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Strictly Confidential (FR) Class II FOMC

March 17, 1994

SUMMARY AND OUTLOOK

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

Overview

Severe weather has probably caused at least a modest loss of income and output in the past two months. Even so, real GDP appears to be posting a further, considerable advance this quarter, boosted importantly by another big gain in motor vehicle production. Utilization rates for both labor and industrial plant are estimated to have inched still higher, by our assessment leaving only a small margin of disinflationary slack in the economy.

The maintenance of favorable price trends is thus likely to require an early moderation of output expansion from the average pace of more than 3 percent of the past year. In the near term, a step-down in motor vehicle assemblies from the high level in the first quarter is expected to damp growth appreciably; but over subsequent quarters, movement toward less accommodative monetary policy is likely to be needed to hold aggregate demand on a track consistent with containment of inflationary pressures. The staff forecast is predicated on an assumption of a gradual rise in short-term rates and only a partial reversal of the backup in longer term rates that has occurred since last fall.

In broad summary, we project that real GDP growth averaging about 2-1/2 percent in 1994-95 will be consistent with unemployment running just above 6-1/2 percent and manufacturing capacity utilization remaining below 83 percent. If, as we assume, inflation expectations move down closer to the actual experience of the past few years, labor costs will likely remain subdued and core CPI inflation will probably be less than 3 percent (compared with just over 3 percent in 1993). However, less favorable food and energy price patterns are expected to cause the overall CPI to rise about 3 percent in 1994 and 1995, somewhat above the pace of 1993.

Key Assumptions

We have assumed that the federal funds rate will rise to the same level in this projection as in the last but, in view of the recent FOMC action, that the increase will occur more quickly. The recent sharp runup in longer-term rates has been an even bigger departure from our previous expectations, and the lack of a complete explanation for this development contributes uncertainty to the course of interest rates going forward. We are inclined to think that emergence of a larger inflation premium, per se, can explain relatively little of the recent rise in bond yields. It is conceivable, however, that the surprising strength of the economy late last year and the willingness of the Federal Reserve to tighten in advance of clear evidence of higher inflation have persuaded traders that real short-term rates are likely to move higher, perhaps for longer, than they had previously assumed.

However, we think it unlikely that "fundamentals" and rational reassessments of economic trends alone can account for the runup in rates that has occurred. Rather, it seems probable that a good many traders had built sizable long positions, some on a highly leveraged basis, based more on a strategy of simply going with the prevailing bull market trends in stocks and bonds here and abroad. As their gains evaporated or losses began to mount, they felt pressure to cut or to close out their positions; this process may have fed on itself, resulting in market dynamics that led to an "overshooting." On that interpretation, we have assumed that some reversal of the bond yield rise will occur in coming months--as Fed policy actions provide no major surprises and incoming economic data confirm that activity has decelerated and inflation remains in check. Nonetheless, we are assuming that the higher nominal long-term rates in our current forecast also represent somewhat higher real rates.

Growth rates of M2 and M3 are expected to edge up over 1994 and 1995. This pickup, even as nominal income growth slows and short-term interest rates and opportunity costs rise, reflects our judgment that the pace of adjustment of household portfolios out of M2 into capital market instruments will abate. The recent backup in bond yields and decline in stock prices may curb appetites for these riskier assets, as seems to be evident in the recent weakness of inflows to stock and bond funds. A modest rise in depository credit, as the runoff in thrift credit ends, and reduced use of nondeposit funding should support slightly faster M3 growth. The velocities of M2 and M3 are anticipated to continue increasing in 1994 and 1995, but at a progressively slower pace.

The staff's fiscal policy assumptions are little changed from those in the previous Greenbook. The unified budget deficit is projected to fall from $255 billion in FY1993 to $221 billion in FY1994 and $207 billion in FY1995. The deficit projected for next year has been revised up $15 billion, reflecting in part higher interest payments associated with the changes in the outlook for interest rates. As before, we are assuming that any enacted health care legislation will not have material effects during the forecast period. Similarly, the Administration's proposal for welfare reform faces an uncertain legislative outcome, and even if passed without a substantial delay, its budgetary effects would be only minor through 1995.

Our forecast of economic activity abroad is little changed from that in the January Greenbook. After an increase of about 2 percent in 1993, foreign real GDP (on an export-weighted basis) is projected to rise 2-3/4 percent in 1994 and 3-1/2 percent in 1995. The trade-weighted value of the dollar in terms of other G-10 currencies has edged down since the last FOMC meeting but is anticipated to hold steady at recent levels over the forecast period. Crude oil prices have dropped further, and we expect the WTI spot price to average about $15 per barrel in the first quarter, $1.50 below the fourth-quarter level. However, growth of world demand and some production restraint by OPEC are anticipated to push the spot price back up to $17.50 per barrel by this summer, where it is expected to remain through 1995.

Current-quarter Economic Activity

We are now forecasting real GDP growth of 3-1/4 percent this quarter, still above potential but well below the elevated (and upwardly revised) 7-1/2 percent rate of increase in the fourth quarter. The marked step-down in growth appears to be widespread, with significant slowing coming from goods consumption, housing, producers' durable equipment (aside from motor vehicles), and exports. The latter two categories were unusually strong late last year. Based in part on the declines of orders and shipments of nondefense capital goods excluding aircraft in January, real PDE growth is expected to slow to a 13-1/2 percent annual rate this quarter from the 25 percent pace reported in the fourth quarter. With regard to trade, the surge in exports recorded last quarter is not anticipated to recur.

Adverse weather conditions in January and February appear to have hit consumer spending and construction especially hard. The level of real consumption of goods is estimated to have been less than 1/4 percentage point higher in February than in December; the weakness appears to reflect not only the direct effects of weather disruptions but also some softening of demand for discretionary items as households were confronted with outsized winter heating bills. Of course, the higher spending for electricity and natural gas provided a significant boost to real consumption of services.

On balance, real PCE growth is expected to slow to a 2-1/2 percent annual rate this quarter--about half the pace of the fourth quarter.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, at annual rates, unless otherwise noted)

	1993		1994	
	Q3	Q4	Q1	Q2
Real GDP	2.9	7.5	3.2	2.5
Previous	2.9	5.9	4.0	3.0
Memo:				
Contribution of motor vehicle production	-0.9	2.2	1.5	-1.6
Previous	-0.9	2.3	0.9	-0.9
Civilian unemployment rate (percent)[1]	6.7	6.5	6.5	6.6
Previous	6.7	6.5	7.0	6.9
CPI inflation	2.0	3.1	2.1	3.6
Previous	1.4	2.8	3.6	3.6

1. Values for 1993 are from the old CPS.

Construction activity, especially residential building, also has been restrained by bad weather. Even allowing for a substantial rebound of housing starts in March from the depressed rate in January and February, the first-quarter average is expected to be down noticeably from the rate in the fourth quarter. Nevertheless, residential construction expenditures are expected to grow at close to a 10 percent rate reflecting the increase in starts late last year.[1]

In contrast to the restraining effects of weather, production of autos and light trucks is likely to add 1-1/2 percentage points to GDP growth in the first quarter. The step-up in production this quarter is transitory, however, and we see it being fully reversed in the second quarter. Motor vehicle inventories had been drawn down to unusually low levels late last year, and part of the bulge

1. Our estimate of residential construction outlays reflects the fixed monthly pattern that BEA uses to translate single-family housing starts into expenditures. In fact, the actual rate of progress on starts may have been retarded by inclement weather.

in production is being used to bring stocks back into a more normal alignment with sales. (This rebuilding of stocks more than explains the 3/4-percentage-point contribution that overall inventory accumulation is expected to make to GDP growth this quarter.) Motor vehicle production is also being temporarily boosted to satisfy fleet orders that had been delayed by earlier supply shortages.

In conjunction with the apparent continued above-trend growth of GDP, resource utilization rates have risen further in recent months. Manufacturing IP is projected to grow at an 8 percent annual rate this quarter, boosting capacity utilization a full percentage point to 82-1/2 percent. Labor demand appears to have grown moderately so far this year despite the weather-related disruptions. Although recent movements in the unemployment rate are difficult to gauge because of some technical considerations (discussed more fully in part 2 of the Greenbook), we estimate that the unemployment rate fell 0.2 percentage point between December and February when measured on a consistent basis.

Recent news on prices and wages shows no clear sign that the reduced margin of slack has begun to generate any general inflation pressures. In fact, the CPI in recent months has been better than expected, and we have lowered the first-quarter projection of the rate of increase of the CPI by 1-1/2 percentage points to about 2 percent. With regard to labor costs, as noted in the last Greenbook, the growth rate of the employment cost index for private industry hourly compensation remained near 3-1/2 percent (annual rate) in the fourth quarter, and productivity growth last year is now measured at nearly 2 percent. A slight cautionary note may be indicated by the recent pickup in the growth rate of average hourly earnings, but this measure of wage rates is somewhat volatile.

The Longer-run Outlook for the Economy

Growth of real GDP is projected to average 2-1/2 percent over the next two years, 3/4 percentage point less than the rate of growth in 1993. This slowing is more than attributable to less rapid expansion of major interest-sensitive spending categories - residential construction, producers' durable equipment, and consumer durables; the stimulus from earlier declines in interest rates should be waning, and spending is expected to be retarded by the projected path of higher rates. Working in the opposite direction, the restraint on growth from net exports diminishes somewhat, and the pace of federal spending cutbacks is also projected to diminish. Even though the trade and federal sectors are expected to exert less drag, their continued declines do restrain overall demand relative to potential and thereby lessen the magnitude of the increase in interest rates needed to bring GDP growth down to potential.

Consumer spending. We expect consumption to be a neutral factor in the forecast, with both real PCE and disposable income growing about 2-1/4 percent per year and the saving rate averaging 4 percent.[2] In particular, spending on consumer durables, which advanced rapidly over the past two years, is expected to slow markedly as stock-adjustment motives diminish and higher interest rates exert some restraint. Moreover, forces that appear to have boosted consumption and imparted a downward trend to the saving rate over the past decade, such as upward movements in the ratio of wealth to income and additional liquidity gained from mortgage

2. The quarterly pattern projected for the saving rate has some ups and downs because of BEA's decision to record in the second quarter of each year all tax payments associated with the retroactive increase in 1993 tax liabilities, which may be spread over the next three years. Because we have assumed that the effect of these taxes on consumption is more even, the personal saving rate is projected to drop temporarily in the second quarter of 1994 and 1995.

refinancings, are not expected to continue over the projection period.

SUMMARY OF STAFF PROJECTIONS FOR 1994-95
(Percent change, Q4 to Q4, unless otherwise noted)

	1993	1994	1995
Real GDP	3.2	2.7	2.3
Previous	2.8	3.0	2.4
Real PCE	3.3	2.3	2.2
Previous	3.1	2.4	2.3
Real BFI	15.0	10.7	9.1
Previous	14.7	11.5	8.7
Civilian unemployment rate (percent)[1]	6.5	6.6	6.6
Previous	6.5	6.8	6.8

1. Average for the fourth quarter. The value for 1993 is from the old CPS.

Residential investment. Although the surge in residential construction at the end of 1993 has been blunted by bad weather in January and February, we expect the "lost" starts to be made up by the end of the second quarter. Mortgage interest rates are expected to average higher in this Greenbook over the projection period, and we have adjusted down somewhat our starts projection through 1995. Nevertheless, with cash flow affordability near a twenty-year high and with the prospects good for continued growth in employment and incomes, housing starts are expected to run only a bit below the 1-1/2 million unit rate recorded in the fourth quarter. Even with the anticipated leveling of starts, the projected total in each of the next two years would be higher than that in any year since 1988, and the expected pace of single-family starts--1-1/4 million units--would be the highest since the late 1970s.

Business fixed investment. After an 18-1/2 percent increase in 1993, real PDE is expected to slow to a growth rate of 12-1/2 percent this year and 10 percent next year. Several factors have contributed to the rapid advance of PDE over the past few years: Technological change has been pushing down prices of computers and other "high tech" equipment; declining interest rates and the strong performance of the stock market have lowered the cost to firms of external funds; and strong output growth has both stimulated the need for additional capacity and, by boosting cash flow, increased firms' ability to finance higher investment out of internal funds. Looking ahead, only further improvements in computer technology and accompanying declines in prices are likely to continue to sustain PDE growth well in excess of that of GDP. This is reflected in the projected composition of PDE growth. Business spending on office and computing equipment is anticipated to advance about 27 percent this year and next, whereas the rate of increase of outlays for other types of equipment slows to 3 percent by next year.

Real investment in nonresidential structures is projected to rise at a 5-3/4 percent annual rate over the next two years, with healthy advances expected for most types of structures. One exception is office construction, for which we expect spending to be about flat over the next two years. Indications are that this segment has finally stabilized after declining in seven of the past eight years.

Business inventories. As noted earlier, some stockbuilding is taking place this quarter as auto manufacturers raise their inventories to a more normal level relative to sales. Looking ahead, however, the logic underlying our forecast remains one in which firms will continue efforts to reduce inventory costs, and we thus expect the stock of nonfarm inventories to grow a bit more slowly than sales. In the farm sector, where inventories fell in 1993 because of production losses from flood and drought, stocks are anticipated to start increasing later this year as production rebounds to a more normal level.

Government purchases. After a decline of 6-1/2 percent in 1993, real federal purchases are projected to fall 4 percent this year and 2-3/4 percent next year. All of the projected decline reflects cuts in defense spending. Consistent with OBRA-93, real nondefense purchases are expected to be flat this year and to edge up just slightly in 1995.

Real state and local purchases are expected to grow 2-1/2 percent both this year and in 1995--about the same as overall GDP. Although these governmental entities still face budgetary problems, constituents are pressing demands for increased government services, especially in law enforcement and education. In these circumstances, we expect that states and localities in the aggregate will make only modest progress this year and next in reducing their large deficits in operating and capital accounts.

Net exports. A gradual pickup in GDP growth abroad, combined with the moderation in the growth of U.S. domestic final demand, is expected to slow the rate of decline in real net exports. After having widened by an amount equal to nearly 1 percent of real GDP in 1993, the deficit on real net exports is projected to widen about 2/3 percentage point of real GDP during 1994 and a bit more than 1/3 percentage point of real GDP during 1995. (A complete discussion of these developments is contained in the International Developments section.)

Labor markets. With output growth projected to average near potential after the current quarter, the unemployment rate is anticipated to level off just above 6-1/2 percent, abstracting from technical adjustments to the quarterly pattern that result from biases in the new household employment survey. Based on discussions with BLS staff, we think that the measured unemployment rate from the new survey is biased down about 1/4 percentage point in the first quarter and will be biased up by a similar magnitude in the third quarter.[3] On balance, the unemployment rate is expected to average about 1/4 percentage point less than anticipated in the last Greenbook and to be not significantly different from our 6-1/2 percent estimate of the NAIRU.

The growth of labor productivity in the nonfarm business sector is now shown to have been nearly 2 percent during 1993, compared with our estimate of trend productivity growth of a bit less than 1-1/2 percent. The above-trend growth last year is broadly consistent with the historical relationship between labor hours and output--that is, the level of output per hour rises above trend well into an expansion. Growth of output per hour is projected to be less than trend over the next two years, reflecting the typical cyclical pattern in which the level of productivity moves back toward its trend level as an expansion matures.

Prices and wages. On the price front, information received since the last FOMC meeting has generally been favorable, especially the readings on the CPI. For the current quarter, we have revised down our forecast of the CPI excluding food and energy about 3/4 percentage point and, with energy and food prices also coming in well below expectations, the overall CPI has been revised down 1-1/2 percentage points. In the absence of any special factors to explain the positive price developments, we have let some of the first-quarter improvement pass through into a lower rate of inflation for

3. The unemployment rate projection for 1995 assumes that BLS will have corrected the technical biases in the new survey by then. Another factor affecting the unemployment rate this year, the ending of the Emergency Unemployment Compensation (EUC) program, is expected to contribute 0.1 percentage point reduction to the unemployment rate between February and April.

1994 as a whole. However, we have not made a larger adjustment to the inflation outlook in light of the somewhat higher level of resource utilization.

SUMMARY OF STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1993	1994	1995
Consumer price index	2.7	3.0	3.1
Previous	2.7	3.3	3.1
Excluding food and energy	3.1	2.9	2.9
Previous	3.1	3.0	2.9
ECI for compensation of private industry workers[1]	3.6	3.6	3.6
Previous	3.6	3.5	3.5

1. December to December.

Looking at the broader contour of the inflation projection, the core CPI is projected to rise slightly less than 3 percent in both 1994 and 1995, compared with an increase of just above 3 percent last year. Although the projection of this measure of inflation for 1995 is the same as in the last Greenbook, our view of the factors shaping the contour of the inflation outlook has changed a bit. In the last Greenbook, we thought that sufficient slack would remain in the economy through next year to cause core inflation to continue to edge down; this time, we appear to be starting from a little lower level of core inflation, but it is accompanied by higher rates of resource utilization that make further declines in inflation less likely.

In contrast to the core CPI, inflation measured by the total CPI is expected to increase to about 3 percent in 1994 and 1995 from 2 3/4 percent in 1993. The pickup reflects the projected firming in crude oil prices and a faster pace of food price inflation as a consequence of crop losses from last year's flood and drought.

ECI hourly compensation is expected to increase a bit more than 3-1/2 percent in both 1994 and 1995--about the same pace as in the preceding two years. The projection has been raised just a tad over that in the last Greenbook in light of the slightly tighter state of labor markets.

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

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	1/28/94	3/16/94	1/28/94	3/16/94	1/28/94	3/16/94	1/28/94	3/16/94	1/28/94	3/16/94
ANNUAL										
1991[2]	3.2	3.2	-.7	-.7	4.1	4.1	4.2	4.3	6.7	6.7
1992[2]	5.5	5.5	2.6	2.6	3.3	3.3	3.0	3.0	7.4	7.4
1993[2]	5.6	5.6	2.9	3.0	3.1	3.1	3.1	3.0	6.8	6.8
1994	5.8	5.7	3.6	3.6	2.9	2.7	3.0	2.8	6.9	6.6
1995	4.7	4.8	2.4	2.4	2.9	3.0	3.1	3.2	6.8	6.6
QUARTERLY										
1992 Q1[2]	7.4	7.4	3.5	3.5	4.2	4.2	3.5	2.6	7.3	7.3
Q2[2]	5.7	5.7	2.8	2.8	3.4	3.4	2.9	3.5	7.5	7.5
Q3[2]	4.6	4.6	3.4	3.4	2.5	2.5	2.9	2.9	7.5	7.5
Q4[2]	9.2	9.2	5.7	5.7	3.1	3.1	3.2	3.5	7.3	7.3
1993 Q1[2]	4.4	4.4	.8	.8	4.3	4.3	3.7	2.8	7.0	7.0
Q2[2]	4.3	4.3	1.9	1.9	2.8	2.8	2.8	3.1	7.0	7.0
Q3[2]	4.4	4.4	2.9	2.9	2.1	2.1	1.4	2.0	6.7	6.7
Q4[2]	7.4	8.8	5.9	7.5	2.2	2.3	2.8	3.1	6.5	6.5
1994 Q1	7.2	5.7	4.0	3.2	3.7	2.9	3.6	2.1	7.0	6.5
Q2	5.3	5.0	3.0	2.5	2.9	2.9	3.6	3.6	6.9	6.6
Q3	4.7	5.0	2.5	2.7	2.7	2.8	3.0	3.4	6.9	6.8
Q4	4.5	4.7	2.4	2.4	2.6	2.8	2.8	3.0	6.8	6.6
1995 Q1	5.1	5.1	2.4	2.3	3.3	3.4	3.4	3.4	6.8	6.6
Q2	4.6	4.6	2.4	2.3	2.8	2.8	3.1	3.1	6.8	6.6
Q3	4.5	4.4	2.5	2.4	2.7	2.7	2.9	2.9	6.8	6.6
Q4	4.4	4.3	2.5	2.4	2.7	2.7	2.9	2.9	6.8	6.6
TWO-QUARTER[3]										
1992 Q2[2]	6.6	6.6	3.2	3.2	3.9	3.9	3.2	3.0	.5	.5
Q4[2]	6.9	6.9	4.6	4.6	2.8	2.8	2.9	3.2	-.2	-.2
1993 Q2[2]	4.3	4.3	1.3	1.3	3.4	3.4	3.4	3.1	-.3	-.3
Q4[2]	5.9	6.6	4.4	5.2	2.2	2.2	2.0	2.4	-.5	-.5
1994 Q2	6.2	5.3	3.5	2.8	3.3	2.9	3.6	2.8	.4	.1
Q4	4.6	4.8	2.4	2.5	2.7	2.8	2.9	3.2	-.1	.0
1995 Q2	4.8	4.9	2.4	2.3	3.1	3.1	3.2	3.2	.0	.0
Q4	4.5	4.4	2.5	2.4	2.7	2.7	2.9	2.9	.0	.0
FOUR-QUARTER[4]										
1991 Q4[2]	3.7	3.7	.3	.3	3.6	3.6	3.0	3.0	1.0	1.0
1992 Q4[2]	6.7	6.7	3.9	3.9	3.3	3.3	3.1	3.1	.3	.3
1993 Q4[2]	5.1	5.5	2.8	3.2	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.4	5.1	3.0	2.7	3.0	2.8	3.3	3.0	.3	.1
1995 Q4	4.6	4.6	2.4	2.3	2.9	2.9	3.1	3.1	.0	.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.

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

Item	Unit[1]	1987	1988	1989	1990	1991	1992	1993	Projected 1994	Projected 1995
EXPENDITURES										
Nominal GDP	Bill. $	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6379.4	6745.1	7066.7
Real GDP	Bill. 87$	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5137.7	5322.6	5449.7
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.9	3.2	2.7	2.3
Gross domestic purchases		3.9	2.5	.9	-.4	-.2	4.3	4.1	3.3	2.7
Final sales		2.7	4.2	1.5	1.2	-.3	3.8	3.1	2.4	2.3
Private dom. final purch.		1.9	4.2	.5	-.1	-.7	5.0	5.0	3.7	3.1
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.0	3.3	2.3	2.2
Durables		-2.6	8.5	-.5	-.8	-.4	9.7	8.0	2.1	2.4
Nondurables		1.4	3.2	1.2	-.1	-1.3	3.6	1.9	2.1	1.9
Services		3.7	3.7	1.7	1.7	.9	2.8	2.9	2.5	2.2
Business fixed invest.		3.0	5.5	-.4	.7	-6.3	7.4	15.0	10.7	9.1
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.3	11.4	18.5	12.4	10.0
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.6	-2.0	5.6	5.3	6.2
Res. structures		-3.1	.9	-7.7	-15.2	1.6	17.6	7.7	5.6	-.8
Exports		12.6	13.5	11.3	6.7	8.4	4.9	4.8	5.0	7.7
Imports		4.7	3.6	2.6	.4	4.2	8.5	11.7	9.4	9.2
Government purchases		3.3	.2	2.0	3.3	-.7	1.1	-.5	.1	.6
Federal		3.7	-3.4	-.6	2.8	-3.7	.4	-6.5	-4.0	-2.8
Defense		4.5	-3.2	-1.5	1.5	-7.3	-1.4	-8.9	-6.0	-4.6
State and local		2.9	2.9	4.0	3.6	1.5	1.6	3.4	2.6	2.5
Change in bus. invent.	Bill. 87$	26.3	19.9	29.8	5.7	-8.4	6.5	15.5	22.6	28.0
Nonfarm		32.7	26.9	29.9	3.2	-8.6	2.7	20.9	22.5	25.5
Net exports		-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-76.4	-107.0	-132.2
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.7	6.7	5.5	5.1	4.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.5	110.2	112.3	114.2
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.6	6.6
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.3	4.1	3.0
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.6	80.6	82.6	82.7
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.29	1.44	1.44
Light Motor Vehicle Sales		14.84	15.43	14.53	13.86	12.30	12.83	13.89	14.96	15.28
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.38	8.71	9.11	9.23
North American prod.		7.07	7.54	7.08	6.90	6.14	6.28	6.74	7.24	7.36
Other		3.18	3.10	2.83	2.60	2.25	2.11	1.97	1.87	1.87
INCOME AND SAVING										
Nominal GNP	Bill. $	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6380.5	6741.8	7058.4
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	5.5	5.0	4.6
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.5	5.5	5.3
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	1.2	2.3	2.2
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	4.0	4.0	4.0
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	14.1	1.1	4.6
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.3	7.4	7.4
Federal surpl./def.	Bill. $	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-226.4	-149.6	-141.3
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	1.7	2.2	7.5
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-56.8	-55.1	-48.6
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.2	2.4	2.2
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	2.8	2.8	2.9
Gross domestic purchases fixed-wt. price index		3.9	4.1	4.4	5.2	3.1	3.3	2.6	2.8	2.8
CPI		4.5	4.3	4.6	6.3	3.0	3.1	2.7	3.0	3.1
Ex. food and energy		4.3	4.5	4.4	5.3	4.4	3.5	3.1	2.9	2.9
ECI, hourly compensation[2]		3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.6	3.6
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.2	3.6	1.9	.8	1.2
Compensation per hour		3.9	3.8	3.1	6.2	4.7	5.2	2.8	3.7	3.6
Unit labor cost		1.9	3.3	4.6	5.7	2.5	1.5	.9	2.9	2.3

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

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

March 16, 1994

Item	Unit	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2
EXPENDITURES											
Nominal GDP	Bill. $	5631.7	5697.7	5758.6	5803.7	5908.7	5991.4	6059.5	6194.4	6261.6	6327.6
Real GDP	Bill. 87$	4837.8	4855.6	4872.6	4879.6	4922.0	4956.5	4998.2	5068.3	5078.2	5102.1
Real GDP	% change	-2.4	1.5	1.4	.6	3.5	2.8	3.4	5.7	.8	1.9
Gross domestic purchases		-3.6	.8	2.4	-.1	3.4	4.7	3.8	5.4	2.5	3.1
Final sales		-2.7	1.9	-.4	-.1	4.5	1.4	3.7	5.8	-.8	3.2
Private dom. final purch.		-5.4	1.1	1.2	.2	4.8	4.3	4.0	7.1	2.5	4.4
Personal cons. expend.		-2.8	1.8	1.3	.0	4.3	1.8	4.2	5.6	.8	3.4
Durables		-11.4	1.6	10.4	-1.0	14.7	.8	10.7	13.2	-1.3	10.8
Nondurables		-3.5	1.1	-.7	-2.0	3.1	1.1	3.0	7.3	-2.1	2.7
Services		-.2	2.2	.3	1.5	2.6	2.4	3.3	2.9	3.1	2.1
Business fixed invest.		-13.2	-2.7	-3.8	-5.1	3.5	15.1	3.8	7.6	14.4	16.6
Producers' dur. equip.		-15.3	.1	5.3	-2.2	2.8	22.0	10.2	11.5	19.9	19.8
Nonres. structures		-8.5	-8.7	-21.3	-11.3	4.9	.3	-10.3	-2.1	.5	8.1
Res. structures		-25.5	1.2	17.3	20.3	16.8	21.8	1.2	32.8	1.5	-9.5
Exports		-.8	19.4	3.0	13.3	4.9	-.6	6.5	8.8	-2.4	3.6
Imports		-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3
Government purchases		2.8	1.4	-2.0	-4.7	3.0	-1.0	4.1	-1.4	-6.4	4.3
Federal		7.8	-.2	-6.9	-14.2	.0	-3.1	8.7	-3.5	-16.2	2.0
Defense		9.1	-4.4	-12.3	-19.2	-5.5	-5.0	10.5	-4.6	-21.4	.7
State and local		-.5	2.6	1.7	2.2	5.0	.4	1.2	.0	.3	5.6
Change in bus. invent.	Bill. 87$	-17.4	-22.3	-.9	7.1	-5.0	12.6	9.6	8.7	29.3	13.0
Nonfarm		-18.7	-26.2	.0	10.3	-9.6	7.0	5.8	7.5	29.3	17.1
Net exports		-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2
Nominal GDP	% change	2.4	4.8	4.3	3.2	7.4	5.7	4.6	9.2	4.4	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.6	108.2	108.2	108.1	108.1	108.4	108.6	108.9	109.4	110.0
Unemployment rate[1]	%	6.5	6.7	6.7	7.0	7.3	7.5	7.5	7.3	7.0	7.0
Industrial prod. index	% change	-7.8	1.0	5.7	.3	.3	5.6	.6	6.4	5.2	2.3
Capacity util. rate-mfg.[1]	%	77.5	77.3	78.2	78.1	77.9	78.7	78.5	79.4	80.1	80.3
Housing starts	Millions	.90	1.01	1.04	1.09	1.24	1.15	1.19	1.24	1.15	1.24
Light Motor Vehicle Sales		12.15	12.19	12.60	12.27	12.55	12.86	12.65	13.26	13.30	14.14
Auto sales in U.S.		8.39	8.35	8.55	8.25	8.40	8.45	8.24	8.45	8.35	8.95
North American prod.		6.16	6.05	6.25	6.09	6.15	6.29	6.24	6.43	6.38	6.90
Other		2.24	2.30	2.31	2.16	2.25	2.16	2.00	2.02	1.97	2.06
INCOME AND SAVING											
Nominal GNP	Bill. $	5656.1	5710.6	5766.2	5815.5	5927.6	5996.3	6067.3	6191.9	6262.1	6327.1
Nominal GNP	% change	1.9	3.9	4.0	3.5	7.9	4.7	4.8	8.5	4.6	4.2
Nominal personal income		2.1	4.2	2.1	5.8	7.5	6.2	3.7	15.5	-5.4	9.3
Real disposable income		-.4	1.9	-.9	2.2	4.2	3.1	1.9	10.6	-7.8	5.8
Personal saving rate[1]	%	4.8	4.9	4.4	4.9	5.0	5.3	4.9	6.0	3.9	4.4
Corp. profits, IVA&CCAdj	% change	7.4	1.6	-12.1	24.0	37.1	1.8	-36.5	104.6	-6.6	26.3
Profit share of GNP[1]	%	6.5	6.5	6.2	6.5	6.9	6.9	6.1	7.1	6.9	7.2
Federal govt. surpl./def.	Bill. $	-145.2	-206.2	-217.7	-244.7	-270.2	-279.9	-290.7	-264.2	-263.5	-222.6
State/local surpl./def.		6.1	5.5	5.5	12.1	6.1	7.8	1.2	13.5	.8	1.1
Ex. social ins. funds		-52.5	-53.1	-52.9	-46.5	-52.8	-51.8	-58.3	-46.0	-58.2	-57.8
PRICES AND COSTS											
GDP implicit deflator	% change	5.0	3.2	2.9	2.6	3.8	2.8	1.2	3.3	3.6	2.3
GDP fixed-wt. price index		5.1	3.4	3.4	2.7	4.2	3.4	2.5	3.1	4.3	2.8
Gross domestic purchases fixed-wt. price index		3.6	2.5	3.1	3.0	3.9	3.3	3.0	2.8	3.5	2.9
CPI		3.0	2.4	3.0	3.3	2.6	3.5	2.9	3.5	2.8	3.1
Ex. food and energy		5.9	3.5	4.6	3.7	3.7	3.6	3.0	3.6	3.5	3.5
ECI, hourly compensation[2]		4.6	4.9	4.1	4.0	3.6	3.2	3.2	3.5	3.9	3.8
Nonfarm business sector											
Output per hour		1.9	2.7	.8	3.4	3.8	2.8	3.6	4.2	-1.8	-.4
Compensation per hour		4.4	4.9	4.6	4.9	5.6	4.7	5.9	4.6	2.9	1.9
Unit labor cost		2.5	2.2	3.7	1.5	1.7	1.8	2.2	.4	4.8	2.3

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

Strictly Confidential (FR)
Class II FOMC

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

March 16, 1994

Item	Units	1993		Projected 1994				1995			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	6395.9	6532.4	6623.7	6704.7	6787.0	6864.8	6950.8	7029.4	7105.3	7181.2
Real GDP	Bill. 87$	5138.3	5232.1	5273.1	5305.2	5340.2	5371.9	5402.4	5433.6	5465.3	5497.3
Real GDP	% change	2.9	7.5	3.2	2.5	2.7	2.4	2.3	2.3	2.4	2.4
Gross domestic purchases		3.7	7.2	3.8	3.2	3.3	2.9	2.6	2.7	2.8	2.6
Final sales		3.4	6.9	2.4	2.9	2.4	2.0	2.3	2.3	2.3	2.5
Private dom. final purch.		5.1	8.1	4.1	4.2	3.5	3.0	3.0	3.1	3.1	3.1
Personal cons. expend.		4.4	4.6	2.5	2.0	2.4	2.4	2.2	2.2	2.1	2.1
Durables		7.6	15.4	1.9	1.1	2.6	2.7	2.6	2.4	2.3	2.3
Nondurables		3.7	3.6	.9	3.5	2.0	2.0	2.0	2.0	1.9	1.9
Services		3.9	2.4	3.6	1.4	2.5	2.5	2.3	2.3	2.2	2.2
Business fixed invest.		7.4	22.1	11.0	13.0	9.8	8.9	9.0	9.0	9.1	9.3
Producers' dur. equip.		10.0	24.9	13.5	15.6	10.9	9.9	10.1	10.0	10.0	10.0
Nonres. structures		.3	14.2	3.4	5.4	6.7	5.9	5.8	5.7	6.1	7.2
Res. structures		11.9	31.0	9.6	14.4	2.9	-3.7	-2.2	-.2	-.5	-.3
Exports		-.9	20.5	1.8	4.8	6.4	7.2	7.2	7.3	8.0	8.4
Imports		6.0	16.2	6.8	10.0	10.9	10.0	8.4	9.5	10.0	9.2
Government purchases		.3	.1	-1.6	1.0	1.0	.2	.2	.7	.8	.9
Federal		-6.2	-4.7	-7.6	-2.7	-2.6	-3.3	-3.2	-2.9	-2.8	-2.5
Defense		-9.8	-3.5	-10.8	-4.1	-4.0	-5.0	-4.9	-4.6	-4.5	-4.2
State and local		4.5	3.1	2.0	3.1	3.1	2.2	2.1	2.6	2.7	2.7
Change in bus. invent.	Bill. 87$	6.5	13.4	23.7	18.1	21.8	26.7	27.2	27.8	29.2	27.7
Nonfarm		19.4	17.8	25.7	18.5	20.8	24.9	25.1	25.4	26.6	25.0
Net exports		-86.3	-84.1	-93.1	-103.1	-112.4	-119.3	-123.5	-129.6	-135.8	-140.1
Nominal GDP	% change	4.4	8.8	5.7	5.0	5.0	4.7	5.1	4.6	4.4	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	110.4	110.9	111.4	112.0	112.6	113.1	113.6	114.0	114.4	114.7
Unemployment rate[1]	%	6.7	6.5	6.5	6.6	6.8	6.6	6.6	6.6	6.6	6.6
Industrial prod. index	% change	2.8	6.7	8.0	3.0	2.8	2.7	3.0	3.0	3.0	3.0
Capacity util. rate-mfg[1]	%	80.3	81.5	82.5	82.6	82.6	82.7	82.7	82.7	82.7	82.7
Housing starts	Millions	1.31	1.48	1.37	1.52	1.45	1.44	1.44	1.44	1.44	1.44
Light Motor Vehicle Sales		13.56	14.55	15.25	14.76	14.87	14.97	15.09	15.21	15.35	15.47
Auto sales in U.S.		8.60	8.95	9.28	9.02	9.05	9.08	9.14	9.19	9.26	9.31
North American prod.		6.63	7.08	7.34	7.17	7.20	7.23	7.28	7.33	7.38	7.43
Other		1.97	1.87	1.94	1.85	1.85	1.85	1.86	1.86	1.88	1.88
INCOME AND SAVING											
Nominal GNP	Bill. $	6402.3	6530.6	6623.6	6701.1	6785.1	6857.5	6945.5	7019.9	7098.3	7169.9
Nominal GNP	% change	4.8	8.3	5.8	4.8	5.1	4.3	5.2	4.4	4.5	4.1
Nominal personal income		3.0	7.8	4.8	7.1	4.3	5.8	6.6	4.7	4.6	5.3
Real disposable income		1.6	5.8	2.0	1.5	3.0	2.6	3.2	-.1	3.3	2.4
Personal saving rate[1]	%	3.8	4.1	4.0	3.8	4.0	4.1	4.3	3.7	4.0	4.1
Corp. profits, IVA&CCAdj	% change	9.4	31.1	-10.9	5.6	9.0	1.7	7.0	4.5	2.4	4.6
Profit share of GNP[1]	%	7.3	7.7	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Federal govt. surpl./def.	Bill. $	-212.7	-201.8	-168.7	-134.1	-142.2	-153.4	-153.5	-123.7	-136.5	-151.3
State/local surpl./def.		-1.7	6.2	.6	1.8	3.2	3.2	5.7	4.7	10.0	9.5
Ex. social ins. funds		-60.2	-51.7	-57.1	-55.6	-53.9	-53.6	-50.8	-51.5	-45.9	-46.1
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	1.2	2.5	2.5	2.3	2.2	2.8	2.2	2.0	1.9
GDP fixed-wt. price index		2.1	2.3	2.9	2.9	2.8	2.8	3.4	2.8	2.7	2.7
Gross domestic purchases fixed-wt. price index		1.8	2.2	2.4	3.1	3.0	2.7	3.4	2.8	2.6	2.6
CPI		2.0	3.1	2.1	3.6	3.4	3.0	3.4	3.1	2.9	2.9
Ex. food and energy		2.4	2.9	2.6	3.1	2.9	2.9	3.0	2.9	2.9	2.9
ECI, hourly compensation[2]		3.4	3.4	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Nonfarm business sector											
Output per hour		4.0	6.1	.9	.6	.8	.9	1.0	1.2	1.3	1.4
Compensation per hour		3.7	2.8	4.0	3.6	3.6	3.5	3.9	3.5	3.5	3.5
Unit labor cost		-.4	-3.1	3.0	3.0	2.8	2.6	2.9	2.3	2.2	2.1

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)

March 16, 1994

Item	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1990	1991	1992	1993
Real GDP	-29.4	17.8	17.0	7.0	42.4	34.5	41.7	70.1	9.9	23.9	10.5	12.4	188.7	163.8
Gross domestic purchases	-44.6	9.6	28.6	-1.6	41.1	57.4	46.2	66.4	31.0	39.3	-20.1	-8.0	211.1	209.1
Final sales	-32.8	22.8	-4.5	-1.0	54.4	16.9	44.8	71.0	-10.7	40.2	56.2	-15.5	187.1	159.1
Private dom. final purch.	-54.5	11.1	11.9	1.8	46.3	42.1	39.8	70.6	26.0	45.7	-4.2	-29.7	198.8	209.3
Personal cons. expend.	-23.2	14.2	10.2	.4	34.8	14.5	34.1	46.3	6.6	28.9	23.9	1.6	129.7	111.4
Durables	-12.9	1.7	10.6	-1.1	15.1	.9	11.5	14.4	-1.5	12.3	-3.6	-1.7	41.9	37.7
Nondurables	-9.3	2.9	-1.8	-5.3	8.0	3.0	7.9	18.9	-5.8	7.1	-1.4	-13.5	37.8	20.9
Services	-1.0	9.6	1.4	6.8	11.7	10.6	14.7	13.0	13.9	9.5	28.9	16.8	50.0	52.8
Business fixed invest.	-18.8	-3.6	-5.0	-6.7	4.4	18.3	5.0	9.9	18.6	22.0	3.5	-34.1	37.6	81.5
Producers' dur. equip.	-14.9	.1	4.6	-2.0	2.5	18.2	9.2	10.6	18.4	19.1	10.5	-12.2	40.5	73.3
Nonres. structures	-3.8	-3.8	-9.6	-4.6	1.8	.1	-4.1	-.8	.2	2.9	-7.0	-21.8	-3.0	8.3
Res. structures	-12.5	.5	6.7	8.1	7.1	9.4	.6	14.4	.8	-5.2	-31.7	2.8	31.5	16.3
Change in bus. invent.	3.5	-4.9	21.4	8.0	-12.1	17.6	-3.0	-.9	20.6	-16.3	-45.8	28.0	1.6	4.7
Nonfarm	.0	-7.5	26.2	10.3	-19.9	16.6	-1.2	1.7	21.8	-12.2	-49.9	29.0	-2.8	10.3
Farm	3.4	2.5	-4.7	-2.3	7.8	1.0	-1.8	-2.6	-1.2	-4.1	4.2	-1.1	4.4	-5.6
Net exports	15.2	8.3	-11.7	8.6	1.2	-22.8	-4.5	3.7	-21.1	-15.3	30.6	20.4	-22.4	-45.3
Exports	-1.0	23.5	4.0	17.3	6.8	-.8	9.1	12.3	-3.6	5.2	32.7	43.8	27.4	28.5
Imports	-16.2	15.2	15.7	8.8	5.5	22.0	13.6	8.5	17.6	20.5	2.2	23.5	49.6	73.9
Government purchases	6.5	3.4	-4.7	-11.4	6.9	-2.4	9.5	-3.3	-15.6	9.8	29.8	-6.2	10.7	-4.9
Federal	7.3	-.2	-7.0	-14.5	.0	-2.9	7.8	-3.3	-16.1	1.8	10.4	-14.4	1.6	-24.2
Defense	6.3	-3.3	-9.3	-14.5	-3.7	-3.3	6.5	-3.1	-15.3	.4	4.2	-20.8	-3.6	-23.3
Nondefense	1.0	3.1	2.3	.0	3.7	.4	1.2	-.1	-.9	1.5	6.1	6.4	5.2	-.9
State and local	-.7	3.6	2.3	3.1	6.9	.5	1.7	.0	.5	7.9	19.3	8.3	9.1	19.3

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

March 16, 1994

	Projected													
	1993		1994				1995						Projected	
Item	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994	1995
Real GDP	36.2	93.8	41.0	32.1	34.9	31.7	30.5	31.2	31.7	32.0	188.7	163.8	139.8	125.4
Gross domestic purchases	47.2	91.6	50.0	42.1	44.2	38.6	34.7	37.3	37.9	36.3	211.1	209.1	175.0	146.2
Final sales	42.7	86.9	30.7	37.7	31.3	26.9	29.9	30.6	30.3	33.5	187.1	159.1	126.5	124.3
Private dom. final purch.	53.2	84.4	43.6	45.4	38.2	33.2	33.8	35.2	34.7	35.6	198.8	209.3	160.4	139.3
Personal cons. expend.	36.9	39.0	22.0	17.5	20.7	20.9	20.0	19.9	19.1	19.2	129.7	111.4	81.2	78.2
Durables	8.9	18.0	2.4	1.4	3.3	3.4	3.3	3.2	3.0	3.0	41.9	37.7	10.6	12.5
Nondurables	9.9	9.7	2.5	9.6	5.5	5.6	5.6	5.6	5.4	5.4	37.8	20.9	23.2	22.0
Services	18.1	11.3	17.1	6.5	11.9	12.0	11.1	11.1	10.7	10.8	50.0	52.8	47.3	43.7
Business fixed invest.	10.5	30.4	16.5	19.9	15.7	14.6	15.1	15.4	15.9	16.6	37.6	81.5	66.6	63.0
Producers' dur. equip.	10.4	25.4	15.1	17.8	13.1	12.2	12.8	13.1	13.4	13.6	40.5	73.3	58.2	52.9
Nonres. structures	.1	5.1	1.3	2.1	2.6	2.3	2.3	2.3	2.5	3.0	-3.0	8.3	8.3	10.2
Res. structures	5.9	14.8	5.3	7.9	1.7	-2.3	-1.4	-.1	-.3	-.2	31.5	16.3	12.7	-2.0
Change in bus. invent.	-6.5	6.9	10.3	-5.6	3.7	4.9	.6	.5	1.4	-1.5	1.6	4.7	13.3	1.1
Nonfarm	2.3	-1.6	7.9	-7.2	2.3	4.1	.3	.2	1.2	-1.6	-2.8	10.3	7.1	.2
Farm	-8.8	8.5	2.4	1.6	1.4	.8	.3	.3	.2	.1	4.4	-5.6	6.2	.9
Net exports	-11.1	2.2	-9.0	-10.0	-9.3	-6.8	-4.2	-6.1	-6.2	-4.3	-22.4	-45.3	-35.2	-20.8
Exports	-1.3	28.2	2.7	7.3	9.9	11.2	11.4	11.9	13.1	14.0	27.4	28.5	31.1	50.4
Imports	9.8	26.0	11.7	17.3	19.2	18.1	15.7	18.0	19.4	18.3	49.6	73.9	66.2	71.2
Government purchases	.6	.3	-3.9	2.3	2.4	.5	.4	1.6	1.8	2.1	10.7	-4.9	1.3	5.9
Federal	-5.7	-4.2	-6.8	-2.3	-2.2	-2.8	-2.7	-2.4	-2.3	-2.1	1.6	-24.2	-14.1	-9.5
Defense	-6.3	-2.1	-6.7	-2.4	-2.3	-2.9	-2.8	-2.6	-2.5	-2.3	-3.6	-23.3	-14.3	-10.2
Nondefense	.7	-2.2	-.1	.1	.1	.1	.1	.2	.2	.2	5.2	-.9	.2	.7
State and local	6.4	4.5	2.9	4.6	4.6	3.3	3.1	4.0	4.1	4.2	9.1	19.3	15.4	15.4

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

March 17, 1994

Item	Fiscal year				1993				1994				1995			
	1992[a]	1993[a]	1994	1995	Q1[a]	Q2[a]	Q3[a]	Q4[b]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1090	1153	1255	1318	262	331	295	287	284	372	313	297	289	404	327	310
Outlays[1]	1381	1408	1476	1525	324	349	349	379	350	371	375	378	386	378	382	397
Surplus/deficit[1]	-290	-255	-221	-207	-62	-18	-54	-92	-67	0	-62	-81	-97	26	-55	-87
On-budget	-340	-301	-278	-268	-90	-49	-54	-105	-75	-33	-65	-88	-108	-11	-61	-93
Off-budget	50	46	58	62	27	31	0	13	9	33	3	7	11	38	6	6
Surplus excluding deposit insurance[2]	-287	-282	-226	-216	-68	-25	-61	-92	-73	2	-63	-82	-101	25	-59	-88
Means of financing																
Borrowing	311	249	224	201	60	61	46	89	38	15	81	59	81	15	46	70
Cash decrease	-17	6	-7	0	8	-39	8	3	25	-14	-21	20	20	-40	0	20
Other[3]	-4	0	4	6	-6	-4	0	0	4	-2	3	2	-4	-1	9	-4
Cash operating balance, end of period	59	53	60	60	22	61	53	50	25	39	60	40	20	60	60	40
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1163	1246	1364	1444	1218	1268	1276	1318	1353	1396	1389	1407	1432	1472	1466	1484
Expenditures	1435	1487	1526	1586	1482	1491	1489	1520	1521	1530	1532	1561	1585	1596	1603	1635
Purchases	445	447	439	439	443	448	444	441	439	438	438	436	441	440	439	438
Defense	313	308	297	292	305	308	302	300	297	295	294	292	293	292	290	289
Nondefense	132	139	142	147	138	140	142	140	142	143	144	144	147	148	149	149
Other expenditures	990	1040	1087	1147	1039	1043	1045	1080	1082	1092	1094	1125	1145	1156	1164	1197
Surplus/deficit	-271	-241	-162	-142	-264	-223	-213	-202	-169	-134	-142	-153	-154	-124	-137	-151
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-212	-193	-142	-127	-215	-173	-165	-174	-150	-118	-127	-139	-139	-108	-121	-135
Change in HEB, percent of potential GDP	.9	-.3	-.8	-.2	0	-.7	-.1	.1	-.4	-.5	.1	.2	0	-.4	.2	.2
Fiscal impetus (FI), percent, cal. year	-4.5	-4.5	-6.9	-5	-4.9	1.3	-.8	-1.3	-3.3	-2.9	-.5	-1	-1.9	-1.6	-.1	-.7

1. OMB's February 1994 deficit estimates are $235 billion in FY94 and $176 billion in FY95(excluding health reform). CBO's January 1994 deficit estimates of the budget are $223 billion in FY94 and $171 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 February 1994 deficit estimates, excluding deposit insurance spending, are $238 billion in FY94 and $187 billion in FY95. CBO's January 1994 deficit estimates, excluding deposit insurance spending, are $228 billion in FY94, and $182 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.
b--Unified and NIPA data are actuals except for NIPA corporate profit tax total which is a staff projection.

Recent Developments

Since the System's tightening on February 4, inflation fears, trade tensions, and political uncertainty have cast a cloud over money and capital markets. With further policy moves expected, short-term interest rates have increased considerably more than the 25 basis point increase in the federal funds rate and, for some instruments, are up as much as 60 basis points. Intermediate- and long-term interest rates have risen 45 to 75 basis points. At times, upward pressure on long-term rates appears to have been intensified by sales of bonds by hedge and mutual funds.

Major stock price indexes declined sharply on February 4. Since then, the Dow Jones Industrial and S&P 500 indexes have decreased a bit further, while the NASDAQ index has retraced all of its lost ground on strength in technology and small company stocks. Many interest-sensitive stocks, including those of banks thought to have incurred large trading losses in foreign financial markets, have recorded sizable declines.

After registering modest gains in January, both M2 and M3 declined in February. M2 posted a decrease of 1 percent, in part reflecting the falloff in mortgage refinancings in recent months and perhaps an increase in the opportunity cost of M2-type money funds. The weakness in M2 was exacerbated at the M3 level by sharp runoffs in large time deposits at banks and thrifts and by outflows from institutional money funds. For the month, M3 fell at a nearly 8 percent rate. Data available for early March point toward a rebound in the broad aggregates. Meanwhile, household investments in long-term mutual funds are reported to have moderated in February, and bond funds apparently experienced outflows in early March.

Bank credit grew at a 5-3/4 percent rate in February, down slightly from its rate of expansion in January. However, growth in the past two months was exaggerated by a new accounting standard that boosted reported holdings of certain securities. Actually, reported investments in government securities were about flat in February, likely because of both lower market valuations and efforts of banks to limit securities investments in response to the recent runup in interest rates. Business loans expanded in February for the second straight month, albeit at a slower rate than that in January. Growth in consumer loans was brisk last month but, adjusted for securitizations, was a bit below the pace recorded over the latter half of 1993. After weakening some in January, real estate loans contracted last month.

Increases in interest rates and unsettled market conditions led to the postponement of several bond offerings by nonfinancial corporations in February and March, which in turn contributed to a decline in gross public issuance. Corporate borrowers also responded by shifting toward shorter-term maturities. Similarly, in the commercial paper market, resistance of investors to longer-dated paper forced issuers to shorten maturities. Buoyed by a pickup in initial public offerings, gross public issuance of equity by nonfinancial corporations rose in February. Despite the increase, the average monthly issuance thus far in 1994 is significantly below that in 1993. The slowdown in equity issuance during the current quarter, coupled with the sizable cash payment to shareholders in Viacom's purchase of Paramount, likely has turned net equity issuance negative for the first time since 1991.

In the municipal bond market, gross issuance of tax-exempt bonds declined in February to its lowest level in more than two years, as higher interest rates contributed to a sharp drop in refunding volume. Even without the backup in rates, refunding issuance would likely have fallen because the hefty volume of refundings over the past two years has depleted the stock of outstanding bonds eligible to be refunded in advance of the first call date. Owing to the diminished contribution of advance refundings, net borrowing of state and local government units has slowed in the past two months.

In the household sector, net borrowing appears to be strong this quarter. Consumer installment debt continued to expand rapidly in January despite disruptions in spending from the severe winter weather and the California earthquake. Incoming information suggests that net mortgage borrowing has remained strong even as housing activity has slowed. Part of recent mortgage borrowing likely reflects the high level of home buying around year-end that resulted in the closing of loans in January and February. With the increase in interest rates in February, refinancing loan applications picked up somewhat as some homeowners availed themselves of the "last" opportunity to lock in relatively low mortgage rates. By the end of the month, however, refinancing applications were back on the downward path evident since last fall.

Net borrowing to finance multifamily and commercial properties turned positive in the fourth quarter for the first time in nearly two years, perhaps pointing toward improvement in these two sectors of the real estate market in coming quarters. In this regard, life insurance companies, one of the principal sources of commercial real estate loans, have reportedly become more willing lenders, after recording stronger profits and capital growth last year and after experiencing improved performance in existing loans.

The Treasury is raising a smaller volume of funds through open market borrowing this quarter, partly in reflection of a lower deficit. It is also drawing down its cash balance at a rapid clip in anticipation of stronger receipts next quarter. In the current quarter, the Treasury is raising a sizable sum in the coupon market and is reducing net borrowing by paying down bills.

<u>Outlook</u>

The staff's economic outlook assumes some further firming in money market conditions into 1995, as the System moves to keep inflationary pressures at bay. In contrast, long-term interest rates are expected to retreat some from current elevated levels in the months ahead and to remain around these lower levels as the recent intense selling pressure in bond markets abates and as market participants become more confident that the economy has settled into a moderate growth path with no pickup in inflationary pressures.

Debt growth of the nonfederal sectors--households, state and local governments, and nonfinancial businesses--is projected to be 5 percent in 1994 and 4-3/4 percent in 1995, moderating slightly from recent quarterly growth rates. Both household and municipal debt are expected to slow a bit, whereas business debt growth edges up.

In the household sector, growth in consumer credit, while starting off fairly strongly in the first quarter of this year, declines over the next two years, partly reflecting a gradual deceleration in spending on durable goods. In addition, an expanding flow of repayments resulting from the heavier borrowing activity in 1993 and 1994 is likely to restrain overall consumer credit growth. Home mortgage debt, bolstered by continued strength in housing demand, should grow briskly during the first half of 1994 but then slow with the leveling off in housing activity.

Debt of nonfinancial businesses is projected to grow around 2-3/4 percent in 1994 and 3 percent in 1995, up from 1 percent last year but still slow by historical standards. The step-up in debt growth partly reflects our expectation of improvement in the commercial real estate market that shows through to borrowing by real estate partnerships. In addition, nonfinancial corporations face a growing need for external funds to finance increases in capital spending. The bulk of the external need will be met through borrowing. Net equity issuance falls off from the levels of the previous two years partly because mergers appear likely to involve more competitive bids and hostile takeovers, which in turn often lead to the use of cash rather equity as the means of payment. Furthermore, banks and debt markets seem willing to provide the financing for cash transactions.

We expect banks, finance companies, and the commercial paper market collectively to provide a greater share of corporate financing over the projection period. The corporate bond market continues to be a significant source of funds, but over the course of the projection period longer-term financing probably will be less attractive as bond rates remain above their 1993 lows. Also, many corporations have reportedly reached, or even exceeded, targeted long-term debt levels and thus are likely to take on more shorter-term borrowing.

In the state and local government sector, debt growth should slow through 1995, partly because of a decline in advance refundings. In addition, the volume of tax-exempt bond retirements will rise appreciably as a large quantity of previously advance refunded bonds becomes callable. These two effects on state and local borrowing more than offset an anticipated step-up in borrowing to finance rising infrastructure spending.

With further reductions in the federal deficit expected to lower growth in federal debt to around 6 percent in both 1994 and 1995, we project total debt growth of the domestic nonfinancial sectors to be 5-1/4 percent this year and 5 percent next year. In both years, total debt expands a bit more rapidly than nominal gross domestic product.

Confidential FR Class II
March 17, 1994

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										
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	9.6	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	12.1	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.3	4.7
1987	9.5	8.0	9.9	12.4	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	8.0	7.7
1989	7.8	7.0	8.0	9.0	10.2	6.7	7.0	8.4	5.0	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	0.9	6.7
1993	5.2	8.3	4.0	6.3	6.8	6.1	0.9	6.5	-1.3	5.5
1994	5.3	5.8	5.1	7.3	7.9	8.6	2.7	4.8	0.4	5.1
1995	5.1	6.0	4.8	6.6	7.1	6.9	2.9	4.1	0.7	4.6
Quarter (seasonally adjusted annual rates)										
1993:1	3.4	7.5	2.0	3.3	4.2	2.4	-0.7	7.2	-5.3	4.4
2	5.7	11.1	3.8	5.3	6.1	2.8	1.3	6.8	0.8	4.3
3	4.8	5.5	4.5	7.9	7.8	7.4	0.7	5.1	-2.3	4.4
4	6.3	8.2	5.6	8.2	8.4	11.2	2.5	6.3	1.4	8.8
1994:1	5.0	4.3	5.3	7.7	8.2	8.7	2.6	4.7	0.4	5.7
2	5.0	5.0	5.0	7.0	7.8	8.4	2.7	5.1	-0.1	5.0
3	6.1	9.2	5.0	7.0	7.5	8.2	2.8	4.5	0.9	5.0
4	4.7	4.2	4.9	6.7	7.2	7.9	2.8	4.6	0.5	4.7
1995:1	5.9	8.9	4.7	6.6	7.0	7.1	2.8	4.1	1.1	5.1
2	4.7	4.8	4.7	6.5	6.9	6.9	2.8	4.2	0.6	4.6
3	4.7	4.7	4.7	6.4	6.8	6.6	2.9	3.8	0.6	4.4
4	4.8	5.2	4.6	6.2	6.8	6.4	2.9	4.0	0.7	4.3

1. Data after 1993:4 are staff projections. Year-to-year changes in nominal GDP are measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes are measured from end of preceding period to end of period indicated.
2. On a quarterly average basis, total debt growth is projected to be 5.5 in 1994 and 5.2 in 1995.

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

		Calendar year			1993-	1994				1995			
		1993	1994	1995	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Seasonally Adjusted Annual Rates								
	Net funds raised by domestic nonfinancial sectors												
1	Total	629.5	670.4	680.7	795.0	613.8	645.3	803.7	618.9	778.6	640.8	642.5	661.1
2	Net equity issuance	23.0	15.5	15.0	28.0	-4.0	20.0	31.0	15.0	15.0	15.0	15.0	15.0
3	Net debt issuance	606.5	654.9	665.7	767.0	617.8	625.3	772.7	603.9	763.6	625.8	627.5	646.1
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	21.9	76.3	107.6	24.9	49.8	76.5	84.0	94.7	99.6	104.3	112.1	114.5
5	Net equity issuance	23.0	15.5	15.0	28.0	-4.0	20.0	31.0	15.0	15.0	15.0	15.0	15.0
6	Credit market borrowing	34.5	102.0	109.4	93.2	97.3	100.0	104.0	106.6	105.9	107.0	111.6	113.2
	Households												
7	Net borrowing, of which:	251.2	309.0	298.2	338.5	326.8	302.9	306.0	300.3	298.7	298.9	299.3	295.7
8	Home mortgages	187.0	233.0	223.8	242.1	242.0	235.0	230.0	225.0	222.0	223.0	224.0	226.0
9	Consumer credit	49.0	73.5	64.5	93.3	75.0	74.0	73.0	72.0	66.0	65.0	64.0	63.0
10	Debt/DPI (percent)[3]	87.2	88.4	89.7	87.8	88.7	89.1	89.3	89.6	89.7	90.6	90.7	90.9
	State and local governments												
11	Net borrowing	64.7	50.8	45.5	65.7	49.6	54.6	48.5	50.5	45.5	47.5	43.5	45.5
12	Current surplus[4]	-59.1	-61.5	-56.6	-65.1	-62.7	-61.4	-60.6	-61.3	-57.5	-59.1	-54.3	-55.4
	U.S.government												
13	Net borrowing	256.1	193.2	212.7	269.6	144.1	167.9	314.1	146.6	313.6	172.3	173.1	191.7
14	Net borrowing;quarterly, nsa	256.1	193.2	212.7	89.2	38.3	15.2	80.8	58.9	80.6	15.2	46.4	70.5
15	Unified deficit;quarterly, nsa	226.3	209.5	212.7	92.1	66.7	-0.5	62.3	80.9	97.1	-26.2	55.0	86.9
	Funds supplied by												
16	depository institutions	136.6	163.8	178.8	201.0	162.8	141.6	169.0	181.9	178.7	177.2	178.8	180.6
	MEMO: (percent of GDP)												
17	Dom. nonfinancial debt[3]	188.9	188.0	188.8	189.1	188.9	188.9	189.5	189.5	189.9	190.0	190.2	190.4
18	Dom. nonfinancial borrowing	9.5	9.7	9.4	11.7	9.3	9.3	11.4	8.8	11.0	8.9	8.8	9.0
19	U.S. government[5]	4.0	2.9	3.0	4.1	2.2	2.5	4.6	2.1	4.5	2.5	2.4	2.7
20	Private	5.5	6.8	6.4	7.6	7.2	6.8	6.8	6.7	6.5	6.5	6.4	6.3

1. Data after 1993:4 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.

Recent Developments

The weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has declined more than 1-1/4 percent from its level immediately preceding the February FOMC meeting. On balance over the intermeeting period, the dollar depreciated 2-1/2 percent against the mark and 2 percent against the yen. The dollar declined despite the tightening of U.S. monetary policy announced on February 4 and the subsequent releases of data indicating generally strong U.S. economic activity. Factors contributing to the downward pressure on the dollar included concern over the breakdown of trade talks with Japan, disappointment over the pace of monetary easing in Germany, and increased political uncertainty in the United States.

On February 17 the Bundesbank announced a 50 basis point reduction in its discount rate; however, subsequent RP operations were conducted at rates cumulating to only 12 basis points lower than the rate that had prevailed since early December. Short-term German market interest rates were unchanged over the period. However, short-term rates in other European countries declined 5 to 45 basis points as central banks in several countries lowered official lending rates following the Bundesbank action. Short-term rates moved up 30 basis points in Canada and 50 basis points in the United States. Bond yields in every major country moved higher over the intermeeting period in frequently volatile trading: The weighted average of foreign long-term bond yields rose nearly 60 basis points on balance, a bit less than yields on comparable U.S. bonds.

U.S. authorities did not intervene in either marks or yen, but the Desk did sell a little over $400 million equivalent of Belgian and Swiss francs as part of the program to liquidate System balances of currencies other than marks and yen.

The pace of economic activity in Japan appears to have revived somewhat after weakening further in the fourth quarter. Industrial production rose in January, partly reversing its December decline, while machinery orders increased further. In western Germany, industrial production was unchanged in January from December but was above its fourth-quarter average. Limited indicators for France suggest some recovery in January, while economic activity in Canada and the United Kingdom continued to expand. In recent months, unemployment rates edged down in Canada, the United Kingdom, and Japan, while remaining stubbornly high in France and continuing to rise in Germany and Italy. Through February, Japanese twelve-month consumer price inflation remained about 1-1/4 percent while German inflation has improved slightly since the end of last year, to 3-1/4 percent.

The U.S. merchandise trade deficit fell to $7.4 billion (seasonally adjusted, Census basis) in December, the smallest deficit in a year. Exports rose sharply, in part because of a bunching of aircraft deliveries, while imports declined somewhat. On average for the fourth quarter, both exports and imports rose well above third-quarter levels, with the deficit narrowing.

Prices of U.S. nonagricultural exports and non-oil imports rose moderately in January. Since the last Greenbook, oil prices (spot West Texas Intermediate (WTI)) have fallen $0.60 per barrel. The drop in prices following the conclusion of the early March Gulf

Cooperation Council meeting accounted for most of the decline. OPEC ministers are scheduled to meet March 25 in Geneva.

Outlook

The staff projects that the growth of real GDP in foreign industrial and developing countries will rise to 2-3/4 percent this year and then to 3-1/2 percent next year. Given this path and the assumption that the dollar will remain about unchanged from recent levels, we expect imports to continue to grow faster than exports. The resulting decline in real net exports of goods and services will subtract 2/3 percentage point from the annual rate of growth of real GDP during 1994. The decline in net exports should slow in 1995 as the growth of foreign GDP rises above that of U.S. growth.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain near its recent level throughout the forecast period. This projected level is unchanged from that in the January Greenbook and somewhat above its current level. Against the currencies of key developing countries, we expect the CPI-adjusted value of the dollar to show a moderate depreciation on average through the end of the forecast period.

Foreign industrial countries. We project the growth of real GDP in the G-6 countries (weighted by U.S. exports) to strengthen over the course of 1994 and into 1995, reaching about 2-1/4 percent this year and more than 3 percent next year.[1] Compared to the January Greenbook, outlooks for France and Canada are slightly stronger.

1. Starting with this Greenbook, the staff forecast for Germany will be for all of Germany on a unified basis. This change raises the G-6 weighted average growth rate over the forecast period, especially in 1994, compared with the previous Greenbook. The forecast for west German GDP is essentially unchanged.

Japanese real GDP growth is expected to remain near 1 percent during the first half of this year, to strengthen slightly during the second half, and to reach about 2-3/4 percent next year. German output growth is expected to turn positive during the second quarter and to average about 2 percent during the second half of the year; growth of about 2-1/4 percent is expected in 1995. In France and Italy, the pace of activity is expected to be a bit stronger in the very near term than in Germany, but the pattern of recovery over the remainder of the forecast period is projected to be similar to that in Germany. In the United Kingdom, output growth is expected to continue at about 2-1/2 percent in 1994 and to rise slightly in 1995, while output growth in Canada is projected to rise from about 3 percent this year to nearly 4 percent next year.

With the pace of activity remaining moderate abroad, inflation is expected to decline further over the forecast period.[2] Canadian inflation is forecast to drop to less than 1/2 percent this year, in part because of the sizeable reduction in cigarette taxes announced in February. Consequently, projected average inflation for the G-6 countries decreases about 1/2 percentage point this year, to 1-1/2 percent (weighted by U.S. imports), and then rises slightly in 1995.

Although additional monetary easing is expected in several of the major foreign industrial countries this year, the projected paths of both short-term and long-term foreign interest rates have been raised since the previous Greenbook. Foreign short-term rates, on average, are projected to decline an additional 50 basis points by the end of 1994. German rates should fall about 100 basis points over this period, somewhat less than previously projected. Bundesbank easing has slowed; statements by Bundesbank officials

2. G 6 consumer price inflation continues to be forecast using west German prices.

suggest that their cautious easing will continue, but the staff's assessment is that it will not extend as far as we earlier thought would be the case. The rapid growth in M3 in late 1993 and early 1994 has contributed to the Bundesbank's caution. Short-term rates in most other European countries are projected to decline similar amounts, except in the United Kingdom, where only a very small further decline is projected. Short-term rates in Japan are also expected to fall only slightly further, while in Canada rates are projected to edge up from current levels. The path for foreign long-term rates has been moved up in response to recent increases in rates, but, on average, long-term rates are still expected to decline moderately over the forecast period.

Developing countries. Real GDP of developing countries that are major U.S. trading partners is estimated to have increased about 4-1/4 percent in 1993 (weighted by bilateral nonagricultural export shares), and is forecast to increase 4-1/4 percent in 1994 and 4-3/4 percent in 1995. Asia is expected to achieve much stronger growth than the rest of the developing world in 1994-95. Rapid technological development associated with high investment rates in many Asian countries and a continued expansion of intra-Asian trade, especially with China, should allow for strong growth in 1994-95. Recent ongoing financial market liberalization in certain Asian countries (notably in Korea and Taiwan) and low interest rates should contribute to strong investment demand in Asia in 1994-95.

The modest increase in developing country GDP over the 1994-95 forecast horizon is mainly attributable to a pickup in Mexican growth following the passage of NAFTA and the implementation of more stimulative macroeonomic policies. Stronger growth in the European Union and in Japan in 1994-95 should also contribute to a slight increase of growth in Asia.

U.S. real net exports. U.S. demand for imports is more responsive to income growth than is foreign demand for U.S. exports. Accordingly, with GDP in the United States growing at about the same rate as abroad in 1994, we expect that real net exports of goods and services will decline about $35 billion over the four quarters of 1994. During 1995, however, the pace of decline in net exports should slow to about $20 billion as U.S. growth settles down to potential amid a further pickup in the rest of the world.

TRADE QUANTITIES*
(Q4/Q4 percent change)

	1992	1993	--Projection--- 1994	1995
Merchandise exports				
Total	6.5	5.9	5.5	8.6
Agricultural	8.7	-4.9	-2.8	2.5
Computers	26.7	19.9	30.4	34.8
Other nonag.	3.4	4.9	1.7	2.9
Merchandise imports				
Total	10.1	12.9	10.5	10.3
Oil	12.1	10.8	4.8	4.4
Computers	46.7	35.2	33.6	31.1
Other non oil	5.5	9.5	6.5	5.7

* GDP basis, 1987 dollars.

The quantity of merchandise exports is projected to grow moderately over the remainder of this year and to accelerate in 1995. Growth in the current quarter will be limited following the surge in the fourth quarter of last year. Exports of computers are projected to strengthen significantly this year relative to last and to rise somewhat further in 1995. After the first quarter of this year, other nonagricultural exports are projected to advance at about a 3 percent annual rate through the forecast period. The stimulating effect of increasing growth abroad will be partly offset by the depressing effect of the appreciation of the dollar over the past year or so. The relatively poor U.S. harvest in 1993 is expected to limit agricultural exports this year; positive growth in these exports is expected to resume late this year.

Non-oil imports should grow at about 10 percent (annual rate) over the remainder of this year and next. Computer imports continue to outpace computer exports in the near term, but growth of these imports levels off in 1995 as investment expenditure in the United States slows.

We expect that the quantity of oil imports will decline in the current quarter as domestic stocks are drawn down at a fairly rapid pace. Imports will remain about unchanged in the second quarter, given the usual seasonal drop-off in consumption. Over the remainder of the forecast period, imports are projected to resume an upward trend as U.S. oil production continues to decline in response to a relatively low real price of oil.

Oil prices. The weakness in the oil market has led us to mark down the path of oil prices by an average of $0.70 per barrel through the second quarter of 1994. We expect the spot price for WTI crude to begin to rise soon, following an announcement of OPEC production restraint at its upcoming meeting. The spot price for WTI should reach $17.50 per barrel (a price consistent with an import unit value of $15 per barrel) by June as global economic activity picks up. Prices should remain at that level through 1995, given our assumption that Iraq will return to the oil market in early 1995. The staff assumption has oil prices rising more rapidly to a higher level than is currently expected by the market; our price assumption for most of the forecast period is about $1.50 above market expectations.

Prices of non-oil imports and exports. We expect that the price of non-oil imports excluding computers will rise slightly more than 1 percent this year and next, little changed from the increase observed in 1993. Low inflation abroad continues to restrain these prices. The increase in prices of U.S. nonagricultural exports should, over time, move in line with increases in U.S. producer prices.

SELECTED PRICE INDICATORS
(Q4/Q4 percent change except as noted)

	1992	1993	--Projection--- 1994	1995
PPI (export. wts.)	1.6	0.8	2.2	2.2
Nonag. exports*	1.4	0.6	2.0	2.1
Non-oil imports*	2.3	1.2	1.3	1.4
Oil imports (Q4 level, $/bl.)	17.89	14.12	15.00	15.00

* Excluding computers.

Nominal trade and current account balances. The merchandise trade deficit is projected to increase from about $135 billion (a.r.) in the current quarter to about $170 billion by the end of 1994 and $190 billion by the end of 1995. Net service receipts will continue to expand, from an annual rate of about $50 billion this quarter to $65 billion by the end of 1995. Investment income payments are expected to exceed investment income receipts by a small but increasing margin over the forecast period. As a result of these developments, we expect that the current account deficit will rise to more than $175 billion by the end of 1995.

March 17, 1994

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1991-95
(Percent change from fourth quarter to fourth quarter)

Measure and country	1991	1992	1993	Projection 1994	Projection 1995
REAL GDP					
Canada	-0.1	0.8	3.0	3.1	3.8
France	1.3	0.7	-0.1	1.3	2.5
Germany	1.3	0.7	-0.5	1.3	2.2
W. Germany	2.7	0.0	-0.8	0.5	2.0
Italy	1.7	-0.2	0.0	1.8	2.1
Japan	3.6	-0.3	0.1	1.4	2.7
United Kingdom	-1.6	0.2	2.6	2.5	2.8
Average, weighted by 1987-89 GDP	1.5	0.2	0.6	1.7	2.6
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.7	1.2	2.1	2.7	3.5
G-6	0.7	0.4	1.7	2.3	3.2
Developing countries	4.9	3.9	4.2	4.3	5.0
CONSUMER PRICES					
Canada	4.1	1.8	1.8	0.3	1.6
France	2.9	1.8	2.1	1.9	1.7
Western Germany	3.9	3.7	3.7	2.7	2.1
Italy	6.1	4.8	4.1	3.5	2.8
Japan	3.2	0.9	1.2	1.0	0.8
United Kingdom	4.2	3.1	1.6	3.3	3.5
Average, weighted by 1987-89 GDP	3.9	2.4	2.2	2.0	1.9
Average, weighted by share of U.S. non-oil imports	3.8	1.9	1.9	1.3	1.6

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U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
GDP Net Exports of Goods and Services (87$)	-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2	-54.7	-19.1	-33.6
Exports of G+S	519.4	542.9	546.9	564.2	571.0	570.2	579 3	591.6	588.0	593.2	510.5	543.4	578.0
Merchandise	381.6	396.1	398.2	410.7	414.4	415.9	423 0	437.3	430.2	434.5	368.9	396.7	422.7
Services	137.8	146.8	148.7	153.5	156.6	154.2	156.3	154.3	157.8	158.6	141.6	146.7	155 4
Imports of G+S	541.0	556.2	571.9	580.7	586.2	608.2	621.8	630.3	647.9	668.4	565.1	562.4	611.6
Merchandise	442.1	457.2	474.6	481.7	486.8	509.0	521.6	530.3	545.9	565.7	461.4	463.9	511.9
Oil	44.7	52.0	52.9	47.1	47.3	51.6	53.1	52.8	53.4	57.8	52.1	49.2	51 2
Non-oil	397.5	405.2	421.7	434.7	439.6	457.4	468.5	477.6	492.5	507.9	409.3	414.8	460.8
Services	98.9	99.1	97.3	98.9	99.3	99.2	100.1	100.0	102.0	102.7	103.7	98.5	99.6
Memo:(Percent change 1/)													
Exports of G+S	-0.8	19.4	3.0	13.3	4.9	-0.6	6.5	8.8	-2.4	3.6	6.8	8.7	4.9
of which: Goods	7.7	16.1	2.1	13.2	3.7	1.5	7.0	14.2	-6.3	4.1	5.8	9.8	6.6
Imports of G+S	-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3	0.6	4.7	8.6
of which: Non-oil Goods	-11.3	8.0	17.3	12.9	4.6	17.2	10.1	8.0	13.1	13.1	0.8	6.7	10.0
Current Account Balance	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-71.1	-94.7	-89.5	-108.9	-91.9	-8.3	-66.4
Merchandise Trade, net	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-110.4	-103.8	-117.3	-137.6	-109.0	-73.8	-96.1
Exports	405.3	416.8	415.1	430.5	433.4	433.2	438.0	456.0	445.9	452.3	389.3	416.9	440.1
Agricultural	39.5	38.5	39.7	42.8	43.3	42.6	44.7	45.5	43.3	43.0	40.2	40.1	44 0
Nonagricultural	365.8	378.3	375.4	387.7	390.0	390.6	393.3	410.4	402.6	409.2	349.1	376.8	396.1
Imports	480.5	482.1	493.6	506.7	504.4	532.4	548.4	559.8	563.2	589.9	498.3	490.7	536 3
Oil	52.4	52.3	53.0	49.4	41.9	52.4	57.2	54.9	51.0	57.2	62.3	51.8	51.6
Non-oil	428.1	429.8	440.7	457.4	462.5	480.0	491.2	505.0	512.2	532.6	436.0	439.0	484.7
Other Current Account	89.7	60.7	24.6	34.8	26.6	22.6	32.5	12.3	28.2	28.8	-3.2	52.5	23.5
Invest. Income, net	23.1	11.6	6.5	10.9	17.7	3.6	6.8	-3.2	-0.4	-0.1	20.3	13.0	6.2
Direct, net	60.3	52.8	45.1	52.8	57.6	47.6	47.1	40.8	44.9	46.5	56.2	52.8	48.3
Portfolio, net	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-40.3	-44.0	-45.4	-46.6	-35.9	-39.7	-42.0
Military, net	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-2.5	-3.3	-0.6	-0.9	-7.8	-5.9	-2 8
Other Services, net	43.4	50.8	55.6	57.2	58.5	57.5	63.6	57.1	59.2	58.9	38.5	51.7	59.2
Transfers, net	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-28.6	-41 4	-30.4	-29.2	-33 8	6.6	-32.9

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

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

(Billions of dollars, seasonally adjusted annual rates)

	1993		Projection 1994				Projection 1995				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995
GDP Net Exports of Goods and Services (87$)	-86.3	-84.1	-93.1	-103.1	-112.4	-119.3	-123.5	-129.6	-135.8	-140.1	-76.4	-107.0	-132.2
Exports of G+S	591.9	620.1	622.8	630.1	640.0	651.2	662.6	674.5	687.6	701.6	598.3	636.0	681.6
Merchandise	434.1	463.1	465.1	471.1	479.3	488.6	498.1	507.9	519.0	530.8	440.5	476.0	513.9
Services	157.8	157.0	157.7	159.0	160.6	162.6	164.6	166.5	168.7	170.8	157.8	160.0	167.6
Imports of G+S	678.2	704.2	715.9	733.2	752.4	770.4	786.1	804.1	823.4	841.7	674.7	743.0	813.8
Merchandise	574.9	598.9	610.0	626.4	644.7	662.0	676.9	694.2	712.8	730.3	571.3	635.8	703.5
Oil	56.7	58.5	56.8	57.1	59.6	61.3	61.2	62.5	64.3	64.0	56.6	58.7	63.0
Non-oil	518.2	540.4	553.2	569.4	585.1	600.6	615.7	631.7	648.5	666.2	514.7	577.1	640.5
Services	103.3	105.3	105.9	106.8	107.7	108.5	109.2	109.9	110.7	111.4	103.3	107.2	110.3
Memo: (Percent change 1/)													
Exports of G+S	-0.9	20.5	1.8	4.8	6 4	7.2	7.2	7.3	8.0	8.4	5.2	5.0	7.7
of which: Goods	-0.4	29.5	1.7	5.3	7.2	7.9	8.0	8.2	9.0	9.5	6.7	5.5	8.6
Imports of G+S	6.0	16.2	6.8	10.0	10.9	10.0	8.4	9.5	10.0	9.2	11.8	9.4	9.2
of which: Non-oil Goods	8.4	18.3	9.8	12.2	11.5	11.1	10.4	10.8	11.1	11.4	13.2	11.1	10.9
Current Account Balance	-112.4	-126.2	-118.8	-134.9	-143.6	-162.5	-153.6	-161.0	-162.6	-177.9	-109.2	-140.0	-163.8
Merchandise Trade, net	-143.9	-131.1	-136.3	-150.1	-162.0	-168.5	-172.2	-177.7	-183.8	-188.2	-132.5	-154 2	-180.5
Exports	447.7	481.1	472.6	474.7	481.8	488.9	495.8	502 5	509.4	516.4	456.8	479.5	506.0
Agricultural	42.3	45.3	44.1	44.2	44.7	45.5	45 7	46.0	46.5	46.9	43.5	44.6	46.3
Nonagricultural	405.4	435.8	428.5	430.5	437.2	443.4	450 1	456.5	462.9	469.6	413.3	434.9	459.8
Imports	591.6	612.3	608.9	624.9	643.8	657.4	668.0	680.2	693.2	704.6	589.2	633.7	686 5
Oil	50.1	48.0	40.8	45.6	51.7	53.4	53.3	54.5	56.0	55.8	51.6	47.9	54.9
Non-oil	541.5	564.3	568.1	579.3	592.1	603.9	614.7	625.7	637.3	648.8	537.7	585.9	631.6
Other Current Account	25.1	10.6	21.3	22.6	24.2	17.2	27.8	29.9	32.1	25.5	23.2	21.3	28 8
Invest. Income, net	6.5	-5.6	-3.8	-7.5	-5.8	-11.2	-9.2	-13.3	-10.9	-15.2	0.1	-7.1	-12.1
Direct, net	50.2	42.3	42.9	43.0	43.5	43.3	44.1	44.6	45.2	46.0	46.0	43.2	45.0
Portfolio, net	-43.7	-47.9	-46.7	-50.5	-49.3	-54.5	-53.3	-57.9	-56.1	-61.2	-45.9	-50.2	-57.1
Military, net	-0.5	-2.1	-1.6	-1.2	-0.8	-0.2	0.4	0.8	1.2	1.6	-1.0	-0.9	1.0
Other Services, net	55.9	52.8	53.3	54.2	55.4	56.8	58.5	60.2	62.0	64.0	56.7	54.9	61.2
Transfers, net	-30.4	-40.1	-30.4	-30.4	-30.4	-39.4	-31.1	-31.1	-31.1	-40.1	-32.5	-32.6	-33.4

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