorded as business investment rather than PCE.

multifamily units is likely to recover only slightly during the next year or so, with starts reaching just 180,000 units in the second half of next year; a more substantial increase is questionable, given rental vacancy rates that are still high in many locales and demographic patterns that favor a shift to homeownership.

Business fixed investment. Real business fixed investment is projected to rise at roughly an 8 percent annual rate through the end of 1994 as a modest deceleration in equipment spending is offset by some firming in nonresidential construction. The slowing in equipment spending is in part a consequence of a step-down in deliveries of commercial aircraft to domestic firms that has been in train for some time. In addition, business purchases of motor vehicles, which were robust in the first half of this year, are expected to stall in part because demand for heavy trucks has been bumping up against capacity; truckmakers, however, are expecting to be able accommodate some further growth in sales next year.

Overall, while business sales are projected to be growing only moderately and corporate cash flow to be flat, the incentives to upgrade equipment should remain strong, and financing conditions for new equipment investments are expected to be favorable. On balance, we expect slower but still appreciable growth in spending on machinery and other industrial equipment, led by further double-digit gains in real outlays for computing equipment.

We are projecting that the upturn in spending for nonresidential construction that began in the second quarter will continue through 1994, with outlays rising at almost a 4 percent annual rate. We believe that any recovery in the market for office buildings is still well ahead of us but that spending in this sector will no longer be declining. However, construction of other commercial, industrial, and institutional facilities is expected to trend up as economic activity expands. Moreover, higher spending by electric utilities, which have begun to build new, more cost-effective power plants that burn natural gas rather than coal, should be a noticeable plus.

Business inventories. With the production of motor vehicles and the level of motor vehicle stocks having dropped more in the third quarter than we had expected, the step-up in assemblies in the fourth quarter now suggests a swing back to modest inventory accumulation. Total production of autos and trucks is anticipated to rise to 10.4 million units (annual rate) in the fourth quarter from 9.8 million units (annual rate) in the third quarter.[5] The increase contributes a percentage point to the growth of real GDP in the fourth quarter. During 1994, our projection shows production rising in tandem with sales and, thus, little further growth in stocks of motor vehicles.

Changes in nonfarm inventories of goods other than motor vehicles are projected to play only a minor role in the path for real GDP through the end of 1994. We are assuming that, because the sales outlook is still uncertain, businesses will restrain their accumulation of nonfarm stocks in the near term and then, over the course of 1994, will allow only modestly larger increases in stocks. We believe that the desire to achieve economies in inventory holdings remains strong and that businesses will still have some room to edge their inventory-sales ratios lower over the next year or so.

Net exports. The staff projections continue to show some pickup in export growth from late 1993 through the end of 1994 compared with the performance so far this year, based largely on the

5. The initial estimate of assembly schedules for the fourth quarter was 11.7 million units, which in our view was too optimistic given our expectations for sales and our assessment of acceptable levels of dealer stocks.

pickup in economic activity abroad. The lower path now assumed for the dollar contributes to a slightly faster rise in exports than we previously projected. However, the persistent strength of imports in recent months has led us to edge up our estimate of the growth of imports likely to accompany the expansion of domestic activity over the forecast period. As a result, the current forecast shows roughly the same decline in real net exports of goods and services in 1994 as in August; that performance remains significantly better than during the first half of this year. (A detailed discussion of these developments is contained in the International Developments section.)

Government purchases. Real federal purchases are expected to move in step with the declining level of appropriations, falling at a rate of 5-1/2 percent in the fourth quarter and 4 percent in 1994. Defense spending is projected to drop at an 8-1/2 percent rate in the fourth quarter and 6-3/4 percent during 1994 whereas nondefense purchases edge up at an 1-1/2 percent rate. The expected rise in nondefense spending balances some room for domestic initiatives contemplated by the Administration with the further budget cutting expected this fall.

For the state and local government sector, we have factored in a modest boost to spending in the fourth quarter for infrastructure repair in the Midwest. Thereafter, we still are projecting relatively slow growth in real purchases, substantial tax increases around the middle of 1994, but little improvement in the deficit of operating and capital accounts.

Labor markets. Although measured labor productivity weakened markedly over the past couple of quarters, the decline followed a very strong increase in the latter part of 1992. If our analysis is correct and if production expands at the rate now projected, we expect to see a resumption of productivity growth at just under an 1-1/2 percent rate, roughly our current estimate of the underlying trend. Certainly, the tenor of the anecdotal evidence is that employers remain cautious about hiring and are continuing to restructure and "reengineer" their operations to hold down labor inputs and raise efficiency.

Employment is projected to grow a bit less over the remainder of the projection period than it has thus far in 1993--roughly 140,000 versus 150,000 per month. Although the mere extension of an uptrend in employment may have some positive effect on perceptions of job opportunities, the projected pace is sufficiently lackluster that we expect it to engender only a small increase in the labor force participation rate. Accordingly, we believe that the civilian unemployment rate will stay around 6-3/4 percent.

Labor compensation. Our projection for hourly compensation continues to be fundamentally shaped by the prospect of continued appreciable slack in the labor market over the forecast period. The downsizing of the defense sector and of corporate enterprises in many other industries may well have created some extra structural unemployment, but these effects are not clearly discernible in the data and we continue to think that a significant degree of compensation-damping slack is still at work. Our optimism about the potential for a slowing in compensation increases, however, is restrained somewhat by the recognition that many businesses have had difficulty in offsetting rapidly rising benefit costs through lower wage increases, at least in the short run. This is particularly worrisome because the costs of so-called mandated benefits (such as unemployment insurance and worker compensation) could continue to increase rapidly and, as noted in the Greenbook last month, many businesses may have to boost their contributions to defined benefit pension plans to offset lower investment returns. Thus, even with some aid from a likely easing in inflation expectations as the rate of price increase remains low, we are projecting only a modest deceleration in overall hourly compensation: The twelve-month change in the Employment Cost Index is expected to move down to 3.4 percent in 1994 from 3.6 percent as of mid-1993. This implies an uptrend in unit labor costs in the nonfarm business sector at around a 2 percent annual rate.

Prices. The news on consumer prices may well be less favorable in the next couple of quarters than it has been, on average, in recent months. A higher rate of increase in food prices resulting from this year's crop losses is anticipated to persist into early 1994. Also, an increase in the excise tax on gasoline becomes effective in a few weeks; the boost to energy prices from the tax is expected to be reinforced in early 1994 by the projected firming in crude oil prices. With regard to consumer prices excluding food and energy, the picture may remain relatively favorable in the near term, but we have included in our forecast the tendency for first-quarter increases in this index to be boosted by incomplete seasonal adjustment. (We probably will not know until early next year whether the BLS will adopt revised methods that might alleviate this problem.)

Over the remainder of 1994, however, the gradual disinflation trend is expected to reemerge. Increases in food prices should move back in line with the broader trend of inflation as crop production recovers. With the price of crude oil assumed to stabilize, increases in energy prices are likely to moderate. More generally, the persistence of slack in resource utilization, the sustained slow rise in trend unit labor costs, and the relatively modest increase projected for prices of non-oil imports should tend to maintain a noticeable degree of downward pressure on consumer prices. By the end of 1994, the year-over-year change in the overall CPI is projected to be just over 3 percent; the index excluding food and energy is forecast to be up slightly less than 3 percent from a year earlier.

STAFF INFLATION PROJECTIONS
(Percentage change; Q4 to Q4)

	1992	1993	1994
Consumer price index	3.1	3.0	3.1
Excluding food and energy	3.4	3.1	2.9
Employment cost index	3.4	3.6	3.4

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

September 15, 1993

Interval	Nominal GDP 8/11/93	Nominal GDP 9/15/93	Real GDP 8/11/93	Real GDP 9/15/93	GDP fixed-weight price index 8/11/93	GDP fixed-weight price index 9/15/93	Consumer price index[1] 8/11/93	Consumer price index[1] 9/15/93	Unemployment rate (level except as noted) 8/11/93	Unemployment rate (level except as noted) 9/15/93
ANNUAL										
1990[2]	5.2	5.6	.8	1.2	4.6	4.6	5.4	5.4	5.5	5.5
1991[2]	2.8	3.2	-1.2	-.7	4.0	4.0	4.2	4.2	6.7	6.7
1992[2]	4.8	5.5	2.1	2.6	2.9	3.3	3.0	3.0	7.4	7.4
1993	5.0	5.3	2.3	2.6	3.2	3.1	3.1	3.0	6.9	6.9
1994	5.0	4.9	2.4	2.5	2.9	2.7	3.3	3.1	6.8	6.7
QUARTERLY										
1991 Q1[2]	1.8	2.4	-3.0	2.4	4.9	5.1	3.6	3.6	6.5	6.5
Q2[2]	5.2	4.8	1.7	1.5	3.5	3.4	2.1	2.1	6.7	6.7
Q3[2]	4.0	4.3	1.2	1.4	2.9	3.4	2.7	2.7	6.7	6.7
Q4[2]	2.8	3.2	.6	.6	2.4	2.7	3.3	3.3	7.0	7.0
1992 Q1[2]	6.2	7.4	2.9	3.5	3.4	4.2	3.5	3.5	7.3	7.3
Q2[2]	4.3	5.7	1.5	2.8	2.9	3.4	2.9	2.9	7.5	7.5
Q3[2]	5.3	4.6	3.4	3.4	2.2	2.5	2.9	2.9	7.5	7.5
Q4[2]	7.1	9.2	4.7	5.7	3.4	3.1	3.2	3.2	7.3	7.3
1993 Q1[2]	4.3	4.4	.7	.8	4.3	4.3	3.7	3.7	7.0	7.0
Q2[2]	4.0	4.2	1.6	1.8	2.6	2.8	2.8	2.8	7.0	7.0
Q3	4.8	3.5	2.3	1.2	2.4	2.1	1.9	1.5	6.9	6.8
Q4	5.4	5.8	2.4	3.4	3.3	3.0	4.2	3.6	6.9	6.7
94 Q1	5.4	5.4	2.8	3.0	3.0	2.8	3.7	3.8	6.9	6.7
Q2	4.9	4.7	2.3	2.3	2.9	2.7	3.2	3.0	6.8	6.7
Q3	4.8	4.6	2.4	2.4	2.7	2.5	3.0	2.8	6.8	6.7
Q4	4.7	4.5	2.4	2.4	2.6	2.5	2.9	2.7	6.8	6.7
TWO-QUARTER[3]										
1991 Q2[2]	3.5	3.6	-.7	-.5	4.2	4.4	3.0	3.0	.7	.7
Q4[2]	3.4	3.8	.9	1.0	2.6	2.9	3.0	3.0	.3	.3
1992 Q2[2]	5.2	6.6	2.2	3.2	3.2	3.9	3.2	3.2	.5	.5
Q4[2]	6.2	6.9	4.1	4.6	2.8	2.8	2.9	2.9	-.2	-.2
1993 Q2[2]	4.2	4.3	1.2	1.3	3.4	3.4	3.4	3.4	-.3	-.3
Q4	5.1	4.7	2.3	2.3	2.8	2.5	3.0	2.6	-.1	-.3
1994 Q2	5.1	5.0	2.5	2.7	2.9	2.7	3.4	3.4	-.1	.0
Q4	4.7	4.5	2.4	2.4	2.7	2.5	3.0	2.8	.0	.0
FOUR-QUARTER[4]										
1990 Q4[2]	4.1	4.7	-.5	.2	4.7	4.6	6.2	6.2	.6	.6
1991 Q4[2]	3.5	3.7	.1	.3	3.4	3.6	3.0	3.0	1.0	1.0
1992 Q4[2]	5.7	6.7	3.1	3.9	3.0	3.3	3.1	3.1	.3	.3
1993 Q4	4.6	4.5	1.7	1.8	3.1	3.0	3.2	3.0	-.4	-.6
1994 Q4	4.9	4.8	2.5	2.5	2.8	2.6	3.2	3.1	-.1	.0

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)

September 15, 1993

Item	Unit[1]	1986	1987	1988	1989	1990	1991	1992	Projected 1993	1994
EXPENDITURES										
Nominal GDP	Bill. $	4268.6	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6359.8	6669.4
Real GDP	Bill. 87$	4404.5	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5113.6	5243.5
Real GDP	% change	2.2	4.5	3.3	1.6	.2	.3	3.9	1.8	2.5
Gross domestic purchases		2.1	3.9	2.5	.9	-.4	-.2	4.3	2.6	2.9
Final sales		3.3	2.7	4.2	1.5	1.2	-.3	3.8	2.0	2.2
Private dom. final purch.		3.0	1.9	4.2	.5	-.1	-.7	5.0	3.6	3.1
Personal cons. expend.		4.0	2.1	4.2	1.2	.7	.0	4.0	2.4	2.1
Durables		12.5	-2.6	8.5	-.5	-.8	.4	9.7	4.5	3.1
Nondurables		3.3	1.4	3.2	1.2	-.1	-1.3	3.6	1.1	1.4
Services		2.5	3.7	3.7	1.7	1.7	.9	2.8	2.6	2.3
Business fixed invest.		-5.7	3.0	5.5	-.4	.7	-6.3	7.4	11.2	7.8
Producers' dur. equip.		-.7	2.4	9.1	-1.7	2.9	-3.3	11.4	14.1	8.8
Nonres. structures		14.1	4.4	-1.2	2.3	-3.9	-12.6	-2.0	3.5	4.6
Res. structures		11.1	-3.1	.9	-7.7	-15.2	1.6	17.6	3.3	5.6
Exports		9.9	12.6	13.5	11.3	6.7	8.4	4.9	2.7	5.9
Imports		6.7	4.7	3.6	2.6	.4	4.2	8.5	9.0	8.0
Government purchases		4.1	3.3	.2	2.0	3.3	-.7	1.1	.6	.3
Federal		3.8	3.7	-3.4	-.6	2.8	-3.7	.4	-5.8	-4.1
Defense		3.7	4.5	-3.2	-1.5	1.5	-7.3	1.4	-9.1	-6.7
State and local		4.4	2.9	2.9	4.0	3.6	1.5	1.6	2.7	1.9
Change in bus. invent.	Bill. 87$	8.6	26.3	19.9	29.8	5.7	-8.4	6.5	8.2	11.6
Nonfarm		10.6	32.7	26.9	29.9	3.2	-8.6	2.7	14.2	14.3
Net exports		-155.1	-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-72.4	-91.8
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.7	3.7	6.7	4.5	4.8
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	6.7
Industrial prod. index	% change	1.5	6.3	3.2	-.1	-.2	-.3	3.2	3.7	3.3
Capacity util. rate-mfg.	%	79.1	81.6	83.6	83.1	81.1	77.8	78.8	80.9	82.3
Housing starts	Millions	1.81	1.63	1.49	1.38	1.20	1.01	1.21	1.25	1.40
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.50	8.39	8.38	8.64	8.88
North American produced		8.22	7.07	7.54	7.08	6.90	6.14	6.28	6.64	6.89
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.11	2.00	1.99
INCOME AND SAVING										
Nominal GNP	Bill. $	4277.8	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6356.5	6662.5
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.9	3.3	6.5	4.4	4.8
Nominal personal income		5.5	7.4	7.1	6.5	6.5	3.5	8.1	3.5	5.1
Real disposable income		2.8	2.1	3.2	1.1	1.1	.7	4.9	.7	2.0
Personal saving rate	%	6.0	4.3	4.4	4.1	4.2	4.8	5.3	4.2	4.3
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	2.3	4.4	16.0	-1.1	4.1
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.8	6.4	6.7	6.9	6.7
Federal surpl./def.	Bill. $	-201.1	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-230.9	-173.2
State/local surpl./def.		54.3	40.1	38.4	44.8	25.1	7.3	7.2	.8	3.8
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-58.0	-54.2
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.8	2.6	2.2
GDP fixed-wt. price index		2.6	3.4	4.2	4.4	4.6	3.6	3.4	3.0	2.6
Gross domestic purchases fixed-wt. price index		2.3	3.9	4.1	4.4	5.2	3.1	3.3	2.8	2.7
CPI		1.3	4.5	4.3	4.6	6.2	3.0	3.1	3.0	3.1
Ex. food and energy		3.9	4.3	4.5	4.4	5.2	4.5	3.4	3.1	2.9
ECI, hourly compensation[2]		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.4
Nonfarm business sector										
Output per hour		1.3	1.9	.5	-1.4	.4	2.3	3.7	.0	1.4
Compensation per hour		4.7	3.9	3.8	3.1	6.1	4.8	5.3	2.8	3.4
Unit labor cost		3.4	1.9	3.3	4.6	5.7	2.4	1.6	2.9	2.0

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

Strictly Confidential (FR) Class I FOMC

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

September 15, 1993

Item	Units	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3 (Projected)	1993 Q4 (Projected)	1994 Q1 (Projected)	1994 Q2 (Projected)	1994 Q3 (Projected)	1994 Q4 (Projected)
EXPENDITURES											
Nominal GDP	Bill. $	6059.5	6194.4	6261.6	6325.7	6380.6	6471.2	6557.3	6632.5	6706.8	6780.9
Real GDP	Bill. 87$	4998.2	5068.3	5078.2	5101.0	5116.0	5159.3	5198.2	5227.5	5258.4	5289.9
Real GDP	% change	3.4	5.7	.8	1.8	1.2	3.4	3.0	2.3	2.4	2.4
Gross domestic purchases		3.8	5.4	2.5	2.8	1.5	3.5	3.3	2.8	2.7	2.6
Final sales		3.7	5.8	-.8	3.1	2.9	3.1	2.5	1.7	2.2	2.3
Private dom. final purch.		4.0	7.1	2.5	4.0	3.7	4.1	3.5	2.8	3.0	3.1
Personal cons. expend.		4.2	5.6	.8	3.2	3.3	2.3	2.2	1.9	2.2	2.3
Durables		10.7	13.2	-1.3	10.8	1.8	7.2	4.6	2.7	2.6	2.3
Nondurables		3.0	7.3	-2.1	2.6	2.6	1.3	1.0	1.0	1.7	2.0
Services		3.3	2.9	3.1	1.7	4.1	1.6	2.2	2.2	2.4	2.5
Business fixed invest.		3.8	7.6	14.4	14.4	5.5	10.7	7.5	7.7	7.9	8.0
Producers' dur. equip.		10.2	11.5	19.9	17.4	5.9	13.6	8.6	8.8	9.0	9.0
Nonres. structures		-10.3	-2.1	.5	6.4	4.4	2.7	4.3	4.5	4.7	4.9
Res. structures		1.2	32.8	1.5	-8.4	4.6	17.1	14.7	3.9	2.7	1.7
Exports		6.5	8.8	-2.4	4.8	3.0	5.7	5.5	5.6	6.0	6.4
Imports		9.2	5.6	11.6	13.1	5.2	6.2	7.3	9.6	7.7	7.6
Government purchases		4.1	-1.4	-6.4	4.3	1.0	-1.1	-.6	-.3	-.3	-.1
Federal		8.7	-3.5	16.2	3.1	-3.3	-5.6	-4.9	-4.0	-3.8	-3.7
Defense		10.5	-4.6	-21.4	2.0	-6.9	-8.6	-7.8	-6.5	-6.3	-6.2
State and local		1.2	0	.3	5.0	3.7	1.8	2.0	1.8	1.8	2.0
Change in bus. invent.	Bill. 87$	9.6	8.7	29.3	13.9	-7.5	-2.8	4.1	11.7	14.6	16.2
Nonfarm		5.8	7.5	29.3	17.5	6.1	3.8	7.7	14.3	17.0	18.4
Net exports		-42.5	-38.8	-59.9	-73.1	-77.2	-79.2	-83.1	-90.7	-94.9	-98.5
Nominal GDP	% change	4.6	9.2	4.4	4.2	3.5	5.8	5.4	4.7	4.6	4.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.6	108.9	109.4	110.0	110.3	110.7	111.2	111.5	111.9	112.4
Unemployment rate[1]	%	7.5	7.3	7.0	7.0	6.8	6.7	6.7	6.7	6.7	6.7
Industrial prod. index	% change	.8	6.7	5.5	2.3	2.8	4.3	4.3	2.7	3.2	2.9
Capacity util. rate-mfg[1]	%	78.7	79.6	80.5	80.8	80.9	81.6	82.2	82.2	82.4	82.6
Housing starts	Millions	1.18	1.25	1.16	1.23	1.28	1.34	1.37	1.39	1.42	1.43
Auto sales in U.S.		8.23	8.45	8.35	8.95	8.62	8.64	8.74	8.84	8.94	8.99
North American produced		6.24	6.43	6.38	6.90	6.63	6.65	6.75	6.85	6.95	7.00
Other		2.00	2.02	1.97	2.06	1.99	1.99	1.99	1.99	1.99	1.99
INCOME AND SAVING											
Nominal GNP	Bill. $	6067.3	6191.9	6262.1	6323.3	6378.6	6461.8	6552.6	6623.4	6701.2	6772.7
Nominal GNP	% change	4.8	8.5	4.6	4.0	3.5	5.3	5.7	4.4	4.8	4.3
Nominal personal income		3.7	15.5	-5.4	9.5	3.9	6.7	5.8	4.8	4.5	5.5
Real disposable income		1.9	10.6	-7.8	5.9	1.7	3.4	1.8	1.0	2.7	2.5
Personal saving rate[1]	%	4.9	6.0	3.9	4.5	4.2	4.4	4.3	4.1	4.3	4.3
Corp. profits, IVA&CCAdj	% change	-36.5	104.6	-6.6	10.8	-8.7	1.3	12.6	-2.1	.4	6.1
Profit share of GNP[1]	%	6.1	7.1	6.9	7.0	6.8	6.7	6.8	6.7	6.7	6.7
Federal govt. surpl./def.	Bill. $	-290.7	-264.2	-263.5	-227.6	-217.5	-215.1	-188.7	-166.8	-167.6	-169.9
State/local surpl./def.		1.2	13.5	.8	.5	.8	.9	2.5	.1	6.0	6.7
Ex. social ins. funds		-58.3	-46.0	-58.2	-58.4	-57.9	-57.6	-55.8	-58.0	-51.9	-51.0
PRICES AND COSTS											
GDP implicit deflator	% change	1.2	3.3	3.6	2.3	2.3	2.3	2.3	2.3	2.1	2.0
GDP fixed-wt. price index		2.5	3.1	4.3	2.8	2.1	3.0	2.8	2.7	2.5	2.5
Gross domestic purchases fixed-wt. price index		3.0	2.8	3.5	3.0	1.9	3.1	3.0	2.7	2.5	2.5
CPI		2.9	3.2	3.7	2.8	1.5	3.6	3.8	3.0	2.8	2.7
Ex. food and energy		2.7	3.6	4.1	3.5	2.2	2.7	3.3	2.9	2.8	2.8
ECI, hourly compensation[2]		3.2	3.5	4.2	3.5	3.4	3.4	3.4	3.4	3.5	3.4
Nonfarm business sector											
Output per hour		3.6	4.1	-1.8	-1.3	.6	2.6	1.5	1.4	1.3	1.3
Compensation per hour		6.0	4.6	2.8	1.4	3.8	3.5	3.9	3.3	3.3	3.3
Unit labor cost		2.2	.5	4.7	2.8	3.1	.9	2.4	1.9	2.0	2.0

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

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

					Projected									
	1992		1993				1994						Projected	
Item	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993	1994
Real GDP	41.7	70.1	9.9	22.8	15.0	43.4	38.9	29.3	30.9	31.5	12.4	188.7	91.0	130.6
Gross domestic purchases	46.2	66.4	31.0	36.0	19.1	45.4	42.8	37.0	35.1	35.1	-8.0	211.1	131.4	149.8
Final sales	44.8	71.0	-10.7	38.2	36.4	38.7	31.9	21.8	28.0	29.9	-15.5	187.1	102.6	111.5
Private dom. final purch.	39.8	70.6	26.0	41.6	38.2	43.1	37.3	30.2	32.8	33.6	29.7	198.8	149.0	133.9
Personal cons. expend.	34.1	46.3	6.6	27.0	28.0	19.5	18.7	16.5	19.2	20.3	1.6	129.7	81.1	74.6
Durables	11.5	14.4	-1.5	12.3	2.2	8.5	5.6	3.4	3.2	2.9	-1.7	41.9	21.5	15.1
Nondurables	7.9	18.9	-5.8	6.8	7.0	3.5	2.7	2.7	4.6	5.5	-13.5	37.8	11.5	15.6
Services	14.7	13.0	13.9	7.9	18.8	7.5	10.3	10.4	11.4	11.9	16.8	50.0	48.1	43.9
Business fixed invest.	5.0	9.9	18.6	19.2	7.9	15.2	11.0	11.5	12.1	12.4	-34.1	37.6	60.9	47.0
Producers' dur. equip.	9.2	10.6	18.4	16.9	6.3	14.2	9.4	9.8	10.3	10.5	-12.2	40.5	55.7	40.0
Nonres. structures	-4.1	-.8	.2	2.3	1.6	1.0	1.6	1.7	1.8	1.9	-21.8	-3.0	5.1	7.1
Res. structures	.6	14.4	.8	-4.6	2.3	8.4	7.6	2.2	1.5	1.0	2.8	31.5	6.9	12.3
Change in bus. invent.	-3.0	-.9	20.6	-15.4	-21.4	4.7	7.0	7.5	2.9	1.6	28.0	1.6	-11.5	19.0
Nonfarm	-1.2	1.7	21.8	-11.8	-11.4	-2.3	4.0	6.5	2.7	1.4	29.0	-2.8	-3.7	14.6
Farm	-1.8	-2.6	-1.2	-3.6	-10.0	7.0	3.0	1.0	.2	.2	-1.1	4.4	-7.8	4.4
Net exports	-4.5	3.7	-21.1	-13.2	-4.1	-2.0	3.9	-7.6	-4.2	-3.5	20.4	22.4	-40.4	19.3
Exports	9.1	12.3	-3.6	7.0	4.4	8.3	8.3	8.5	9.2	10.0	43.8	27.4	16.1	35.9
Imports	13.6	8.5	17.6	20.2	8.5	10.3	12.1	16.1	13.4	13.5	23.5	49.6	56.6	55.2
Government purchases	9.5	-3.3	-15.6	9.8	2.3	-2.5	-1.5	-.8	-.6	-.2	-6.2	10.7	-6.0	3.1
Federal	7.8	-3.3	-16.1	2.7	-3.0	-5.1	-4.4	-3.5	-3.3	-3.2	-14.4	1.6	-21.5	-14.4
Defense	6.5	-3.1	-15.3	1.2	-4.4	-5.4	4.8	-3.9	-3.7	-3.6	-20.8	3.6	-23.9	-16.0
Nondefense	1.2	-.1	-.9	1.6	1.4	.3	.4	.4	.4	.4	6.4	5.2	2.4	1.6
State and local	1.7	.0	.5	7.1	5.3	2.6	2.9	2.7	2.7	3.0	8.3	9.1	15.5	11.3

1. Annual changes are from Q4 to Q4.

STAFF PROJECTIONS OF FEDERAL [illegible]TOR ACCOUNTS AND RELATED ITEMS
(Billions of dollars except as noted)

Item	Fiscal year				1993				1994				1995			
	1992[a]	1993	1994	1995	Q1[a]	Q2[a]	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1090	1153	1228	1294	262	331	294	275	275	372	306	289	286	401	318	302
Outlays[1]	1381	1412	1481	1524	325	349	352	362	371	370	378	377	385	380	382	394
Surplus/deficit[1]	-290	-258	-253	-230	-62	-18	-58	-88	-96	3	-72	-87	-100	21	-64	-92
On-budget	-340	-304	-314	-296	-90	-49	-58	-100	-105	-34	-74	-101	-109	-18	-68	-106
Off-budget	50	46	60	67	27	31	0	13	9	37	2	14	10	39	4	15
Surplus excluding deposit insurance[2]	-287	-288	-250	-236	-68	-25	-67	-91	-95	7	-71	-87	-103	21	-67	-93
Means of financing																
Borrowing	311	245	256	250	60	61	42	85	80	33	57	83	94	16	57	84
Cash decrease	-17	15	4	-10	8	-39	17	9	15	-30	10	10	10	-30	0	20
Other[3]	-4	-1	-7	-10	-6	-4	-1	-7	1	-6	5	-5	-5	-7	7	-12
Cash operating balance, end of period	59	44	40	50	22	61	44	35	20	50	40	30	20	50	50	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1163	1245	1341	1411	1218	1264	1279	1299	1342	1363	1361	1378	1407	1422	1437	1453
Expenditures	1435	1489	1526	1575	1482	1491	1496	1514	1531	1530	1528	1548	1579	1585	1588	1613
Purchases	445	448	439	436	443	448	447	443	440	438	436	434	438	437	436	435
Defense	313	308	294	286	305	308	304	300	296	292	289	287	287	285	283	281
Nondefense	132	139	145	150	138	140	142	143	144	145	146	147	150	151	152	153
Other expenditures	990	1041	1087	1139	1039	1043	1049	1071	1091	1092	1092	1114	1141	1148	1153	1179
Surplus/deficit	-271	-243	-185	-164	-264	-228	-217	-215	-189	-167	-168	-170	-172	-163	-151	-160
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-212	-193	-134	-113	-215	-177	-163	-163	-139	-116	-117	-119	-121	-112	-101	-110
Change in HEB, percent of potential GDP	.9	-.3	-.9	-.3	0	-.6	-.2	0	-.4	-.3	0	0	0	-.1	-.2	.1
Fiscal impetus (FI), percent, cal. year	-4.4	-4.5	-7.2	-4.1	-5	1.3	-.4	-2.3	-3.2	-2.3	-1.3	-1.2	-1.3	-.5	-.5	-.5

1. OMB's September deficit estimates are $285 billion in FY93, $259 billion in FY94, and $200 billion in FY95. CBO's September deficit estimates of the budget are $266 billion in FY93, $253 billion in FY94, and $196 billion in FY95. 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 September deficit estimates, excluding deposit insurance spending, are $311 billion in FY93, $250 billion in FY94, and $209 billion in FY95. CBO's September deficit estimates, excluding deposit insurance spending, are $292 billion in FY93, $240 billion in FY94, and $260 billion in FY95.

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 2.4 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

With their fears of inflation--and of Fed tightening--damped by incoming economic news, investors have continued to shift funds into capital market instruments. As a result, long-term interest rates have declined further, with the yields on long-dated Treasuries now down about 35 basis points from their levels on the day of the August FOMC meeting. Rates on other long-term fixed-income securities have fallen almost as much as those on Treasuries, maintaining relatively narrow risk premiums as investors scrape for yield. Driven by essentially the same considerations, demand for equities also has remained robust, and the major stock indexes reached new highs before coming down.

The broad monetary aggregates stayed on their sluggish paths in August. M2 advanced at a 2 percent rate, near the pace of recent months. Among the components of M2, strength in M1 and savings deposits in recent months has been largely offset by declines in small time deposits and money funds. Competition from bond and equity mutual funds continues to restrain growth in M2, which is currently a bit above the lower bound of its annual target range. M3 also has remained subdued. Nondeposit sources of funds substituted for deposits in M3 again in August: Foreign branches and agencies apparently maintained their borrowing from offices abroad.

Growth of bank credit slowed sharply in August, after three months of relatively rapid expansion. A drop-off in loan growth was responsible, as acquisitions of securities by banks strengthened a bit from the reduced pace of July. The weakness in total bank loans in August reflected mainly a fair-sized drop in the volatile security loan component, which had accounted for a significant part of the strength of the preceding three months. Also contributing to last month's weakness was reduced expansion of consumer and real estate loans.

Total private credit appears to be expanding moderately. Borrowing by nonfinancial businesses turned slightly positive in the second quarter, and data for July and August suggest continued expansion. One reason for the recent resumption of business debt growth may be the loosening of credit supplies. Banks--encouraged by improved credit quality, more comfortable capital positions, and an evolving regulatory climate--have been reporting some easing of underwriting standards and, for larger firms, more attractive loan pricing. Nonetheless, for firms with market access, cost or balance sheet considerations still favor raising funds outside the banking system.

Businesses continue to lengthen the maturity of their debt and raise equity in near-record volumes. Nonfinancial corporations have taken advantage of the summer rally by issuing huge amounts of bonds, with most of the proceeds targeted to retiring existing debts, as has been the case all year. Junk bonds have contributed to this surge in issuance, and mutual funds continue to absorb most of the volume. The willingness of investors to accept greater risk in the quest for high returns also has been evidenced by the market's ability to digest large volumes of initial public offerings in both July and August. Meanwhile, for those firms wishing to pick up short-term funds, the commercial paper market has been the source of choice, with issuance by nonfinancial firms easing only somewhat from July's strong pace.

In the household sector, the big story remains refinancings of home mortgages. Well over half of all mortgage applications in August were for refinancing, and the Mortgage Bankers' refinancing index shows another jump in early September. Rates on thirty-year, fixed-rate mortgages are down more than a percentage point since late last year, and some borrowers are refinancing for the second time in the past year. Lower rates are evidently prompting many home equity borrowers to pay off floating-rate credits with the proceeds of new fixed-rate first mortgages. The most recent data on mortgage delinquencies have been mixed, but levels overall remain near the lowest in more than a decade.

Consumer credit rose at an 6 percent annual clip in July, well above the average for the first half. Credit cards and auto loans both contributed to the rise, despite still-wide spreads of rates on these loans relative to other market rates. Delinquency rates on most consumer loan products declined again in the second quarter. Securitizations of consumer loans have been slow in recent months, perhaps because improved capital positions afford banks more leeway to hold the loans on their books.

Gross issuance of tax-exempt securities by state and local governments stayed elevated through August. Refunding issues again accounted for about two-thirds of the volume. Despite the recently adopted increases in marginal tax rates, the near-record volume of offerings has pushed municipal bond rates up relative to those on comparable maturity Treasuries.

Federal financing needs this quarter are being met by the Treasury borrowing about $42 billion, mostly in the coupon sector, and by drawing down its cash balance by about $17 billion. In the August mid-quarter refunding, issuance of thirty-year bonds was boosted to $11 billion, as the Treasury began its scheduled semi-annual auctions of long bonds. Since the most recently auctioned long bond tends to have enhanced value in the repo market, the reduced frequency of these auctions may be part of the reason why the August bond has been trading at 10 to 20 basis points below its nearest neighbor (the May issue) on the yield curve.

Outlook

Since federal funds moved to 3 percent a year ago, yields on thirty-year Treasuries have fallen about 150 basis points. With the inflation outlook still subdued, the staff assumption of an unchanged fed funds rate leaves room for a bit more decline in long rates. Quality spreads should stay narrow, while yields on municipal securities will likely fall relative to Treasuries as tax influences begin to outweigh the recent supply effect.

Low interest rates and moderate economic growth are expected to be accompanied by a gradual pickup in the growth of total credit, especially in the private sectors. In the near term, refinancings are likely to predominate, and gross debt issuance by businesses, households, and governments should remain massive. Net borrowing by businesses and households probably will increase only slightly next year over the levels of the past three years.

Further easing of credit supply conditions should reinforce the demand-side boost to credit growth. In some markets, financing is being augmented by less traditional sources; for example, growth in real estate investment trusts and mortgage backed securities has been helping to restore a measure of liquidity to the commercial real estate market. But depository institutions as well may loosen a bit more. Commercial banks, in particular, are expected to increase their C&I lending, although most business credit will continue to come directly from the capital markets. Businesses seem likely to lengthen the maturity of their debt further, especially if the yield curve flattens more, as expected, and long rates plumb new lows. Similarly, should share prices remain high, equity issuance will continue strong. The corporate financing gap, although projected to widen next year, is expected to remain moderate when compared with past expansions.

Rising housing demand and growth in consumer expenditures, especially on durables, are expected to firm in coming quarters, which should bring a small increase in household debt growth. Consumer credit is projected to pick up somewhat further, although auto leasing will likely continue to divert some flows into the business finance categories. In the mortgage market, many borrowers still have an incentive to refinance; but if, as predicted, rates decline only a little more, the volume may now be peaking. Even though household debt growth during the next year will probably exceed growth in disposable personal income, debt servicing burdens should lighten some more as refinancings and low rates on new borrowing will push down the average interest paid on outstanding loans.

Borrowing by state and local governments for infrastructure financing is expected to sustain moderate debt growth despite the budgetary distress of many jurisdictions and some loan retirements following earlier advance refundings. At the federal level, the outlook remains that debt will grow next year at about the 8 percent rate projected for this year.

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'eptember 15, 1993

CHANGE IN DEBT OF THE DOM. . 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	8.8	8.6	10.7	1.4	10.2	3.6	9.6	9.9
1981	9.7	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.3	9.3
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	9.8	3.2
1983	11.9	18.9	10.1	11.1	10.8	12.6	9.3	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.8	11.7	18.7	15.6	9.1	12.6	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.3	12.2	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.4	4.7
1987	9.4	8.0	9.9	12.3	14.9	5.0	7.1	13.4	8.4	8.0
1988	8.8	8.0	9.0	10.8	11.8	7.2	7.9	7.0	7.9	7.7
1989	7.8	7.0	8.0	9.0	10.2	6.7	7.0	8.4	5.2	6.0
1990	6.3	11.0	4.9	6.2	7.7	1.7	3.4	6.7	4.3	4.7
1991	4.4	11.1	2.4	4.7	6.7	-1.6	-0.9	7.2	0.6	3.7
1992	5.2	10.9	3.3	5.7	6.6	1.2	0.1	6.4	0.7	6.7
1993	4.5	8.1	3.3	4.8	5.4	3.7	0.9	6.0	0.5	4.5
1994	4.8	7.6	3.8	5.6	6.2	5.8	1.4	4.8	1.2	4.8
Quarter (seasonally adjusted annual rates)										
1992:1	5.5	11.7	3.5	5.8	8.2	-1.2	0.4	6.7	3.6	7.4
2	5.0	12.3	2.6	4.2	4.0	-1.8	-0.3	7.1	0.0	5.7
3	5.3	10.2	3.7	5.6	7.5	1.7	0.6	7.6	-0.8	4.6
4	4.5	7.9	3.3	6.8	6.2	6.1	-0.4	3.6	0.2	9.2
1993:1	3.4	7.5	2.0	3.5	4.4	2.5	-1.1	7.1	-6.1	4.4
2	5.6	11.1	3.7	5.4	5.4	3.8	1.1	6.2	1.8	4.2
3	4.0	5.0	3.6	4.9	5.4	3.8	1.9	5.0	0.6	3.5
4	4.8	7.8	3.7	5.3	5.9	4.7	1.6	5.1	1.5	5.8
1994:1	5.2	9.4	3.6	5.3	6.0	5.1	1.4	4.6	1.1	5.4
2	4.6	7.0	3.7	5.6	6.1	5.8	1.3	4.8	0.8	4.7
3	4.5	6.4	3.7	5.5	6.0	5.8	1.5	4.4	1.3	4.6
4	4.7	6.9	3.9	5.6	6.1	6.2	1.6	5.0	1.5	4.5

1. Data after 1993:2 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 4.5 in 1993 and 4.9 percent in 1994.

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

	Calendar year 1991	1992	1993	1994	1993 Q1	Q2	Q3	Q4	1994 Q1	Q2	Q3	Q4
					Seasonally Adjusted Annual Rates							
Net funds raised by domestic nonfinancial sectors												
1 Total	493.8	608 2	560.2	610.6	427.2	699 2	508.7	605.5	655 0	593.8	577 3	616 5
2 Net equity issuance	18.3	26 8	28.0	17.5	27 0	32.0	28.0	25.0	20 0	18.0	16 0	16 0
3 Net debt issuance	475.5	581.4	532.2	593.1	400.2	667.2	480.7	580.5	635.0	575 8	561 3	600 5
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	-12.6	-26.4	27.6	62.4	34.0	25.5	19.2	31.7	43.0	60.6	70.5	75 6
5 Net equity issuance	18.3	26.8	28.0	17.5	27.0	32.0	28.0	25.0	20 0	18.0	16 0	16.0
6 Credit market borrowing	-33.4	2.2	32.1	54 1	-39.9	39.5	70.3	58.3	52 0	48 8	56 2	59 3
Households												
7 Net borrowing, of which:	168.4	215.9	192.4	234.9	139.7	216.8	197.2	215 9	222.5	235 8	237 2	244 2
8 Home mortgages	161.4	170.9	147.8	178.6	120.7	149.8	152.9	167.9	172.7	178 4	178.2	185 0
9 Consumer credit	-13.1	9.3	30.2	49.0	20.0	30.7	31.0	39.0	43 0	49.0	50 0	54 0
10 Debt/DPI (percent)[3]	87.0	86.0	86.4	86.4	87.2	86 6	86.9	86.6	86.6	87 0	87 0	87 1
State and local governments												
11 Net borrowing	62.3	59.4	59 5	50.5	70.9	62.7	51.3	53.2	48.6	51 6	47.5	54 1
12 Current surplus[4]	-47.4	-51.0	-54.8	-60.6	-50.6	-50.7	-56 1	62.0	-60.8	-64 1	-58.8	-58 7
U.S.government												
13 Net borrowing	278.2	304.0	248.2	253.7	229.6	348.2	161.9	253 1	311.9	239 7	220 3	242 9
14 Net borrowing;quarterly, nsa	278.2	304 0	248.2	253 7	59.8	61 1	42.2	85.1	80.2	33 2	57.4	83 0
15 Unified deficit;quarterly, nsa	266.8	326.8	225.7	253.0	62.4	17.8	57 9	87.7	96.0	-2 5	72.0	87 5
Funds supplied by												
16 depository institutions	-38.7	34.9	127.1	132.3	59.3	162.9	149.1	137 1	139.5	104 4	128 5	156 6
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	190.9	189.6	188 8	188 5	189.1	189.8	190.1	189.7	189 6	189 7	189 6	189 8
18 Dom. nonfinancial borrowing	8.3	9.6	8.4	8 9	6.4	10.5	7 5	9.0	9 7	8 7	8 4	8 9
19 U.S. government[5]	4.9	5.0	3.9	3 8	3.7	5 5	2 5	3 9	4 8	3 6	3 3	3 6
20 Private	3.4	4.6	4.5	5.1	2.7	5 0	5.0	5 1	4 9	5 1	5 1	5 3

1. Data after 1993:2 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

Recent Developments

The weighted-average foreign-exchange value of the dollar in terms of other G-10 currencies has decline 3-3/4 percent since the August FOMC meeting. The dollar has declined 6 percent against the mark, as market participants continued to be disappointed by the Bundesbank's pace of easing. The German discount and Lombard rates were each cut 50 basis points on September 10, but the key rate on repurchase agreements used by the Bundesbank in open market transactions was reduced only 10 basis points. Over the intermeeting period, three-month interest rates in Germany have remained about unchanged on balance, similar to U.S. three-month rates. Short-term rates in most other major European countries have moved down, but ERM members have been cautious about exercising their new leeway. German ten-year rates have fallen 20 basis points since the August meeting, less than the 30 basis point decline in comparable U.S. rates.

Against the yen, the dollar has rebounded 5-3/4 percent from its historical low of 100.40 around the time of the August meeting. The dollar appreciated sharply on August 19 following joint intervention purchases of dollars against yen by the Desk and the Bank of Japan and a supporting statement by Treasury Under Secretary Summers. Purchases by the Desk totaled $165 million, half of which was for the System's account. Japanese three-month interest rates have declined 25 basis points, and long-term rates less than 10 basis points since the August FOMC meeting.

Real economic activity in the major foreign industrial countries was sluggish on average in the second quarter and appears to have remained so in the third. In Japan, real GDP fell 1-1/2 percent (annual rate) in the second quarter; industrial production declined slightly in July after falling 1-1/2 percent in the second quarter, and retail sales fell in July for the fourteenth consecutive month. Western Germany reported a surprising 2.3 percent (annual rate) increase in real GDP in the second quarter; most of the increase was accounted for by a build-up of inventories. West German industrial production was flat in the second quarter, and revised data for July are expected to show a decline; however, new orders for manufactured goods picked up in July. In France and Italy, economic activity remains weak, although the rate of decline has slowed.

On the more positive side, the modest economic recovery in the United Kingdom has advanced further, as real GDP rose 2 percent at an annual rate in the second quarter, and retail sales picked up in July and August. In Canada, real GDP expanded at a 3-1/2 percent annual rate in both the first and second quarters, but a significant portion of the second-quarter growth reflected a surge in inventories; early indicators in the third quarter point to a somewhat less robust pace of growth.

Inflation has remained low and fairly steady in most foreign industrial countries. In Japan, however, a temporary surge in fresh food prices pushed the 12-month CPI increase up to 2 percent in August. And in Germany, increases in indirect taxes raised the 12-month rate to nearly 4-1/4 percent in August, but previously strong price pressures in the housing and service sectors have shown signs of abating.

The sluggishness of activity in the major industrial countries contributed to a substantial further widening of the U.S. external deficit in the second quarter, as exports to Europe declined and exports to Japan were flat. Shipments to developing countries in Asia and, to a lesser extent, Latin America grew fairly strongly. Nevertheless, growth in total exports fell well short of the rapid expansion of U.S. imports in the second quarter. The expansion of imports was especially robust in machinery, reflecting the strong growth in domestic spending on producer durable equipment. Overall in the second quarter, the nominal merchandise trade deficit widened by $20 billion to $138 billion at an annual rate. The associated decline in real net exports of goods subtracted about 1 percentage point from the annual rate of growth of real GDP in the second quarter. Other current account transactions remained little changed on balance in the second quarter, so that the current account deficit widened by a similar amount, to $108 billion.

Outlook

We project that the growth rate of real GDP abroad will pick up from 2 percent in the second half of 1993 to 3 percent in 1994. The expansion of U.S. exports should recover somewhat from its recent slowdown, but imports will continue to grow faster than exports. The resulting rate of decline in real net exports of goods and services subtracts between 1/4 and 1/2 percentage point from the annual rate of growth of real GDP over the next six quarters, about the same as was projected in the August Greenbook.

The Dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will appreciate somewhat through the first half of 1994 and remain unchanged thereafter. The starting point for this forecast path is somewhat lower than that in the August Greenbook because of the rise in the mark and other European currencies that has occurred in recent weeks as European interest rates have declined more slowly than had been expected. However, we expect that the dollar will retrace most of its recent decline by mid-1994 as foreign interest rates decline relative to U.S. rates over this 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. We expect real GDP in the G-6 countries (weighted by their shares in U.S. exports) to grow at about a 1-1/4 percent annual rate during the second half of 1993. For several reasons this near-term outlook is somewhat weaker than the previous forecast. First, recent Japanese economic indicators have softened noticeably and suggest little growth in output over the second half of the year. Second, interest rates in continental Europe have declined somewhat more slowly than we had anticipated. Finally, in both Germany and Canada, most of the unexpected strength of real GDP in the second quarter was in inventory accumulation, some of which is likely to be reversed in the second half of the year. In Germany, GDP growth should be slightly negative through the fourth quarter, and in Canada, it should slow somewhat from the strong first-half pace.

As in the August Greenbook, the major industrial countries are projected to show slow-to-moderate growth over the four quarters of 1994. Growth rates in the neighborhood of 1-1/2 to 2 percent are anticipated for continental Europe, 2-1/2 percent for Japan, and 3-1/4 percent for Canada. We continue to expect that the primary impetus to growth will be the recent and projected further monetary easing in most of these countries, as well as some fiscal stimulus in Japan.

Foreign short-term interest rates, on average, are projected to decline roughly 60 basis points from current levels by the fourth quarter of 1993 and an additional 80 basis points during the first half of 1994 before gradually rising in the second half. We expect German rates to fall 200 basis points over this period, French rates to fall somewhat more, and Japanese rates to edge off to about 2.50 percent following a widely expected cut in the Bank of Japan's official discount rate. By mid-1994, these interest rates end up at the same level as projected previously, but some of the projected decline in European rates has been moved from the second half of 1993 to the first half of 1994. Whereas the previous forecast assumed that interest rate cuts in Europe would come sooner as a result of the widening of the ERM margins, behavior to date suggests that caution will prevail. Long-term interest rates in the major foreign countries should decline on average about 30 basis points over the forecast period.

CPI inflation in the major foreign countries is projected to average about 2-1/2 percent this year and next. Increased economic slack should help to reduce western Germany's inflation rate to 2-1/2 percent in 1994, while inflation in the United Kingdom is expected to rebound somewhat from a level this year that has been depressed by falling mortgage interest rates.

Developing countries. The growth of real GDP in developing countries that are major U.S. trading partners (weighted by their shares in U.S. exports) is projected to increase slightly to 4-1/4 percent in 1993 and to 4-1/2 percent in 1994. In most cases, the pickup in growth is attributable to more stimulative macroeconomic policies and rising growth in industrial countries. In Mexico, however, we expect real GDP growth has slowed to less than 2 percent in 1993 because of a tightening of macroeconomic policies and concerns about the approval of NAFTA by the U.S. Congress. Our working assumption has for some time been that NAFTA will be approved, and that growth in Mexico will rise to nearly 3 percent in 1994. However, recent press reports have suggested that the chances for approval of NAFTA are becoming more tenuous. Should the Agreement be rejected, the anticipated pickup in Mexico's GDP growth next year would become problematic and the Mexican peso would likely come under pressure, further depressing U.S. exports to that country.

U.S. real net exports. We project that real net exports of goods and services will decline $6 billion at an annual rate over the second half of 1993 and another $20 billion during 1994. The outlook for 1994 is similar to that projected in August despite some changes in underlying factors.

The quantity of merchandise exports is projected to grow at a 4-1/2 percent rate in the third quarter and a 6-3/4 percent rate over the rest of the forecast period. Estimated growth for the current quarter has been revised down because of unexpectedly slow shipments of the major agricultural commodities. Exports of computers in real terms, after having been relatively depressed earlier this year by weak demand in key European markets, are expected to return to more rapid rates of growth over the year ahead. We project other exports to continue growing moderately. Although the recent depreciation of the dollar will provide some stimulus to export growth, we expect that stimulus to diminish over time, offsetting the positive effects of the projected pickup in economic growth abroad.

The persistently strong growth in the quantity of imports (excluding oil) in recent quarters has led us to revise up somewhat their projected growth over the forecast period. While the

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	7.0	14.2	-6.3	4.3	4.6	6.6	6.8
Agricultural	30.1	3.0	-21.4	2.1	-6.3	4.9	-0.6
Computers	27.6	33.2	-3.5	8.9	14.0	23.9	29.3
Other nonag.	1.7	12.7	-4.7	3.9	4.4	4.0	3.6
Imports							
Total	10.3	6.8	12.3	16.0	5.8	7.2	9.0
Oil	12.1	-2.2	4.6	36.3	-18.0	-12.1	7.6
Computers	65.5	27.3	32.0	36.4	29.6	28.7	26.3
Other non-oil	3.5	5.1	10.1	10.3	5.3	5.9	5.6

* GDP basis, 1987 dollars.

expansion of these imports should slow significantly from the elevated pace seen during the first half of 1993, that growth will remain high relative to the growth of total domestic expenditures, for several reasons. First, while imports of computers are expected to keep pace with the rapid growth of domestic expenditures on computers, this rapidly growing sector accounts for a much larger share of imports than it does of total domestic expenditures. Second, in recent decades, other imports have grown 1-1/2 to 2 times as fast as U.S. GDP, and they are expected to continue to do so. Third, when economic activity abroad slows, foreign producers tend to place greater emphasis on selling in the U.S. market; our expectation that output gaps in major foreign industrial countries will widen somewhat further over the year ahead on average suggests additional stimulus to imports from this source.

We expect that the quantity of oil imports will decline in the third and fourth quarters after the heavy stockbuilding that took place in the second quarter. Over the remainder of the forecast period, imports are likely to continue on an upward trend as U.S. oil production continues to decline.

Oil Prices. Since the August Greenbook, spot oil prices have declined roughly $1.00 per barrel. OPEC production continues strong, especially in Kuwait, Iran, and Saudi Arabia. With the near-term futures contract for West Texas Intermediate now trading around $16.75 per barrel, we have lowered the assumed path of the oil import unit value (relative to that in the August Greenbook) by $0.35 per barrel for the fourth quarter of 1993.

We expect that oil prices will strengthen somewhat over the next several months as OPEC reins in production after the late-September ministerial and as foreign economic activity picks up. Our projection is consistent with the near-term futures contract for WTI reaching $19.50 by year-end. As in the previous forecast, prices are assumed to remain at that level (consistent with an import unit value of $17.00 per barrel) through 1994. Our judgment remains that Iraq will not reenter the world oil market until after 1994.

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

	1992		1993				1994
					--- Projection	---	
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
PPI (ESP. wts.)	3.3	-1.1	1.8	2.4	-0.3	2.2	1.8
Nonag. exports*	1.7	0.7	0.8	3.0	-0.3	1.8	1.7
Non-oil imports*	4.3	2.0	-2.7	3.5	0.8	3.0	2.4
Oil imports (level, $/bl)	18.54	17.89	16.44	17.07	15.45	15.90	17.00

* Excluding computers.

Prices of non-oil imports and exports. The somewhat lower path for the dollar in the near term has led us to revise up the projected rate of increase in non-oil import prices over the next several months. We expect these prices (excluding computers) to rise at a 3 percent annual rate in the fourth quarter and

2-1/2 percent during 1994. The increase in prices of U.S. nonagricultural exports (excluding computers) should move over time in line with increases in U.S. producer prices.

Nominal trade and current account balances. The merchandise trade deficit is projected to remain near its second-quarter average annual rate of $137 billion through year-end, and then to rise to $165 billion by the end of 1994. We expect that net service receipts will continue to expand slowly, from the annual rate of $59 billion recorded in the second quarter of 1993 to $66 billion by the end of 1994. Investment income payments are expected to exceed investment income receipts by a small but increasing margin over the forecast period. The net effect on the current account of these developments is a projected deterioration of nearly $15 billion over the second half of 1993 and another $20 billion during 1994, to reach an annual rate of $142 billion by the end of 1994; this deficit is $20 billion larger than presented in the August Greenbook, primarily because of a higher projected value of merchandise imports.

September 15, 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	3.3
France	1.3	0.6	-0.6	2.1
Western Germany	2.7	0.0	-1.5	1.6
Italy	1.7	-0.2	0.5	1.9
Japan	3.0	0.0	0.4	2.4
United Kingdom	-1.5	0.3	2.0	2.3
Average, weighted by 1987-89 GDP	1.6	0.2	0.4	2.2
Average, weighted by share of U.S. nonagricultural exports				
Total foreign	1.7	1.2	2.0	3.0
G-6	0.8	0.4	1.5	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	3.4	2.4
Italy	6.1	4.8	4.4	4.7
Japan	3.2	0.9	1.9	1.2
United Kingdom	4.2	3.1	1.8	3.7
Average, weighted by 1987-89 GDP	3.9	2.4	2.5	2.4
Average, weighted by share of U.S. non-oil imports	3.8	1.9	2.1	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$)	-60.8	-58.9	-62.2	-36.8	-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-73.7	-54.7	-19.1
Exports of G+S	501.8	511.1	508.6	520.4	519.4	542.9	546.9	564.2	571.0	570.2	471.8	510.5	543.4
Merchandise	364.3	370.4	366.4	374.6	381.6	396.1	398.2	410.7	414.4	415.9	343.8	368.9	396.7
Services	137.5	140.7	142.2	145.8	137.8	146.8	148.7	153.5	156.6	154.2	128.0	141.6	146.7
Imports of G+S	562.6	570.0	570.7	557.2	541.0	556.2	571.9	580.7	586.2	608.2	545.4	565.1	562.4
Merchandise	459.6	466.5	466.4	453.1	442.1	457.2	474.6	481.7	486.8	509.0	450.4	461.4	463.9
Oil	55.9	55.5	53.3	43.5	44.7	52.0	52.9	47.1	47.3	51.6	51.3	52.1	49.2
Non-oil	403.7	410.9	413.1	409.6	397.5	405.2	421.7	434.7	439.6	457.4	399.1	409.3	414.8
Services	103.0	103.5	104.3	104.1	98.9	99.1	97.3	98.9	99.3	99.2	95.1	103.7	98.5
Memo: (Percent change 1/)													
Exports of G+S	12.1	7.6	-1.9	9.6	-0.8	19.4	3.0	13.3	4.9	-0.6	11.5	6.8	8.7
of which: Goods	11.1	6.9	-4.3	9.3	7.7	16.1	2.1	13.2	3.7	1.5	10.6	5.8	9.8
Imports of G+S	5.6	5.4	0.5	-9.1	-11.1	11.7	11.8	6.3	3.8	15.9	2.7	0.6	4.7
of which: Non-oil Goods	-3.1	7.3	2.2	-3.3	-11.3	8.0	17.3	12.9	4.6	17.2	3.2	0.8	6.7
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.

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

(Billions of dollars, seasonally adjusted annual rates)

	1992		1993		Projection 1993		Projection 1994				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994
GDP Net Exports of Goods and Services (87$)	-42.5	-38.8	-59.9	-73.1	-77.2	-79.2	-83.1	-90.7	-94.9	-98.5	-33.6	-72.4	-91.8
Exports of G+S	579.3	591.6	588.0	595.0	599.4	607.7	615.9	624.4	633.7	643.6	578.0	597.5	629.4
Merchandise	423.0	437.3	430.2	434.7	439.6	446.7	453.8	461.1	468.8	477.0	422.7	437.8	465.2
Services	156.3	154.3	157.8	160.3	159.8	160.9	162.1	163.3	164.8	166.6	155.4	159.7	164.2
Imports of G+S	621.8	630.3	647.9	668.1	676.6	686.9	699.0	715.2	728.6	742.1	611.6	669.9	721.2
Merchandise	521.6	530.3	545.9	566.5	574.6	584.6	596.1	611.4	624.2	637.0	511.9	567.9	617.2
Oil	53.1	52.8	53.4	57.7	54.9	53.2	53.1	56.6	57.2	57.2	51.2	54.8	56.0
Non-oil	468.5	477.6	492.5	508.8	519.7	531.5	543.0	554.8	567.0	579.8	460.8	513.1	561.1
Services	100.1	100.0	102.0	101.6	102.0	102.2	102.9	103.7	104.4	105.1	99.6	102.0	104.0
Memo: (Percent change 1/)													
Exports of G+S	6.5	8.8	-2.4	4.8	3.0	5.7	5.5	5.6	6.0	6.4	4.9	2.8	5.9
of which: Goods	7.0	14.2	-6.3	4.3	4.6	6.6	6.5	6.6	6.8	7.2	6.6	2.3	6.8
Imports of G+S	9.2	5.6	11.6	13.1	5.2	6.2	7.3	9.6	7.7	7.6	8.6	9.0	8.0
of which: Non-oil Goods	10.1	8.0	13.1	13.9	8.8	9.4	8.9	9.0	9.1	9.3	10.0	11.3	9.1
Current Account Balance	-71.1	-94.7	-89.2	-107.7	-106.4	-121.8	-119.1	-130.2	-130.6	-141.6	-66.4	-106.3	-130.4
Merchandise Trade, net	-110.4	-103.8	-117.2	-137.5	-134.3	-139.0	-146.8	-154.7	-160.2	-165.7	-96.1	-132.0	-156.9
Exports	438.0	456.0	446.1	452.5	455.3	457.7	464.3	470.3	476.3	482.5	440.1	452.9	473.4
Agricultural	44.7	45.5	43.4	43.2	41.7	42.3	42.5	42.5	42.4	42.8	44.0	42.6	42.6
Nonagricultural	393.3	410.4	402.7	409.4	413.6	415.3	421.8	427.8	433.9	439.7	396.1	410.2	430.8
Imports	548.4	559.8	563.4	590.1	589.6	596.6	611.2	625.0	636.6	648.2	536.3	584.9	630.2
Oil	57.2	54.9	51.0	57.2	49.3	49.2	52.5	55.9	56.5	56.5	51.6	51.7	55.4
Non-oil	491.2	505.0	512.3	532.8	540.3	547.4	558.6	569.1	580.0	591.7	484.7	533.2	574.9
Other Current Account	32.5	12.3	28.2	30.9	28.4	25.2	31.1	32.2	33.8	30.9	23.5	28.2	32.0
Invest. Income, net	6.8	-3.2	-0.2	-1.1	-0.5	-8.0	-3.3	-7.6	-4.2	-6.8	6.2	-2.4	-5.5
Direct, net	47.1	40.8	45.2	44.6	42.4	39.4	41.4	41.2	42.0	43.6	48.3	42.9	42.1
Portfolio, net	-40.3	-44.0	-45.3	-45.7	-42.9	-47.4	-44.7	-48.8	-46.2	-50.4	-42.0	-45.4	-47.5
Military, net	-2.5	-3.3	-0.6	0.1	-1.0	-0.6	-0.4	-0.2	0.2	0.6	-2.8	-0.5	0.0
Other Services, net	63.6	57.1	59.1	59.1	59.6	60.8	61.9	62.8	64.0	65.5	59.2	59.7	63.5
Transfers, net	-28.6	-41.4	-30.3	-28.3	-30.2	-35.0	-30.4	-30.4	-30.4	-35.2	-32.9	-31.0	-31.6

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