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Strictly Confidential (FR) Class II FOMC

Part 1

August 16, 1995

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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 has painted a more favorable picture of the economy than that at the time of the July FOMC meeting. The data now in hand suggest that domestic final demands were stronger and that inventory investment was weaker in the second quarter than we had anticipated at the time of the last Greenbook--and than BEA reported in their advance estimate of GDP. Readings on third-quarter activity, though scant, point to a pickup from the weak second-quarter pace. Employment and hours moved up in June and July after slumping sharply in early spring. Moreover, recent spending figures suggest that final demands are carrying some momentum into the current quarter. Although the manufacturing sector remains weak as inventory corrections proceed in a few industries, that adjustment process appears to be further along at this point than we had anticipated in the last projection. The major exception is the auto industry, where another downside sales surprise is likely to cause further trimming of production schedules. All told, we expect that most of the adjustment of nonfarm inventories will be behind us by the fall.

The small upward revision to the growth projection for 1996 reflects, in part, the policy action undertaken at the last FOMC meeting. However, the general contour of the projection remains the same. The effects of the net decline in long-term interest rates and the sharp rise in equity prices that have occurred this year should provide a significant cushion against further expected fiscal restraint and some unwinding of accelerator effects on investment spending. Foreign activity is projected to exhibit somewhat greater buoyancy over the next year and a half than has been evident over the past six months, and, with the lagged effects of the dollar's depreciation providing a boost to U.S. competitiveness, the external sector should gradually shift from a source of restraint on domestic production to one of a small stimulus.

Price inflation is unfolding fairly close to our expectations, and the outlook is little changed in this Greenbook. After a bulge earlier this year, increases in most broad price measures have slowed in recent months. We anticipate that core inflation will run a shade under 3 percent at an annual rate over the next six quarters--a pace only slightly above the lows reached last year.

Key Assumptions

Under our assumption that the federal funds rate will remain unchanged over the course of the projection period, long-term interest rates are likely to remain near current levels. The diminished likelihood of further monetary easing may put some upward pressure on long-term rates, but this influence is expected to be largely offset by better inflation developments than the market now is anticipating. Still, wrangling over the budget is likely to be a source of price gyrations in long-term financial markets over the next several months.

Over the past month, the Congress has made further progress in writing legislation that will place the federal budget on a path to balance by 2002. The road to final enactment probably will not be smooth. Nonetheless, we continue to assume that the Congress and the Administration will eventually settle on legislation that produces deficit reductions (from baseline) of $30 billion in fiscal year 1996 and $55 billion in fiscal 1997. With three quarters of budget data in hand, we are looking for the unified federal deficit in fiscal 1995 to come in at $164 billion. In fiscal 1996, the deficit is projected at $189 billion, roughly the same as that projected in the June Greenbook.

The Congress and the Administration appear unlikely to agree on all of the appropriations bills that fund discretionary programs by the October 1 start of the fiscal year, making necessary the enactment of one or more continuing budget resolutions. Although such legislated "patches" are not unusual, we recognize that, given the current political environment, an impasse could occur that would result in a shutdown of nonessential federal government activity at some point in the fourth quarter. We have not built such a shutdown into the forecast. But if a relatively short lapse in appropriations were to occur, we think it would have, at most, only a small transitory effect on GDP.[1]

Another important budget risk is that the Congress and the Administration will fail to agree on legislation that includes provisions to increase the federal debt ceiling. Although the debt ceiling could be reached earlier, an insurmountable hurdle would be meeting the about $25 billion midquarter interest payments on Treasury debt due on November 15. At that point, outlays could occur only as sufficient funds accumulated in Treasury accounts. Although we cannot entirely rule out such a scenario, we have not built it into our forecast.

Concerning economic developments abroad, we have made only minor adjustments to our assumptions since the June Greenbook. In terms of the G-10 currencies, the foreign exchange value of the dollar is projected to back off from the highs of the past few days and then, over the course of the forecast period, remain around the level expected in the June Greenbook. We continue to project a

1. In the event of a shutdown of the federal government, most outlays and receipts affected by the stoppage likely would be delayed only until government operations reopened. Some drop in output, however, would result from the lost work of furloughed federal employees. If a shutdown were to occur, the staff estimates that for each lost week of work time, real GDP growth would be reduced between 0.1 and 0.2 percentage point at an annual rate, with a corresponding offset in higher growth during the following quarter.

sizable improvement in foreign economic growth, albeit one that is a shade smaller than that in the previous projection, largely because of a weaker outlook for Japan. Although oil prices last month fell below our expectations, they have since recovered to levels about in line with our previous assumptions. As in the June Greenbook, the acceleration in economic activity both here and abroad is assumed to boost the spot price of West Texas intermediate from its current level of about $17.35 to $19.50 per barrel by early 1996. Oil prices are assumed to remain at this level for the remainder of the forecast period.

Third-quarter Forecast

Real GDP is projected to increase 2-1/4 percent at an annual rate in the current quarter. Final sales are forecast to rise at a healthy 3-1/4 percent rate, reflecting continued solid growth in business fixed investment and consumer spending. However, production is expected to be held back by further inventory adjustments, especially in the motor vehicle sector.

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

	1995:Q2[1]	1995:Q3
Real GDP	.5	2.2
Previous	-.5	1.1
Final sales	2.1	3.3
Previous	1.3	3.0
Unemployment rate[2]	5.7	5.8
Previous	5.8	6.0
Industrial production	-2.7	1.1
Previous	-3.5	-.5

1. Figures shown for real GDP and final sales are from the BEA's advance report for the second quarter.
2. Quarterly average, percent.

The available supply-side indicators for the current quarter appear to support a step-up in activity from the second-quarter pause. In July, nonfarm payrolls rose 55,000, and, when coupled with a small increase in the workweek, aggregate production worker hours were up 1/2 percent, after a sharp contraction in the second quarter. The decline in initial claims for unemployment insurance so far in August points to further job gains this month.

Although aggregate activity apparently picked up early in the third quarter, factory output fell 0.2 percent in July, held down in part by declines in motor vehicle assemblies. Despite the cutbacks in production, disappointing sales in July prevented automakers from making much headway in reducing bloated supplies of cars and light trucks. We are assuming that manufacturers will sweeten incentives to help clear out excessive stocks of 1995 vehicles. However, for inventories to return to more comfortable levels by this fall, producers probably will have to make further cuts in assembly schedules. All told, lower production of cars and trucks is expected to reduce real GDP growth by 3/4 percentage point in the current quarter.

The retail sales report for July indicated that consumer spending on goods other than motor vehicles entered the quarter on a solid note. Sales at furniture and appliance stores have firmed of late--perhaps in conjunction with the turnaround in housing activity--and aggressive pricing appears to be boosting sales of apparel. With regard to services, the unusually hot summer has undoubtedly kept spending on energy-related services at a high level. Factoring in some improvement in sales of new cars and light trucks, we are projecting that total real PCE will increase about 2-3/4 percent at an annual rate in the third quarter.

After exerting a significant drag on growth in the second quarter, activity in the single-family housing market has improved noticeably. Sales of new and existing homes rose sharply in June, and starts were up 6-3/4 percent in July. Multifamily construction has been moving sideways, however, reflecting the continued high levels of rental vacancy rates. Given the lags from starts to spending, residential investment expenditures are expected to turn up slightly in the current quarter before posting more discernable gains later in the year.

Business fixed investment is projected to rise at an annual rate of 8-1/2 percent this quarter. By all accounts, business demand for computers and other high-technology items continues to be strong. New orders for office and computing equipment surged in June, and although we are not expecting a repeat of the second quarter's burst, outlays for office and computing equipment should provide another strong boost to capital spending. New orders for capital goods other than computers were down a bit in the second quarter, but the drop follows robust bookings earlier in the year, and the order backlog appears large enough to support moderate gains in spending on these items at least over the near term. The continued uptrend in permit issuance points to another healthy increase in nonresidential construction this quarter.

Net exports, which reduced GDP growth more than 1/2 percentage point in the first half of the year, are expected to be a relatively neutral influence on growth in the current quarter. Weakness abroad is expected to hold down increases in exports this summer. We are also projecting a smaller increase in imports this quarter than last; demand likely will be softer for motor vehicles and parts, and possibly for imported goods in other sectors in which inventories accumulated earlier in the year.

Outside the motor vehicle sector, stocks generally appear to be moving into alignment with sales more promptly than we had thought at time of the June Greenbook. Although hard data are not yet available for the third quarter, July's flat manufacturing output outside the motor vehicle sector, coupled with further healthy growth in final demand, suggests that the inventory correction is nearing an end. Still, overhangs appear to persist in a few sectors--for example, construction supplies and some home goods--and we are expecting that a somewhat slower pace of nonfarm inventory investment (excluding motor vehicles) will depress real GDP growth about 1/2 percentage point in the current quarter.

As expected, price pressures have abated following the pickup in inflation in the first half of the year. The total CPI is projected to increase at an annual rate of about 2 percent in the third quarter, down from a rise of 3-1/4 percent in the second quarter. We are looking for a drop in energy prices, reflecting the pass-through to the retail level of the decline in oil prices in early summer. The increase in the core CPI is expected to drop to about a 2-3/4 percent annual rate; indeed, the items primarily responsible for the second-quarter bump in inflation--airfares, auto financing charges, and used car prices--all experienced price declines in July. The favorable performance of labor costs also is expected to continue in the third quarter, and the employment cost index is projected to rise at a 3 percent annual rate, roughly the same reading as that for last quarter.

<u>The Outlook beyond the Current Quarter</u>

Real GDP is projected to increase about 3 percent at an annual rate in the fourth quarter of 1995. Motor vehicle production is expected to return closer to trend, adding about 1/2 percentage point to fourth-quarter growth. Residential construction spending should also boost GDP growth next quarter. But elsewhere, final sales are expected to slow, largely because of less robust gains in business outlays for equipment and smaller increases in consumption.

SUMMARY OF STAFF REAL GDP PROJECTION
(Percent change, annual rate)

	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996
Real GDP	2.7	.5	2.2	2.9	2.3
Previous	2.7	-.5	1.1	3.4	2.2
Final sales	2.6	2.1	3.3	2.4	2.1
Previous	2.5	1.3	3.0	2.3	2.2
Private domestic final demand	4.2	3.1	3.8	3.1	2.6
Previous	4.4	1.8	2.8	2.5	2.6
Government purchases	-.7	-.3	.7	-2.0	-1.1
Previous	-1.2	-.9	1.1	-.6	-1.3
Net exports[1]	-11.4	-6.5	-.1	1.9	5.4
Previous	-12.9	-2.1	4.7	3.8	8.4

1. Change in billions of 1987 dollars.

Real output is projected to grow a bit below potential in 1996. The restraint imposed on the economy this year by the inventory correction, the slump in housing construction, and the slowdown in the growth of exports should give way to positive contributions to growth in 1996. However, a greater degree of fiscal restraint is projected to hold down growth next year. This occurs directly through lower federal purchases and the effect of reduced transfers on incomes and spending, and indirectly through spending cuts at the state and local levels in response to reduced federal grants. Moreover, business fixed investment should decelerate noticeably in lagged response to the downshift in sales expectations that can be expected to accompany the broader slowdown in economic activity.

Personal consumption expenditures. After increasing at an annual rate of around 2-3/4 percent in the third quarter, real consumer spending is projected to moderate to about a 2 percent pace over the remainder of the projection period. Much of the strength in household expenditures in 1993 and 1994 came from spending on durable goods; we think that this spending spree satisfied most pent-up demands, and further outsized gains in outlays are unlikely. In particular, sales of cars and light trucks are expected to average roughly a 14-1/2 million unit rate over most of the forecast period, down 1/2 million units from 1994. A more pronounced deterioration would be in store if not for the fact that the motor vehicle fleet has aged substantially over the past several years, so that replacement motives are likely to provide support for demand. The pickup in housing activity is expected to push up outlays for furniture and appliances, while purchases of electronic equipment should continue to grow at a healthy clip; nonetheless, the gains in spending on these items are expected to fall well short of the 10 percent or so increases recorded earlier in the expansion. Outlays for nondurables and services are expected to increase at about a 2 percent pace over the remainder of this year and in 1996.

The personal saving rate is expected to be about 4-1/2 percent in the third quarter, and, with PCE projected to grow roughly in line with disposable income, it should hover around that level over the balance of the forecast period. Although the run-up this year in stock market wealth could support spending growth at a somewhat faster rate than the gains in income, households probably will want to maintain a bit of a precautionary hedge in a climate in which income growth has moderated and there is some upward drift in the unemployment rate.

Residential investment. We are looking for single-family starts to bounce up to a 1.09 million unit annual rate in the current quarter, and then to rise to about a 1.11 million unit pace by the end of 1996. Declines in fixed-rate mortgage rates during the first half of this year improved housing affordability substantially; we also are looking for demand to be boosted by relatively high rates of household formation. We expect, however, the pickup in housing activity will be moderated by the slower projected pace of income growth.

With rental vacancy rates still on the high side, little impetus to construction activity is expected from the multifamily segment of the market. Overall, multifamily starts are expected to edge up from the 270,000 unit annual rate recorded in the second quarter of 1995 to a shade above the 300,000 unit mark in 1996.

Business fixed investment. Growth in outlays for producers' durable equipment is expected to drop from about a 9 percent annual rate in the current quarter to average around a 5-3/4 percent pace over the remainder of the forecast period. The slowdown reflects more moderate expectations about future growth in sales in response to the deceleration in output this year. In addition, increases in cash flow are projected to moderate substantially. Among the components of PDE, we are expecting that falling prices and the desire to upgrade to newer technologies will generate robust growth in outlays for office and computing equipment, albeit at rates below the spectacular increases of recent years. Outside of computers, we see a more pronounced leveling of demand, with outlays rising at only about a 1-1/2 percent annual rate over the projection period.

Nonresidential construction also is expected to slow over the next six quarters in lagged response to the diminished pace of the expansion. While projects already in train should support construction spending on industrial buildings for the rest of this year, we are expecting only modest increases in 1996. Some of the additional nonresidential construction represents warehouse space, which reportedly still is in short supply. Elsewhere, growth in permit issuance for office buildings has slowed recently, and with floorspace apparently ample in the retail sector, the pickup in commercial construction activity is expected to moderate as well.

Inventory investment. We anticipate that, in the aggregate, the necessary cutbacks in inventory investment will have been accomplished by year-end. Accordingly, real nonfarm inventory investment outside of the motor vehicle sector is a relatively neutral factor for overall GDP growth over the remainder of the forecast period. Still, businesses are likely to continue their efforts to streamline operations, and we are expecting some modest downtrend in aggregate ratios of inventories to final sales.[2]

Government purchases. As in earlier projections, prospective federal deficit reduction is assumed largely to affect the nondefense categories; real nondefense purchases are forecast to decline 4 percent over the four quarters of 1995 and then drop 8-3/4 percent in 1996. Real defense purchases are projected to fall about 4-1/2 percent in 1995 and 1996, roughly half the pace of the declines recorded in the previous two years.

State and local governments remain under pressure to increase services, particularly for law enforcement and education. However, given the prospect of significant cuts in federal grants in aid and little popular support for tax increases, we expect that state and local governments will be forced to restrain spending. Consequently, real state and local government purchases are projected to rise just 1-1/2 percent in both 1995 and 1996, down from growth in the 2 to 3 percent range over the past couple of years.

2. We estimate that the level of nonfarm inventory investment (excluding motor vehicles) in the second quarter of 1995 will be revised down by about $7-1/2 billion. The levels of inventory investment from the second quarter of 1995 through the fourth quarter of 1995 shown on the Greensheets do not incorporate this expected revision.

Net exports. As noted above, the combination of a somewhat stronger pace of activity abroad than in the United States and the lagged effects of exchange rate movements in 1994 and early 1995 are expected to end the decline in net exports. In 1996, exports are projected to rise 9-1/2 percent, up from 6-3/4 percent in 1995, while import growth is forecast to average about a 7 percent pace over the forecast period. On net, after reducing growth by about 1/4 percentage point in 1995, international trade is projected to be a small positive factor for growth in 1996. (More detail on the staff projections for exports and imports of goods and services is contained in the International Developments section of the Greenbook.)

Labor markets. Some recovery in job growth is expected in the second half of this year as activity picks up. But as output growth settles down to a shade below potential in 1996 and businesses adjust to more moderate expectations of future sales, job gains are expected to average just a bit more than 100,000 per month.

Smoothing through some quarterly gyrations, we expect productivity growth to average near our estimate of the underlying trend (1.5 percent at an annual rate, measured in 1987 dollars). Although we anticipate that firms will be driven to improve efficiency and cut costs, given the maturity of the expansion, any outsized gains in productivity likely are behind us.

The jobless rate moved back up to 5.7 percent in the second quarter as GDP growth stalled. We expect that the unemployment rate will drift up to 5.8 percent over the next few months in lagged response to earlier subpar growth. With output growth in 1996 averaging a shade below potential, we are projecting a slight further increase in the unemployment rate.

STAFF LABOR MARKET PROJECTION
(Percent change, annual rate)

	1995				
	Q1	Q2	Q3	Q4	1996
Nonfarm payroll employment	2.6	.9	1.2	1.6	1.1
Previous	2.6	.7	.7	1.5	1.0
Output per hour, nonfarm business	2.5	3.0	-1.0	1.4	1.3
Previous	2.7	.3	-.5	2.1	1.3
Civilian unemployment rate[1]	5.5	5.7	5.8	5.8	5.9
Previous	5.5	5.8	6.0	6.0	6.1

1. Percent. 1996 is fourth quarter average.

Wages and prices. As measured by the ECI, hourly compensation is projected to remain around 3 percent throughout the forecast period, even though the unemployment rate is projected to stay below our estimate of the NAIRU, 5.9 percent, until the second quarter of 1996. Growth in hourly compensation is expected to be held down for a while longer by factors not directly related to labor market slack. Most important, we expect that subdued increases in benefit costs, particularly from the restructuring of health insurance packages, will continue to offset some of the upward pressure on costs from a taut labor market. Although we do not anticipate these favorable developments on benefits to persist indefinitely, by the time they have run their course the unemployment rate is expected to have returned to nearly 6 percent. Thus, by then, little pressure--either upward or downward--would be exerted on compensation growth from labor market slack.

Given this projection for labor costs, we are anticipating no significant deviation of underlying inflation from recent trends. As discussed earlier, the bump up in the core CPI that occurred in the first half of this year is on its way to largely retracing itself this quarter. Over 1995 as a whole, the increase in the CPI excluding food and energy is expected to come in at 3.1 percent;

core inflation is then projected to decelerate to 2.9 percent in 1996. However, on average, the total CPI is projected to increase

STAFF INFLATION PROJECTION
(Percent change, annual rate)

	1995				
	Q1	Q2	Q3	Q4	1996
Consumer price index	3.2	3.2	2.0	2.8	3.0
Previous	3.2	3.5	2.8	2.9	2.9
Excluding food and energy	3.3	3.6	2.7	2.9	2.9
Previous	3.3	3.6	3.0	2.9	2.9
ECI for compensation of private industry workers	2.3	2.9	3.0	3.0	3.1
Previous	2.3	3.4	3.2	3.2	3.2

at a 2-1/2 percent rate in the second half of 1995 before moving up to a 3 percent pace in 1996. Retail energy prices are projected to be a restraining factor over the near term. But energy prices are expected to turn up later this year and early next year, reflecting the anticipated firming of world oil markets. Food prices are expected to be a relatively neutral influence on inflation over the forecast period.

Alternative Simulations

We have run two sets of alternative forecast simulations using the Board's quarterly econometric model. The first set considers the outlook under alternative views of the NAIRU and reflects the risk that structural changes in the labor market may be under way that our statistical models would be slow in detecting. The second set of simulations examines different choices for the federal funds rate.

In the first simulation, the NAIRU is pegged 1/2 percentage point below our current estimate of 5.9 percent.[3] Relative to baseline, the additional degree of labor market slack lowers the growth in compensation per hour by 0.2 percentage point in 1995 and 0.4 percentage point in 1996. No appreciable influence is seen on price inflation until 1996, when core inflation is 1/4 percentage point lower than it otherwise would have been. The differences from baseline in real GDP growth and the unemployment rate were negligible over the simulation interval. Symmetrical results hold if the NAIRU were 1/2 percentage point higher than assumed in the staff forecast.

ALTERNATIVE NAIRU ASSUMPTIONS
(Percent change, Q4 to Q4)

	1994	1995	1996
Compensation per hour[1]			
Baseline	3.2	3.5	3.2
Lower NAIRU	3.2	3.3	2.8
Higher NAIRU	3.2	3.7	3.6
CPI excluding food and energy			
Baseline	2.8	3.1	2.9
Lower NAIRU	2.8	3.1	2.7
Higher NAIRU	2.8	3.1	3.1

1. NIPA compensation per hour in the nonfarm business sector.

In the monetary policy simulations, the federal funds rate is assumed to be either raised or lowered 50 basis points by the end of the year. In view of the proximity to year-end, neither policy move has any perceptible effect on output or inflation in 1995. In 1996, real GDP growth is raised 1/4 percentage point under the lower funds rate assumption, and the unemployment rate is 0.1 percentage point lower. Core inflation is 0.1 percentage point higher than in the

3. The exercise holds the nominal federal funds rate at the baseline.

baseline forecast. The results for the tighter monetary policy scenario are symmetrical.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, except as noted)

	1994	1995	1996
Real GDP			
Baseline	4.1	2.1	2.3
Lower funds rate	4.1	2.1	2.6
Higher funds rate	4.1	2.1	2.0
Civilian unemployment rate[1]			
Baseline	5.6	5.8	5.9
Lower funds rate	5.6	5.8	5.8
Higher funds rate	5.6	5.8	6.0
CPI excluding food and energy			
Baseline	2.8	3.1	2.9
Lower funds rate	2.8	3.1	3.0
Higher funds rate	2.8	3.1	2.8

1. Average for the fourth quarter.

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

August 16, 1995

Interval	Nominal GDP 06/28/95	Nominal GDP 08/16/95	Real GDP 06/28/95	Real GDP 08/16/95	GDP fixed-weight price index 06/28/95	GDP fixed-weight price index 08/16/95	Consumer price index[1] 06/28/95	Consumer price index[1] 08/16/95	Unemployment rate (level except as noted) 06/28/95	Unemployment rate (level except as noted) 08/16/95
ANNUAL										
1992[2]	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4	7.4
1993[2]	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994[2]	6.2	6.2	4.1	4.1	2.7	2.7	2.6	2.6	6.1	6.1
1995	4.8	4.9	2.6	2.9	2.9	2.9	3.1	2.9	5.8	5.7
1996	4.5	4.5	2.1	2.3	2.8	2.9	2.9	2.9	6.1	5.9
QUARTERLY										
1993 Q1[2]	4.4	4.4	1.2	1.2	4.2	4.2	3.1	3.1	7.0	7.0
Q2[2]	4.2	4.2	2.4	2.4	2.4	2.4	2.8	2.8	7.0	7.0
Q3[2]	3.8	3.8	2.7	2.7	2.0	2.0	1 7	1.7	6.7	6.7
Q4[2]	7.7	7.7	6.3	6.3	2.4	2.4	3.4	3.4	6.5	6.5
1994 Q1[2]	6.1	6.1	3.3	3.3	3.1	3.1	2.2	2.2	6.6	6.6
Q2[2]	7.2	7.2	4.1	4.1	2.9	2.9	2.5	2.5	6.2	6.2
Q3[2]	6.2	6.2	4.0	4.0	3.0	3.0	3.6	3.6	6.0	6.0
Q4[2]	6.4	6.4	5.1	5.1	2.6	2.6	2.2	2.2	5.6	5.6
1995 Q1[2]	4.9	4.7	2.7	2.7	3.3	3.3	3.2	3.2	5.5	5.5
Q2[2]	1.7	2.0	-.5	.5	2.7	2.7	3.5	3.2	5.8	5.7
Q3	3.9	4.6	1.1	2.2	3.1	2.8	2.8	2.0	6.0	5.8
Q4	5.8	5.4	3.4	2.9	2.8	2.9	2.9	2.8	6.0	5.8
1996 Q1	4.6	4.7	2.1	2.3	3.0	3.1	3.1	3.3	6.0	5.8
Q2	4.4	4.3	2.1	2.3	2.7	2.7	2.9	3.1	6.1	5.9
Q3	4.5	4.4	2.3	2.3	2.7	2.8	2.8	2.9	6.1	5.9
Q4	4.6	4.3	2.4	2.3	2.7	2.8	2.8	2.8	6.1	5.9
TWO-QUARTER[3]										
1993 Q2[2]	4.3	4.3	1.8	1.8	3.3	3.3	3.0	3.0	-.3	-.3
Q4[2]	5.7	5.7	4.5	4.5	2.2	2.2	2.5	2.5	-.5	-.5
1994 Q2[2]	6.6	6.6	3.7	3.7	3.0	3.0	2.3	2.3	-.3	-.3
Q4[2]	6.3	6.3	4.6	4.6	2.8	2.8	2.9	2.9	-.6	-.6
1995 Q2[2]	3.3	3.4	1.1	1.6	2.9	2.9	3.3	3.2	.2	.1
Q4	4.8	5.0	2.2	2.5	2.9	2.8	2.8	2.4	.2	.1
1996 Q2	4.5	4.5	2.1	2.3	2.8	2.9	3.0	3.2	.1	.1
Q4	4.6	4.4	2.3	2.3	2.7	2.8	2 8	2.9	.0	.0
FOUR-QUARTER[4]										
1992 Q4[2]	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	.3	.3
1993 Q4[2]	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4[2]	6.5	6.5	4.1	4.1	2.9	2.9	2.6	2.6	-.9	-.9
1995 Q4	4.1	4.2	1.7	2.1	2.9	2.9	3.0	2.8	.4	.2
1996 Q4	4.5	4.4	2.2	2.3	2.8	2.8	2.9	3.0	.1	.1

1. For all urban consumers.
2. Actual.
3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.
4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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

August 16, 1995

Item	Unit[1]	1988	1989	1990	1991	1992	1993	1994	Projected 1995	Projected 1996
EXPENDITURES										
Nominal GDP	Bill. $	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6738.4	7066.6	7385.7
Real GDP	Bill. 87$	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5344.0	5500.1	5624.9
Real GDP	% change	3.3	1.6	.2	.3	3.7	3.1	4.1	2.1	2.3
Gross domestic purchases		2.5	.9	-.4	-.1	4.1	3.9	4.5	2.3	2.1
Final sales		4.2	1.5	1.2	-.4	3.8	3.0	3.4	2.6	2.1
Private dom. final purch		4.2	.5	-.1	-.8	5.1	5.0	4.9	3.5	2.6
Personal cons. expend.		4.2	1.2	.7	.0	4.2	3.0	3.5	2.3	2.1
Durables		8.5	-.5	-.8	-1.3	9.6	9.0	8.6	1.5	3.3
Nondurables		3.2	1.2	-.1	-1.6	3.2	1.3	3.1	1.9	1.7
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.4	2.7	1.9
Business fixed invest.		5.5	-.4	.7	-6.2	6.7	16.0	12.9	11.9	5.3
Producers' dur. equip.		9.1	-1.7	2.9	-3.2	11.0	21.3	15.5	13.0	5.6
Nonres. structures		-1.2	2.3	-3.9	-12.4	-3.4	1.6	4.6	8.1	4.0
Res. structures		9	-7.7	-15.2	.7	17.0	8.1	3.1	-2.1	2.3
Exports		13.5	11.3	6.7	8.1	5.0	5.8	11.6	6.7	9.5
Imports		3.6	2.6	.4	4 0	8.6	12.4	13.8	7.8	7.5
Government purchases		.2	2.0	3.3	- 8	.7	-1.0	-1.0	-.6	-1.1
Federal		-3.4	-.6	2.8	-3.2	.8	-6.9	-5.9	-4.3	-5.9
Defense		-3.2	-1.5	1.5	-7.0	-1.3	-9.0	-8.2	-4.4	-4.5
State and local		2.9	4.0	3.6	.8	.6	3.0	2.0	1.5	1.4
Change in bus. invent.	Bill. 87$	19.9	29.8	5.7	-1.1	2.5	15.3	47.8	29.5	30.7
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	18.5	40.7	30.9	30.8
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-110.0	-122.9	-121.4
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	6.5	4.2	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	105.2	107.9	109.4	108.3	108.6	110.7	114.0	116.6	118.0
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.7	5.9
Industrial prod. index	% change	3.2	-.1	-.2	.2	4.0	3.6	6.0	1.4	3.0
Capacity util. rate-mfg.	%	83.6	83.2	81.3	78.0	79.2	80.9	83.4	83.1	81.8
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.46	1.34	1.41
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	15.07	14.62	14.50
Auto sales in U.S.		10.63	9.91	9.50	8.39	8.35	8.72	9.24	8.78	8.60
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.28	7.02	6.99
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.96	1.76	1.61
INCOME AND SAVING										
Nominal GNP	Bill. $	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6726.9	7044.1	7357.0
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	6.1	4.2	4.4
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.8	5.1	4.4
Real disposable income		3.2	1.1	1.1	.9	5.0	.5	4.4	2.4	1.9
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	4.1	4.6	4.6
Corp. profits, IVA&CCAdj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	4.9	2.9	4.2
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.1	8.1	8.1
Federal surpl./def.	Bill. $	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-159.1	-146.5	-145.2
State/local surpl./def.		38.4	44.8	25.1	17.0	24.8	26.3	26.2	23.6	24.9
Ex. social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-39.3	-41.2	-39.2
PRICES AND COSTS										
GDP implicit deflator	% change	4.2	4.4	4.5	3.3	2.6	1.8	2.3	2.1	2.1
GDP fixed-wt. price index		4.2	4.4	4.6	3.6	3.2	2.8	2.9	2.9	2.8
Gross domestic purchases fixed-wt. price index		4.1	4.4	5.2	2.9	3.2	2.5	2.9	2 8	2.8
CPI		4.3	4.6	6.3	3.0	3.1	2.7	2.6	2.8	3.0
Ex. food and energy		4.5	4.4	5.3	4.4	3.5	3.1	2.8	3.1	2.9
ECI, hourly compensation[2]		4 8	4.8	4.6	4.4	3.5	3.6	3.1	2.8	3.1
Nonfarm business sector										
Output per hour		.5	-1.4	.4	2.3	3.1	1.3	1.8	1 5	1.3
Compensation per hour		3.8	3.1	6.2	4.7	5.1	1.9	3.2	3.5	3.2
Unit labor cost		3.3	4.6	5 7	2 3	1.9	.5	1.4	1.9	1.9

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)

August 16, 1995

Item	Unit	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2
EXPENDITURES											
Nominal GDP	Bill. $	5896.8	5971.3	6043.6	6169.3	6235.9	6299.9	6359.2	6478.1	6574.7	6689.9
Real GDP	Bill. 87$	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	4.1
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.6
Final sales		4.8	1.5	3.5	5.6	.2	2.4	3.2	6.4	2.2	1.5
Private dom. final purch.		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.7
Personal cons. expend.		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.3
Durables		15.5	.4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	.4
Nondurables		4.2	-.7	2.7	6.9	-1.6	1.6	2.8	2.4	3.8	2.2
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.1
Business fixed invest.		-.1	15.0	5.0	7.5	15.1	15.6	12.2	21.1	10.9	9.2
Producers' dur. equip.		-1.3	22.7	11.0	12.9	20.0	21.6	16.2	27.5	18.6	6.1
Nonres. structures		2.9	-1.6	-8.9	-5.5	2.5	.3	.5	3.3	-11.8	20.6
Res. structures		22.4	22.7	.8	23.8	5.3	-7.6	9.4	28.2	10.0	7.0
Exports		6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6
Imports		6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9
Government purchases		1.5	-3.0	3.4	.9	-5.9	1.2	1.1	-.1	-4.9	-1.2
Federal		-1.3	-4.8	8.6	1.1	-15.4	-3.6	-3.0	-5.0	-10.3	-7.9
Defense		-7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-4.1
State and local		3.3	-1.8	.1	.8	.9	4.4	3.7	2.9	-1.4	2.9
Change in bus. invent.	Bill. 87$	-6.3	4.2	5.2	6.6	18.5	18.9	13.0	10.8	25.4	59.2
Nonfarm		-14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.7
Net exports		-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	7.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.1	108.4	108.7	109.1	109.7	110.4	111.0	111.8	112.7	113.6
Unemployment rate[1]	%	7.3	7.5	7.5	7.3	7.0	7.0	6.7	6.5	6.6	6.2
Industrial prod. index	% change	.9	5.8	3.4	6.2	5.1	.7	3.3	5.3	7.1	6.0
Capacity util. rate-mfg.[1]	%	78.4	79.1	79.4	80.1	80.8	80.6	80.7	81.4	82.3	83.1
Housing starts	Millions	1.24	1.15	1.18	1.23	1.16	1.25	1.31	1.47	1.36	1.44
Light Motor Vehicle Sales		12.46	12.81	12.71	13.22	13.23	14.11	13.69	14.53	15.45	14.76
Auto sales in U.S.		8.33	8.41	8.24	8.43	8.32	8.93	8.65	8.97	9.45	9.15
North American prod.		6.12	6.25	6.25	6.40	6.36	6.87	6.68	7.08	7.44	7.16
Other		2.21	2.16	1.99	2.03	1.96	2.07	1.97	1.89	2.00	1.99
INCOME AND SAVING											
Nominal GNP	Bill. $	5907.7	5979.1	6049.4	6167.0	6243.9	6303.3	6367.8	6476.2	6574.0	6682.5
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.8
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.7
Real disposable income		5.9	2.1	1.7	10.6	-7.4	4.7	.8	4.3	3.4	3.5
Personal saving rate[1]	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	4.1
Corp. profits, IVA&CCAdj	% change	18.8	.5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	33.6
Profit share of GNP[1]	%	7.0	6.9	6.0	7.0	7.1	7.5	7.7	8.2	7.7	8.2
Federal govt. surpl./def.	Bill. $	-279.9	-284.8	-293.9	-272.1	-283.5	-237.0	-224.9	-220.1	-176.2	-145.1
State/local surpl./def.		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	27.0
Ex. social ins. funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-38.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.7	1.3	2.7	3.3	1.6	1.0	1.3	2.9	2.9
GDP fixed-wt. price index		3.9	3.3	2.7	2.8	4.2	2.4	2.0	2.4	3.1	2.9
Gross domestic purchases fixed-wt. price index		3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.2
CPI		2.9	2.9	3.2	3.5	3.1	2.8	1.7	3.4	2.2	2.5
Ex. food and energy		3.7	3.3	3.3	3.6	3.5	3.5	2.4	2.9	2.9	2.9
ECI, hourly compensation[2]		4.0	2.9	2.8	3.9	4.2	3.5	3.4	3.4	3.0	3.4
Nonfarm business sector											
Output per hour		4.0	2.3	2.4	3.9	-2.2	.4	2.9	4.2	1.7	-1.4
Compensation per hour		5.5	5.0	5.3	4.6	1.9	2.4	1.5	1.6	4.9	1.4
Unit labor cost		1.4	2.7	2.9	.6	4.1	2.0	-1.3	-2.5	3.1	2.8

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

Strictly Confidential (FR)
Class II FOMC

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

August 16, 1995

		1994		1995		Projected					
						1995		1996			
Item	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	6791.7	6897.2	6977.4	7011.8	7091.9	7185.4	7268.3	7345.8	7424.6	7503.9
Real GDP	Bill. 87$	5367.0	5433.8	5470.1	5477.3	5506.8	5546.1	5577.5	5609.0	5640.5	5672.5
Real GDP	% change	4.0	5.1	2.7	.5	2.2	2.9	2.3	2.3	2.3	2.3
Gross domestic purchases		4.4	4.2	3.5	1.0	2.1	2.7	2.3	2.1	2.4	1.8
Final sales		4.3	5.7	2.6	2.1	3.3	2.4	1.7	2.2	2.0	2.6
Private dom. final purch.		4.1	6.8	4.2	3.1	3.8	3.1	2.5	2.6	2.7	2.7
Personal cons. expend.		3.1	5.1	1.6	2.5	2.8	2.2	2.0	2.0	2.1	2.1
Durables		5.8	20.4	-3.4	.4	6.8	2.6	2.6	3.7	3.6	3.6
Nondurables		3.3	3.1	2.3	1.3	2.3	1.9	1.7	1.6	1.7	1.7
Services		2.2	2.3	2.6	3.8	2.1	2.3	2.0	1.8	1.9	1.9
Business fixed invest.		14.1	17.6	21.5	11.8	8.6	6.3	4.5	5.5	5.5	5.6
Producers' dur. equip.		18.1	19.6	24.5	12.7	8.9	6.5	4.6	5.9	5.9	6.0
Nonres. structures		1.6	11.0	11.5	8.5	7.2	5.2	4.0	3.9	4.0	4.0
Res. structures		-6.0	2.3	-3.4	-14.2	3.0	7.8	3.3	2.1	2.0	1.9
Exports		14.8	20.2	4.8	7.2	3.6	11.3	7.1	12.0	5.8	13.2
Imports		15.6	11.4	10.1	9.4	3.1	8.7	6.2	9.2	6.0	8.7
Government purchases		6.7	-4.1	-.7	-.3	.7	-2.0	-2.0	-1.4	-.7	-.4
Federal		10.9	-14.4	-3.8	-3.1	-2.3	-7.8	-7.3	-6.9	-5.3	-4.1
Defense		12.8	-21.8	-7.5	-2.0	-3.0	-5.2	-4.7	-5.3	-4.2	-3.7
State and local		4.3	2.3	1.0	1.4	2.2	1.2	.8	1.5	1.7	1.5
Change in bus. invent.	Bill. 87$	57.1	49.4	51.1	30.4	15.3	21.2	28.7	30.5	34.2	29.5
Nonfarm		47.4	41.7	49.1	32.9	18.3	23.2	29.5	30.7	34.1	29.0
Net exports		-117.0	-107.1	-118.5	-125.0	-125.1	-123.2	-123.4	-121.2	-123.4	-117.8
Nominal GDP	% change	6.2	6.4	4.7	2.0	4.6	5.4	4.7	4.3	4.4	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	114.5	115.3	116.1	116.4	116.7	117.2	117.5	117.8	118.1	118.4
Unemployment rate[1]	%	6.0	5.6	5.5	5.7	5.8	5.8	5.8	5.9	5.9	5.9
Industrial prod. index	% change	4.9	5.9	5.2	-2.7	1.1	2.4	3.2	3.2	2.8	2.7
Capacity util. rate-mfg[1]	%	83.6	84.5	84.7	83.1	82.3	82.0	82.0	81.9	81.8	81.6
Housing starts	Millions	1.47	1.51	1.31	1.28	1.37	1.39	1.40	1.41	1.42	1.42
Light Motor Vehicle Sales		14.65	15.44	14.90	14.35	14.41	14.82	14.49	14.50	14.50	14.50
Auto sales in U.S.		9.09	9.25	8.84	8.72	8.76	8.78	8.61	8.61	8.60	8.59
North American prod.		7.09	7.42	7.03	6.91	6.99	7.16	7.00	7.00	6.99	6.98
Other		2.01	1.83	1.81	1.82	1.77	1.62	1.61	1.61	1.61	1.61
INCOME AND SAVING											
Nominal GNP	Bill. $	6779.6	6871.3	6959.5	6985.8	7071.0	7159.9	7243.1	7314.6	7398.4	7472.1
Nominal GNP	% change	5.9	5.5	5.2	1.5	5.0	5.1	4.7	4.0	4.7	4.0
Nominal personal income		5.4	8.8	7.4	2.8	5.2	5.1	4.6	4.2	4.1	4.7
Real disposable income		3.1	7.5	4.1	-1.3	4.6	2.5	2.8	.2	2.6	2.0
Personal saving rate[1]	%	4.1	4.6	5.1	4.1	4.5	4.6	4.8	4.4	4.5	4.5
Corp. profits, IVA&CCAdj	% change	7.2	3.1	6.9	-2.8	-1.3	9.4	4.9	1.6	8.9	1.6
Profit share of GNP[1]	%	8.2	8.2	8.2	8.1	8.0	8.1	8.1	8.0	8.1	8.0
Federal govt. surpl./def.	Bill. $	-154.0	-161.1	-148.6	-128.3	-148.4	-160.7	-153.8	-130.5	-141.6	-154.9
State/local surpl./def.		23.9	28.8	28.2	20.9	21.8	23.4	20.6	23.1	26.6	29.4
Ex. social ins. funds		-41.4	-36.4	-36.9	-44.0	-42.8	-40.9	-43.6	-41.0	-37.4	-34.6
PRICES AND COSTS											
GDP implicit deflator	% change	1.9	1.3	2.2	1.3	2.5	2.4	2.4	2.0	2.0	2.0
GDP fixed-wt. price index		3.0	2.6	3.3	2.7	2.8	2.9	3.1	2.7	2.8	2.8
Gross domestic purchases fixed-wt. price index		3.5	2.6	3.0	2.9	2.3	2.6	3.1	2.8	2.7	2.7
CPI		3.6	2.2	3.2	3.2	2.0	2.8	3.3	3.1	2.9	2.8
Ex. food and energy		3.1	2.3	3.3	3.6	2.7	2.9	2.9	2.9	2.9	2.9
ECI, hourly compensation[2]		3.3	2.6	2.3	2.9	3.0	3.0	3.1	3.1	3.1	3.1
Nonfarm business sector											
Output per hour		2.7	4.3	2.5	3.0	-1.0	1.4	1.5	1.2	1.2	1.2
Compensation per hour		2.7	3.8	4.1	3.6	3.0	3.0	3.6	2.8	3.2	3.2
Unit labor cost		0	-.4	1.6	.6	4.0	1.6	2.1	1.6	2.0	2.0

1 Not at an annual rate 2 Private-industry workers

Strictly Confidential (FR)
Class II FOMC

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

August 16, 1995

Item	1992				1993				1994					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993	1994
Real GDP	37.7	29.0	43.0	70.2	14.6	30.1	34.0	78.6	43.1	53.0	13.6	179.9	157.3	215.8
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	60.7	-6.4	201.6	201.0	240.7
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	19.2	-20.7	186.8	153.1	177.2
Private dom. final purch.	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	29.8	-32.6	202.2	205.9	211.4
Personal cons. expend.	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	11.5	-.6	138.1	102.8	123.4
Durables	15.7	.4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	.5	-5.5	41.1	42.0	44.0
Nondurables	10.7	-1.8	7.1	17.8	-4.2	4.3	7.4	6.3	10.3	6.0	-17.1	33.8	13.8	33.9
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.1	22.1	63.1	47.0	45.5
Business fixed invest.	-.1	18.0	6.4	9.7	19.4	20.7	16.9	29.3	16.4	14.3	-33.3	34.0	86.3	81.0
Producers' dur. equip.	-1.2	18.6	9.9	11.8	18.4	20.7	16.6	28.2	20.9	7.5	-11.9	39.1	83.9	74.1
Nonres. structures	1.1	-.6	-3.5	-2.1	.9	.1	.2	1.2	-4.6	6.9	-21.4	-5.1	2.4	6.9
Res. structures	9.2	9.8	.4	10.8	2.7	-4.1	4.7	13.5	5.4	3.9	1.2	30.2	16.8	7.0
Change in bus. invent.	-19.8	10.5	1.0	1.4	11.9	.4	-5.9	-2.2	14.6	33.8	34.4	-6.9	4.2	38.6
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.6	33.3	-8.3	4.4	31.0
Farm	9.1	-1.8	-2.8	-3.1	-1.5	-2.7	-4.0	8.0	3.2	4.2	1.0	1.4	-.2	7.6
Net exports	-1.0	-16.2	-4.8	.4	-19.1	-11.7	-17.0	4.1	-21.8	-7.8	19.9	-21.6	-43.7	-24.9
Exports	8.4	2.1	7.4	10.2	-1.5	11.0	-4.9	29.9	-5.6	24.3	42.2	28.1	34.5	72.7
Imports	9.4	18.3	12.3	9.9	17.5	22.8	12.0	25.8	16.2	32.0	22.2	49.9	78.1	97.6
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.8	2.5	-.3	-11.6	-2.8	-8.0	6.2	-9.1	-9.3
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	-12.4	2.9	-25.9	-20.7
Defense	-4.9	-3.4	7.1	-2.2	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	-19.9	-3.4	-23.7	-19.6
Nondefense	3.8	-1.2	.6	3.2	-1.3	-1.8	3.2	-2.3	.8	-4.5	7.4	6.4	-2.2	-1.1
State and local	4.5	-2.5	.1	1.1	1.3	6.1	5.2	4.2	-2.1	4.1	4.6	3.2	16.8	11.4

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)

August 16, 1995

Item	1994 Q3	1994 Q4	1995 Q1	1995 Q2	Projected 1995 Q3	Projected 1995 Q4	Projected 1996 Q1	Projected 1996 Q2	Projected 1996 Q3	Projected 1996 Q4	1993	1994	Projected 1995	Projected 1996
Real GDP	52.9	66.8	36.3	7.2	29.5	39.2	31.4	31.5	31.6	31.9	157.3	215.8	112.3	126.4
Gross domestic purchases	58.2	56.9	47.7	13.7	29.6	37.3	31.7	29.2	33.8	26.3	201.0	240.7	128.3	121.0
Final sales	55.1	74.4	34.6	27.9	44.6	33.3	24.0	29.7	27.9	36.6	153.1	177.2	140.4	118.1
Private dom. final purch.	45.4	74.3	47.7	35.0	43.2	36.1	28.9	30.7	31.6	31.9	205.9	211.4	162.0	123.2
Personal cons. expend.	26.9	44.9	14.3	22.6	25.7	20.0	18.3	18.7	19.5	19.6	102.8	123.4	82.6	76.1
Durables	7.4	25.2	-4.8	.5	9.1	3.6	3.6	5.2	5.0	5.1	42.0	44.0	8.4	18.9
Nondurables	9.1	8.5	6.3	3.7	6.4	5.3	4.8	4.6	4.9	4.9	13.8	33.9	21.7	19.2
Services	10.4	11.1	12.8	18.4	10.2	11.1	10.0	9.0	9.5	9.6	47.0	45.5	52.5	38.1
Business fixed invest.	22.1	28.2	35.4	21.0	15.9	11.9	8.8	10.8	11.0	11.3	86.3	81.0	84.2	41.8
Producers' dur. equip.	21.5	24.2	31.1	17.7	13.0	9.8	7.1	9.1	9.3	9.6	83.9	74.1	71.6	35.1
Nonres. structures	.6	4.0	4.3	3.3	2.9	2.1	1.6	1.7	1.7	1.7	2.4	6.9	12.6	6.7
Res. structures	-3.6	1.3	-2.0	-8.6	1.6	4.2	1.8	1.2	1.2	1.1	16.8	7.0	-4.8	5.3
Change in bus. invent.	-2.1	-7.7	1.7	-20.7	-15.1	5.9	7.4	1.8	3.7	-4.7	4.2	38.6	-28.2	8.3
Nonfarm	-4.3	-5.7	7.4	-16.2	-14.6	4.9	6.2	1.2	3.4	-5.1	4.4	31.0	-18.5	5.8
Farm	2.2	-2.0	-5.7	-4.5	-.5	1.0	1.2	.6	.3	.4	-.2	7.6	-9.7	2.5
Net exports	-5.2	9.9	-11.4	-6.5	-.1	1.9	-.3	2.3	-2.2	5.6	-43.7	-24.9	-16.1	5.4
Exports	22.6	31.4	8.3	12.3	6.3	19.7	12.8	21.8	11.1	25.0	34.5	72.7	46.7	70.6
Imports	27.9	21.5	19.6	18.8	6.5	17.9	13.0	19.5	13.3	19.3	78.1	97.6	62.8	65.2
Government purchases	14.9	-9.8	-1.7	-.6	1.5	-4.7	-4.7	-3.3	-1.5	-.9	-9.1	-9.3	-5.5	-10.5
Federal	8.8	-13.1	-3.2	-2.6	-1.9	-6.5	-5.9	-5.5	-4.1	-3.1	-25.9	-20.7	-14.2	-18.7
Defense	6.9	-13.9	-4.2	-1.1	-1.6	-2.8	-2.5	-2.8	-2.2	-1.9	-23.7	-19.6	-9.7	-9.4
Nondefense	1.8	.8	1.0	-1.5	-.3	-3.7	-3.4	-2.7	-1.9	-1.2	-2.2	-1.1	-4.5	-9.3
State and local	6.1	3.3	1.5	2.1	3.3	1.8	1.2	2.2	2.6	2.2	16.8	11.4	8.7	8.2

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)

August 16, 1995

Item	Fiscal year				1994				1995				1996			
	1993[a]	1994[a]	1995	1996	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1[a]	Q2[b]	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1153	1257	1353	1390	289	363	318	308	307	404	335	320	294	427	349	335
Outlays[1]	1409	1461	1518	1579	348	363	371	380	378	379	380	396	397	392	395	412
Surplus/deficit[1]	-255	-203	-164	-189	-59	0	-53	-73	-71	24	-45	-76	-102	35	-46	-77
On-budget	-301	-259	-230	-251	-66	-33	-55	-87	-83	-10	-50	-84	-109	-7	-50	-82
Off-budget	46	56	65	61	8	33	2	14	12	34	5	9	7	42	4	5
Surplus excluding deposit insurance[2]	-283	-211	-183	-196	-65	3	-57	-77	-77	19	-47	-76	-106	35	-50	-76
Means of financing																
Borrowing	249	185	168	217	51	8	37	60	66	26	17	62	92	11	51	55
Cash decrease	6	17	-3	-21	5	-6	15	9	8	-42	21	16	8	-45	0	25
Other[3]	0	1	0	-6	2	-2	1	5	-3	-7	6	-3	2	-1	-5	-3
Cash operating balance, end of period	53	36	39	60	45	51	36	27	18	61	39	23	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1242	1355	1448	1505	1338	1381	1389	1409	1441	1472	1472	1488	1491	1521	1521	1536
Expenditures	1497	1529	1595	1652	1514	1526	1543	1570	1590	1600	1620	1649	1644	1651	1662	1691
Purchases	447	439	434	422	438	435	444	432	434	434	434	427	425	420	417	416
Defense	307	296	285	281	292	292	301	285	284	285	284	282	283	281	280	279
Nondefense	140	144	149	141	146	144	144	147	151	149	149	144	142	139	137	137
Other expenditures	1049	1090	1161	1229	1076	1091	1099	1138	1155	1166	1186	1222	1219	1231	1245	1275
Surplus/deficit	-254	-174	-147	-147	-176	-145	-154	-161	-149	-128	-148	-161	-154	-130	-141	-155
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-211	-164	-169	-164	-158	-140	-161	-184	-176	-149	-167	-180	-172	-148	-158	-171
Change in HEB, percent of potential GDP	-.1	-.7	.1	-.1	-.6	-.3	.3	.3	-.1	-.4	.2	.2	-.1	-.3	.1	.2
Fiscal impetus (FI), percent, cal. year	-4.1	-7.3	-5.9	-11.6	-4.2	-4.3	3.4	-3.8	-1.7	-1.8	-.4	-1.9	-6.9	-2.6	-.5	-3

1. OMB's July 1995 deficit estimates are $160 billion in FY95 and $163 billion in FY96. CBO's March 1995 deficit estimates are $175 billion in FY95 and $210 billion in FY96. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's July 1995 deficit estimates, excluding deposit insurance spending, are $177 billion in FY95 and $170 billion in FY96. CBO's March 1995 deficit estimates, excluding deposit insurance spending, are $191 billion in FY95 and $218 billion in FY96.

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--Preliminary.

Recent Developments

The decision to ease monetary policy at the July FOMC meeting prompted an immediate decline in interest rates, with the most pronounced drop at short and intermediate maturities. Evidently, the FOMC's action heightened the market's confidence that further easing would be forthcoming. However, market participants have since reconsidered that view, as data released over the intermeeting period pointed toward a resumption of moderate economic growth, and the Chairman's Humphrey-Hawkins testimony damped expectations of any further policy moves in the near term. On balance, money market rates have declined slightly from levels that prevailed just before the announcement of the easing, but rates on Treasury notes and bonds have risen as much as 40 basis points, steepening the yield curve. In response to the brighter economic news, corporate bond rates have increased less than those on Treasuries of comparable maturity; indeed, yields on junk bonds have held stable or even edged down, reversing most of the wider quality spreads that emerged over the first half of the year. Broad indexes of stock prices moved higher on balance over the intermeeting period, bolstered by the mostly positive surprises on corporate earnings.

The growth of the broad monetary aggregates slowed in July from the double-digit pace in June but remained buoyant compared with the advances recorded in 1994 and early this year. M2 rose at an annual rate of nearly 6 percent in July, boosted by further strong inflows into retail money market funds. The growth of M3--at a pace of 8-1/2 percent in July--has remained above that of M2. Large time deposits continued to grow rapidly last month, and institution-only money funds surged, as investors took advantage of the lagged adjustment of money fund yields to the decline in market rates in June and early July.

Bank credit expanded at an annual rate of only 3-3/4 percent in July, restrained by a large run-off of securities holdings. The growth of loans in July moved up from that in June, but the 8-3/4 percent rate of advance across the two months was less robust than the increases earlier this year. This deceleration has centered on business loans and appears to reflect less buoyant demand. By all accounts, banks have continued to be accommodative business lenders. Our recent survey of senior loan officers revealed another easing of terms on business loans, but no further reduction of underwriting standards. The growth of consumer loans slipped in July to an annual rate of 8-1/4 percent, but the slowdown resulted from greater securitization activity. Loan officers reported essentially no change in willingness to make consumer loans after a lengthy period of reporting greater willingness. Real estate loans expanded more rapidly in July than in the second quarter, perhaps because of stronger demand for single-family housing. On net, the respondents to the latest loan officer survey thought that demand for both consumer installment loans and residential mortgages had strengthened since the May survey.

Bond issuance by nonfinancial corporations has fallen off from the elevated levels in May and June, when firms acted to lock in attractive long-term rates. In addition, the rise in bank loans and commercial paper outstanding in July was somewhat below the second-quarter pace. Two factors help account for the slowdown in nonfinancial corporate borrowing: Some bond issues originally planned for later this year were moved forward to the second quarter, and the more moderate pace of inventory investment has held down financing needs. Stock offerings have continued at a pace somewhat above that in 1994 and early this year, but equity issuance on net has remained negative because of merger-related share retirements and a hefty volume of share repurchases.

A number of large merger deals were announced in the intermeeting period, including Disney's planned takeover of Capital Cities/ABC and Westinghouse's acquisition of CBS. The recently announced mergers will entail significant borrowing through the first half of next year, when the deals are expected to close. We expect the bulk of the initial financing to be obtained from short-term sources, principally commercial paper, though the details on the borrowing mix are still sketchy.

Apart from the data on bank credit, little is known about the pace of household sector borrowing after midyear. Total consumer installment credit increased at an annual rate of nearly 15 percent in the second quarter, little different from the average pace since early 1994. This ongoing strength is consistent with the readings from the Michigan SRC survey through July, which indicate a continued willingness to use credit. Household debt service burdens edged higher in the second quarter but remained below the peak reached in 1989.

After spiking up in June, gross offerings of municipal debt returned in July to the slower pace of earlier this year. Since the beginning of the year, the amount of outstanding tax-exempt debt has dropped roughly $40 billion (about 4 percent of the stock), as retirements of previously refunded debt have continued to be heavy. Yields on tax-exempt debt relative to Treasuries have declined somewhat since midyear, but the yield ratio remains elevated. Investors evidently continue to fear that tax reform will reduce the attractiveness of municipal debt and continue to be concerned about default risk after the bankruptcy in Orange County.

The growth of U.S. government debt has slowed markedly this quarter after rising at a seasonally adjusted annual rate of 5-1/2 percent in the second quarter. The Treasury plans to finance this quarter's deficit, in part, by drawing on its large cash balance; the cash balance has swelled in recent months as a result of both strong tax receipts and payments for airwave spectrum rights that were auctioned off earlier in the year. Under the current debt ceiling, the staff estimates that the Treasury will not have sufficient cash to meet its obligations beyond mid-November.

Outlook

In preparing its economic forecast, the staff has assumed that the federal funds rate will hold steady at 5-3/4 percent through the end of 1996. Futures quotes suggest that market participants now expect only a little further easing of policy over the forecast period. Thus, our path for the funds rate, if realized, should not greatly disappoint the market. This assessment, combined with our belief that inflation will remain in check, underlies our projection of little change in long-term rates through 1996 from current levels.

With attractive returns available on money funds and retail deposit rates rising relative to those on market instruments--in part owing to the recent cut in deposit insurance premia--M2 is expected to finish 1995 near the upper arm of its 1 percent to 5 percent growth range. M3 may outpace even its upward-revised growth range of 2 percent to 6 percent for 1995, boosted by the vigorous growth of bank credit earlier in the year and a greater tendency for banks to rely on deposit funding. In 1996, M2 is likely to accelerate slightly, as nominal GDP growth edges up and short-term opportunity costs narrow further. However, M3 growth should retreat a bit from its recent hefty pace in response to a less robust rise in demand for depository credit.

Total debt of the domestic nonfinancial sectors is projected to increase 5 percent this year and 4-3/4 percent in 1996. Debt growth in both years has been revised up a bit from the June projection. Although our current projection implies an uptick in the ratio of nonfinancial debt to nominal GDP, we do not foresee any serious deterioration in the credit quality of either households or businesses. Federal sector debt is expected to increase about 4-1/2 percent this year (absent any disruptions from the debt ceiling or this fall's budgetary endgame) and then 5-1/2 percent next year, boosted by a projected rise in the deficit.

In the household sector, the upward trend in outlays for consumer durables and housing is expected to generate moderate debt growth. Overall, household debt is projected to increase about 6-1/2 percent this year, edging down to a rise of 6 percent in 1996. Both years' growth rates exceed the anticipated gains in nominal income, as increasing opportunities and incentives to use credit cards have boosted the expansion of revolving-credit balances and appear likely to do so for some time. As before, we expect household debt service burdens to rise somewhat through 1996, possibly accompanied by an increase in loan delinquency rates--but not to levels that would trigger substantial loan losses or a major tightening of credit availability.

The gap between capital expenditures by nonfinancial corporations and their internal funds widened substantially around the turn of the year, and we expect the gap to remain sizable over the forecast period. To finance this shortfall, nonfinancial business debt is projected to increase about 6 percent this year and 5 percent in 1996. Given our projection of stable interest rates, we expect no major shifts in the mix of debt financing. Over the forecast period, bond issuance is projected to account for nearly half of all corporate debt financing, well above the one-fifth share during the bond market turmoil in 1994 and close to the average ratio since 1980. Bank loans should continue to be an important source of funds for businesses, as availability should not tighten much in the generally healthy financial environment that we envision. Supplementing these sources of funds, we expect some companies to pare cash holdings to finance mergers, share repurchases, or higher dividend payouts. On our assumption that the current merger wave is far from over, net issuance of equity will remain negative through 1996. Nonetheless, in real terms, the amount of net equity retirement over the forecast period is far smaller than that during the late 1980s.

In the state and local sector, we expect the outstanding stock of debt to contract about 7 percent this year and another 5 percent or so in 1996. The driving force behind this run-off continues to be the retirement of municipal debt issued in the mid-1980s, much of which was pre-refunded a few years ago. Excluding the retirement of these pre-refunded issues, the stock of municipal debt is expected to rise modestly over the forecast period, in line with the staff's projection of slow growth in state and local expenditures.

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										
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1	3.2
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5	11.0
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3	4.7
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1	8.0
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6	7.7
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8	6.0
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7	4.7
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0	3.5
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7	6.4
1993	5.3	8.3	4.2	7.1	6.4	7.8	0.5	6.8	-0.4	5.0
1994	4.8	4.7	4.9	8.2	6.4	14.0	3.6	-4.9	5.0	6.5
1995	5.0	4.9	5.0	6.6	5.8	11.5	6.0	-7.3	1.3	4.2
1996	4.9	5.7	4.6	6.0	5.8	7.6	5.0	-5.2	1.0	4.4
Quarter (seasonally adjusted annual rates)										
1994:1	5.1	6.3	4.7	7.2	6.5	7.9	3.4	-1.4	6.3	6.1
2	4.2	3.6	4.4	7.0	5.2	13.9	3.8	-4.5	5.3	7.2
3	4.7	3.9	4.9	8.8	7.0	14.4	3.5	-7.2	2.1	6.2
4	4.9	4.5	5.1	8.9	6.2	17.1	3.6	-6.8	6.0	6.4
1995:1	6.3	7.8	5.8	6.7	6.2	10.2	7.8	-6.7	3.0	4.7
2	5.9	5.4	6.1	6.6	5.2	13.6	7.1	-1.2	0.6	2.0
3	3.1	1.5	3.8	6.4	5.5	10.5	4.3	-12.3	0.7	4.6
4	4.2	4.6	4.0	6.3	5.7	10.0	4.3	-9.9	1.0	5.4
1996:1	6.5	10.4	5.0	6.2	5.7	8.9	6.0	-6.8	1.0	4.7
2	4.4	3.6	4.6	6.0	5.7	7.8	4.6	-3.4	1.0	4.3
3	4.4	4.8	4.3	5.7	5.7	6.7	4.5	-5.3	1.0	4.4
4	4.0	3.5	4.1	5.6	5.7	6.2	4.3	-5.9	1.0	4.3

1. Data after 1995:q1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4.
2. On a quarterly average basis, total debt growth is projected to be 5.0 in 1995 and 4.7 in 1996. Federal debt rises 4.6 percent in 1995 and 5.6 percent in 1996. Nonfederal debt is projected to increase 5.2 percent in 1995 and 4.4 percent in 1996.

Confidential FR Class II
August 16, 1995

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

	Calendar year			-1994-	-1995-				-1996-			
	1994	1995	1996	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
				Seasonally Adjusted Annual Rates								
Net funds raised by domestic nonfinancial sectors												
1 Total	555.7	582.5	606.6	530.1	772.2	702.2	356.5	499.1	787.1	552.7	571.8	514.6
2 Net equity issuance	-40.9	-61.0	-59.0	-102.0	-46.8	-73.2	-64.0	-60.0	-92.0	-52.0	-46.0	-46.0
3 Net debt issuance	596.6	643.5	665.6	632.1	819.0	775.4	420.5	559.1	879.1	604.7	617.8	560.6
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	48.5	109.9	95.9	91.7	124.6	99.3	119.5	96.0	93.7	98.5	97.2	94.3
5 Net equity issuance	-40.9	-61.0	-59.0	-102.0	-46.8	-73.2	-64.0	-60.0	-92.0	-52.0	-46.0	-46.0
6 Credit market borrowing	136.2	233.5	204.6	137.5	301.5	281.4	174.1	177.2	249.1	193.3	190.2	185.8
Households												
7 Net borrowing, of which:	352.7	308.2	297.4	404.7	308.8	311.5	307.2	305.4	307.2	304.0	289.8	288.6
8 Home mortgages	190.1	182.5	194.7	194.5	195.0	166.9	180.0	188.0	191.0	193.0	196.0	199.0
9 Consumer credit	121.2	113.5	83.5	161.5	100.3	137.0	109.7	107.2	97.2	87.2	77.2	72.2
10 Debt/DPI (percent)[3]	90.1	91.4	92.7	90.0	90.3	91.6	91.6	91.9	92.1	92.8	93.0	93.2
State and local governments												
11 Net borrowing	-48.2	-69.2	-45.7	-65.1	-63.1	-11.2	-113.6	-88.8	-59.2	-29.2	-45.2	-49.2
12 Current surplus[4]	-46.8	-56.9	-57.2	-32.9	-48.5	-60.4	-59.9	-58.7	-61.6	-59.1	-55.6	-52.7
U.S.government												
13 Net borrowing	156.1	170.9	209.3	155.9	271.8	193.6	52.9	165.4	382.0	136.7	183.0	135.4
14 Net borrowing;quarterly, nsa	156.1	170.9	209.3	59.7	65.6	25.6	17.5	62.2	92.1	11.4	50.8	54.9
15 Unified deficit;quarterly, *nsa*	*184.5*	*167.2*	*190.5*	72.7	71.3	-24.3	44.7	75.6	102.3	-34.8	46.3	76.7
Funds supplied by												
16 depository institutions	196.9	227.1	217.7	193.4	366.4	202.7	175.6	163.5	220.7	216.7	213.7	219.7
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	188.0	188.0	188.7	186.8	187.3	189.2	189.2	188.4	188.7	189.3	189.3	189.3
18 Dom. nonfinancial borrowing	8.9	9.1	9.0	9.2	11.7	11.1	5.9	7.8	12.1	8.2	8.3	7.5
19 U.S. government[5]	2.3	2.4	2.8	2.3	3.9	2.8	0.7	2.3	5.3	1.9	2.5	1.8
20 Private	6.5	6.7	6.2	6.9	7.8	8.3	5.2	5.5	6.8	6.4	5.9	5.7

1. Data after 1995:q1 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Average debt levels in the period (computed as the average of period-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 risen, on balance, about 5 percent since the July FOMC meeting. The dollar gained as economic data released over the intermeeting period suggested greater strength in U.S. economic activity than had been expected, as long-term dollar interest rates rose relative to some non-dollar rates, and in response to three episodes of concerted dollar intervention.

The dollar appreciated about 15 percent against the yen, on balance, over the period, with the increase concentrated on three days. On July 7, the Bank of Japan lowered its call money rate nearly 50 basis points to just above 3/4 percent, somewhat below the official discount rate of 1 percent. On August 2, Japanese officials announced a series of measures intended to encourage capital outflow from Japan. On both days, the Bank of Japan intervened to purchase dollars, with particularly large purchases on August 2, and the Desk joined in that intervention. On August 15, the Bank of Japan and the Desk joined in intervention purchases of dollars against marks and yen. The actions by the Japanese officials may have led market participants to believe that the Japanese government is committed to a weaker yen and is prepared to take additional policy measures to that end. However, the yen's recent decline has been associated with a rise in the long-term bond rate of nearly 65 basis points, more than the increase in long-term dollar rates, and a reduction in the expectations of further monetary policy easing as reflected in Euroyen futures rates. In response to the weakening of the yen, the Japanese stock market has risen about 20 percent over the intermeeting period.

The dollar rose nearly 7 percent in terms of the German mark over the intermeeting period. With most other European currencies strengthening against the mark, the dollar increased somewhat less in terms of those currencies. Long-term interest rates in the major European industrial countries moved down between 10 and 75 basis points. Short-term interest rates fell in most of the foreign G-10 countries for an average decline of nearly 30 basis points.

The Mexican peso has changed little on balance since the July FOMC meeting and has traded in a narrow range of 6.1 to 6.2 pesos per dollar for the past several weeks. Short-term peso interest rates have declined about 5 percentage points, to 35 percent.

. Total dollar purchases by the Desk were $1.533 billion, split evenly between the account of the Treasury and that of the System.

During the second quarter, real output growth appears to have been moderate to weak in the major foreign industrial countries, and more recent indicators, while sparse, suggest that the subdued pace of growth continued into the current quarter. Real economic activity remains particularly weak in Japan, where industrial production fell in May and June. Housing starts and machinery orders declined in May as well. Labor market indicators through June continue to suggest a pause in the Japanese recovery, which was already anemic. Real output appears to have expanded only slightly in Canada during the second quarter, and employment data through July show little change since the start of the year. Housing starts fell in July after rebounding in June.

In Europe, economic expansion appears to be continuing, though somewhat unevenly. In Germany, manufacturing capacity utilization increased further in the second quarter; other data also suggest an increase in the second quarter, but changes in statistical methods continue to affect adversely their reliability. Labor market indicators for both eastern and western Germany were stagnant through July. According to preliminary data, second-quarter real GDP grew 2.3 percent at an annual rate in the United Kingdom, a bit slower than the first-quarter pace. Industrial production was little changed in the second quarter while retail sales rose moderately. In July, the U.K. unemployment rate remained at 8.3 percent, its average in the second quarter. In France, capacity utilization was unchanged in the second quarter from its level in the first. On average, French industrial production in April and May was also about unchanged from its first-quarter level, while employment expanded through June, lowering the unemployment rate slightly.

Consumer price inflation in most major foreign industrial countries has remained low or has declined further in recent months. In Japan, the CPI in July was slightly below its level twelve months earlier, and in western Germany, consumer price inflation remained about 2-1/4 percent. In France, inflation decreased slightly in July, but the rise in the VAT that took effect on August 1 is expected to show through into prices in coming months. U.K. inflation edged up in June.

The U.S. nominal trade balance in goods and services was unchanged in May from its April level, resulting in an average deficit for those two months that was significantly greater than the first-quarter rate. Exports of goods and services in April and May combined were 2-1/4 percent above the first-quarter average level. Exports of aircraft, other capital goods excluding computers, and industrial supplies accounted for the expansion. For the two-month average, imports were 4 percent higher than in the first quarter. Increases were recorded in all major trade categories except food.

Prices of non-oil imports fell slightly in June; nevertheless, for the second quarter as a whole, non-oil import prices rose at an annual rate of 5-1/2 percent, about equal to the rate of increase during the second half of last year but higher than that during the first quarter of this year. The price of imported oil fell in June as a strike by Brazilian oil workers was called off and statements by OPEC officials implied possible higher production by OPEC members. Spot WTI prices continued to fall throughout most of July as supplies remained abundant but subsequently rose on the news of unusually low U.S. oil inventories. WTI is currently trading at $17.35 per barrel.

Outlook

The rate of growth of real total output abroad, weighted by U.S. nonagricultural exports, is projected to strengthen to 2 percent, annual rate, this quarter and then to average 3-1/4 percent over the next five quarters. Accordingly, growth of foreign real GDP will about equal that of the United States during the second half of this year and then will exceed U.S. growth by about 1 percentage point next year. Over the forecast period, the dollar is projected to drop back somewhat and then remain stable. The somewhat higher average foreign growth and remaining lagged effects from earlier dollar depreciation will leave real net exports essentially unchanged over the forecast period. U.S. real net exports are no longer projected to improve, as they were in the June Greenbook, as a consequence of the upward revision to projected U.S. real GDP growth.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will drop back somewhat from its highs of the past few days and will then remain unchanged at the level projected in the previous Greenbook. We expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate moderately, on balance, both this year and next. In particular, the sharp real appreciation of the dollar in terms of the peso that took place around the beginning of this year should continue to be partly reversed, as the peso declines only slightly further this year while Mexican inflation runs substantially above U.S. inflation.

Foreign G-7 countries. Real GDP growth in the foreign G-7 countries is expected to expand only weakly this quarter at an average rate of 1-1/4 percent, somewhat above that estimated for the second quarter. Growth is projected to rise further and to average about 2-1/2 percent over the final five quarters of the forecast period.

In Japan, we are projecting a continuation of essentially no growth in 1995, a projection significantly weaker than that in the previous Greenbook. In 1996, we look for a weak expansion of economic activity to resume as the partial reversal of the yen appreciation, some further expected monetary easing, and expected fiscal stimulus measures begin to have their effects. Our current outlook for Japan next year is for real growth of 1-1/2 percent over the four quarters, 1/2 percentage point less than in our previous forecast.

Positive output growth is projected to return in Canada this quarter, in part as the U.S. economy strengthens. Growth will strengthen at the end of this year and into next but will be tempered by an ongoing inventory correction. For the four quarters of 1996, real GDP is projected to expand 2-1/2 percent, on average, as in the June Greenbook.

In the European G-7 countries, real output growth is expected to continue to be moderate, with the outcome for 1996 projected to be a bit stronger than that for 1995 in most cases. In Germany, real GDP is expected to grow at an annual rate of 2-3/4 percent this quarter and next, somewhat stronger than during the first half of this year. Next year, growth should remain at about 2-3/4 percent as a reduction in income tax rates in January introduces some fiscal stimulus while high capacity utilization in western Germany and continued strong construction in eastern Germany help to maintain investment growth. In the United Kingdom, real GDP is projected to grow at a rate of about 2-3/4 percent this quarter and over the remainder of the forecast period. This outlook is somewhat weaker in the near term than that in the previous forecast as recent data on production and demand have suggested some slowing in the rate of expansion of economic activity.

Consumer price inflation in the foreign G-7 countries (weighted by U.S. bilateral non-oil import shares) is forecast to average only 1-3/4 percent this year and to decline to 1-1/4 percent next year. In Japan, we expect consumer prices to decline about 1/2 percent this year and a bit more next year in response to the earlier yen appreciation and to the slack in the economy. In western Germany, consumer price inflation is expected to edge up to about 2-1/2 percent next year as the effect of this year's DM appreciation fades and as this spring's wage increases affect final prices. Consumer prices are projected to accelerate in the United Kingdom next year to nearly 4 percent, reflecting reduced slack in the economy and some passthrough of higher prices for imported goods; when the index is adjusted to remove the effects of changes in interest rates, the projected rise in inflation is less. Italian prices appear to be accelerating now, reflecting previous lira depreciation; inflation should slow somewhat next year.

Our outlook for the foreign G-10 countries incorporates the assumption that, on average, foreign short-term market interest rates will decline another 1/2 percentage point from current levels through the end of this year and then rise during 1996 as activity strengthens in these countries. In Japan, our assumption, contrary to current market expectations, is that short-term rates will decline about 50 basis points by early in the fourth quarter as the Bank of Japan eases monetary policy further in order to sustain the weaker yen and to support the economy and the financial system. Japanese short-term rates are expected to remain low through mid-1996 and to rise only slightly at the end of next year. In contrast, German short-term rates are expected to decline only a bit further and then to rise significantly during 1996 as the Bundesbank responds to faster activity and less slack in the economy. Rates in the United Kingdom are assumed to rise further this year and next as inflationary pressures continue to emerge. Foreign long-term rates are assumed to be little changed on average through the end of the forecast period. However, Japanese rates are assumed to decline, as prices continue to fall and monetary policy is eased, while German rates change little and U.K. rates rise.

Other countries. The real GDP of major developing countries that are trading partners of the United States (weighted by U.S. nonagricultural export shares) is projected to increase 3 percent during 1995 and 5 percent during 1996. The pickup in growth in 1996 largely reflects an anticipated moderate recovery in Mexico from the recession this year.

Our forecast incorporates a contraction of real GDP in Mexico of about 6 percent during 1995 (on a Q4/Q4 basis), although data released late on August 15 showed a greater decline in the second quarter than we anticipated--10.5 percent (Q2/Q2). Because most of the improvement that Mexico will experience in its external position has probably already occurred, Mexico's recovery is expected to depend largely on a recovery of domestic demand. Although the outlook for Mexico's growth remains highly uncertain, we project that economic activity will begin to pick up by early 1996 as credit conditions ease and as investor confidence is gradually restored. Real output growth in Argentina is expected to be zero in 1995, but we project that the stabilization of financial markets that has occurred during the past few months will support a renewed expansion in economic activity by the early part of next year.

Our major developing country trading partners in Asia are expected to continue to grow at a robust rate in 1995-96, although growth is projected to moderate next year in some cases as the stimulative effects of past real effective depreciations of their currencies and of previous monetary policy actions subside.

U.S. real net exports. U.S. real net exports are projected to change little over the forecast period. Projected strengthening of economic activity in our trading partners, particularly in Mexico and in Canada, and lagged effects of the weaker dollar will contribute to faster real export growth in 1996. With real import growth somewhat slower than export growth, but starting from a larger base, real net exports will be essentially unchanged over the forecast period.

Growth of real exports of goods and services is projected to increase somewhat during the second half of 1995 from its earlier pace and then to average 9 percent over the four quarters of 1996. Continued double-digit growth of computer exports contributes importantly to the strength in real exports. The growth of nonagricultural exports other than computers is projected to fluctuate some during the remainder of this year in response to seasonal influences not captured in the published data and to accelerate from an average annual rate of growth of 2-1/4 percent during the last half of 1995 to 5-1/4 percent during 1996.

QUANTITIES OF GOODS AND SERVICES
(Percent change from end of previous period, SAAR)

			------Projection------		
	1995				1996
	Q1	Q2	Q3	Q4	
Exports of G&S	4.8	7.2	3.6	11.3	9.5
Services	-3.1	-1.5	2.0	4.6	4.8
Computers	28.5	29.9	29.3	29.8	31.8
Other goods[1]	3.6	9.4	-3.4	8.4	5.3
Imports of G&S	10.1	9.4	3.1	8.7	7.5
Services	15.9	-3.1	0.9	2.4	2.8
Oil	-11.4	9.7	30.6	-2.3	1.8
Computers	13.3	24.9	26.0	26.1	21.5
Other goods[2]	10.7	8.5	-4.4	6.7	5.0

Note. NIPA basis, 1987 dollars.
1. Nonagricultural exports of goods excluding computers.
2. Non-oil imports of goods excluding computers.

Real imports of goods and services are projected to rise at an average annual rate of 6 percent during this quarter and next, somewhat slower than during the first half of the year. During 1996, import growth is projected to increase to about 7-1/2 percent, about the same as that projected for 1995 as a whole. Computer imports are projected to continue expanding rapidly. Growth of non-oil imports other than computers is expected to weaken during the second half of this year because of lagged effects of the lower dollar and our projection that adjustment of our trade with Mexico, which raised imports earlier this year, is nearly complete. Growth of these imports will rebound to 5 percent next year. Part of the slowing in total import growth is accounted for by a drop in the growth of the quantity of oil imports to about 1-3/4 percent next year. We expect the quantity of oil imports to rise sharply this quarter on seasonally higher consumption and inventory accumulation and to remain strong next quarter. During the remainder of the forecast period, oil imports are projected to resume growing as U.S. production declines and U.S. oil consumption increases.

Oil prices. We project that during the remainder of the year, the price of imported oil will remain below the second-quarter level in the face of an uptick in world oil production. While the third-quarter assumption for the oil import unit value has been revised up a marginal $0.24 per barrel, to $15.58 per barrel, this is about a $2.00 per barrel drop from the second-quarter average. Given the staff's assumption that Iraq will not return to the world oil export market during 1996, stronger global economic activity will raise oil prices next year. During 1996, the spot WTI price and the oil import unit value are projected to be $19.50 per barrel and $17.00 per barrel, respectively.

SELECTED PRICE INDICATORS
(Percent change from end of previous period except as noted, AR)

			------Projection------		
	1995				1996
	Q1	Q2	Q3	Q4	
U.S. PPI[1]	5.9	5.6	1.5	4.3	2.4
Nonag.exports[2]	9.7	6.7	4.5	4.7	2.5
Non-oil imports[2]	3.6	5.9	1.8	1.3	1.7
Oil imports[3] ($bl.)	16.01	17.41	15.58	15.33	17.00

1. Selected categories (excluding computers) weighted by U.S. exports.
2. Excluding computers.
3. 1996 is Q4 level.

Prices of non-oil imports and exports. U.S. non-oil import prices (excluding computers) are projected to decelerate significantly during the second half of this year to 1-1/2 percent, annual rate of increase, after rising at about a 4-3/4 percent rate in the first half of the year. A sharp drop in the rate of increase of world commodity prices contributes to the lower import price inflation. Next year, non-oil import prices are projected to rise only about 1-1/2 percent as inflation abroad slows further and the dollar remains stable. Prices of nonagricultural exports (excluding computers), which rose at the very sharp annual rate of 8 percent during the first half of this year, are projected to decelerate also, to 4-1/2 percent during the remainder of 1995 and to about 2-1/2 percent in 1996. These export prices tend to move in line with the relevant categories of U.S. producer prices.

Nominal trade and current account balances. The nominal U.S. trade deficit on goods and services is projected to have reached a peak during the second quarter of $135 billion and is expected to decline over the forecast period to $110 billion by the end of 1996. U.S. investment income is projected to continue to deteriorate somewhat through the end of next year but by less than the improvement in the trade balance. Accordingly, the current account balance is expected to improve from an estimated $185 billion in the second quarter of this year and to average about $170 billion over the forecast period, 2.3 percent of GDP.

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August 16, 1995

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1993-96
(Percent; quarterly change at an annual rate except as noted)

										Projected	
			Projected		1994	1995				1996	
Measure and country	1993	1994	1995	1996	Q4	Q1	Q2	Q3	Q4	Q1	Q2
REAL GDP											
Canada	3.1	5.4	1.1	2.6	4.6	0.7	-0.0	0.9	3.0	3.0	2.4
France	-0.9	4.0	2.6	3.0	3.2	2.8	3.0	1.9	2.6	2.8	3.0
Germany	-0.0	4.0	2.4	2.8	4.1	1.9	2.0	2.7	2.8	2.9	2.8
W. Germany	-0.5	3.3	1.8	2.2	3.0	0.9	1.7	2.2	2.3	2.4	2.2
Italy	-0.3	2.9	4.0	3.1	0.7	6.0	2.6	3.8	3.8	3.6	3.2
Japan	-0.5	0.8	0.1	1.5	-3.9	0.3	0.0	0.0	0.3	1.1	1.3
United Kingdom	2.9	4.0	2.6	2.8	2.8	2.7	2.3	2.7	2.8	2.8	2.7
Average, weighted by 1987-89 GDP	0.3	2.9	1.8	2.4	0.7	2.1	1.4	1.7	2.1	2.4	2.4
Average, weighted by share of U.S. nonagricultural exports											
Total foreign	2.7	4.4	2.2	3.3	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	1.6	4.0	1.4	2.4	2.3	1.3	0.8	1.3	2.4	2.6	2.3
Developing countries	5.2	5.7	3.1	5.0	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
Canada	1.8	0.0	3.0	2.2	1.3	4.2	3.1	2.4	2.2	2.2	2.2
France	2.1	1.6	2.8	1.7	1.7	2.2	2.1	4.0	2.8	1.6	1.6
Western Germany	3.7	2.8	2.4	2.6	1.3	3.8	2.7	1.4	1.7	3.8	3.1
Italy	4.1	3.8	6.0	5.0	4.7	6.3	8.0	4.2	5.5	6.1	6.6
Japan	1.2	0.8	-0.5	-0.9	2.0	-2.3	0.7	-0.0	-0.1	-0.4	-0.8
United Kingdom	1.6	2.6	3.4	3.9	2.6	3.6	7.5	0.7	1.9	4.5	7.5
Average, weighted by 1987-89 GDP	2.2	1.8	2.2	1.8	2.3	1.9	3.4	1.7	1.9	2.4	2.6
Average, weighted by share of U.S. non-oil imports	1.9	1.1	1.7	1.2	1.9	1.5	2.6	1.4	1.4	1.7	1.7

Note. Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.

U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1992				1993				1994		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993
NIPA Real Net Exports of Goods & Services (87$)	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8	-19.5	-32.3	-73.9
Exports of G&S	571.0	573.1	580.5	590.7	589.2	600.2	595.3	625.2	619.6	643.9	542.6	578.8	602.5
Goods	416.0	421.5	427.4	441.2	433.9	443.3	438.5	468.2	464.4	484.6	397.1	426.5	446.0
Agricultural	38.9	38.4	40.5	41.3	39.1	39.3	36.9	39.1	36.6	37.5	35.5	39.8	38.6
Computers	47.1	52.3	56.2	60.1	60.9	62.9	68.5	74.0	76.9	79.3	41.4	53.9	66.6
Other Goods	330.0	330.8	330.7	339.8	333.9	341.1	333.1	355.1	350.9	367.8	320.2	332.8	340.8
Services	154.9	151.6	153.1	149.6	155.3	156.9	156.7	157.1	155.2	159.2	145.5	152.3	156.5
Imports of G&S	588.8	607.1	619.4	629.3	646.8	669.6	681.6	707.4	723.6	755.6	562.1	611.1	676.3
Goods	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	648.3	464.4	512.8	572.8
Oil	47.2	51.6	53.1	52.8	53.4	57.7	56.7	58.1	56.5	60.3	49.2	51.2	56.5
Computers	51.2	57.5	64.7	68.4	73.3	80.0	87.8	94.6	99.7	106.9	41.6	60.5	83.9
Other Goods	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	481.0	373.6	401.2	432.4
Services	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	107.4	97.7	98.3	103.6
Memo: (Percent change 1/)													
Exports of G&S	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6	8.1	5.0	5.8
Agricultural	13.4	-5.0	23.7	8.1	-19.7	2.1	-22.3	26.1	-23.2	10.2	10.9	9.5	-5.3
Computers	24.4	52.0	33.3	30.8	5.4	13.8	40.7	36.2	16.6	13.1	26.7	34.8	23.1
Other Goods	3.1	1.0	-0.1	11.5	-6.8	8.9	-9.1	29.2	-4.6	20.7	7.2	3.8	4.5
Services	5.9	-8.3	4.0	-8.8	16.1	4.2	-0.5	1.0	-4.8	10.7	4.7	-2.0	5.0
Imports of G&S	6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9	4.0	8.6	12.4
Oil	0.9	42.8	12.1	-2.2	4.6	36.3	-6.8	10.2	-10.6	29.7	8.3	12.1	10.0
Computers	53.5	59.1	60.3	24.9	31.9	41.9	45.1	34.8	23.4	32.2	45.6	48.7	38.3
Other Goods	2.4	10.1	3.3	5.1	11.1	9.7	2.7	14.2	10.9	20.7	2.9	5.2	9.3
Services	7.2	-7.4	1.2	5.4	4.5	8.7	9.3	12.4	3.4	-4.0	-6.2	1.4	8.7
Current Account Balance	-28.0	-62.1	-67.2	-89.0	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-7.4	-61.5	-99.9
Goods & Serv (BOP), net	-15.9	-41.1	-47.5	-53.5	-54.3	-75.2	-88.0	-82.0	-92.1	-107.7	-29.4	-39.5	-74.8
Goods (BOP), net	-71.8	-97.0	-109.2	-106.5	-115.8	-134.4	-146.4	-133.9	-146.0	-166.0	-74.1	-96.1	-132.6
Services (BOP), net	55.9	56.0	61.7	53.0	61.5	59.2	58.5	51.9	53.9	58.3	44.7	56.6	57.8
Investment Income, net	15.5	10.0	8.5	6.4	14.8	8.3	12.8	0.1	0.5	-9.1	15.1	10.1	9.0
Direct, net	56.6	53.6	50.1	46.1	61.1	55.3	59.2	49.7	46.2	43.9	55.6	51.6	56.3
Portfolio, net	-41.1	-43.6	-41.6	-39.7	-46.2	-47.0	-46.5	-49.6	-45.7	-53.0	-40.5	-41.5	-47.3
Unilateral Transfers, net	-27.5	-31.0	-28.1	-42.0	-30.1	-30.4	-32.9	-42.9	-29.5	-35.1	6.9	-32.1	-34.1

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

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1994		1995				1996 Projection				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1994	1995	1996
NIPA Real Net Exports of Goods & Services (87$)	-117.0	-107.1	-118.5	-125.0	-125.2	-123.3	-123.5	-121.3	-123.5	-117.9	-110.0	-123.0	-121.5
Exports of G&S	666.5	697.9	706.2	718.5	724.8	744.6	757.4	779.1	790.2	815.2	657.0	723.5	785.5
Goods	505.1	533.5	543.2	556.0	561.5	579.4	590.5	610.2	619.5	642.0	496.9	560.0	615.6
Agricultural	40.7	45.9	45.9	42.8	44.6	46.6	46.5	46.4	48.3	48.3	40.2	45.0	47.4
Computers	85.9	95.8	102.0	108.9	116.1	124.0	132.7	142.2	152.4	163.3	84.5	112.7	147.6
Other Goods	378.5	391.8	395.3	404.3	400.8	408.9	411.2	421.6	418.9	430.4	372.2	402.3	420.6
Services	161.3	164.3	163.0	162.4	163.2	165.1	166.8	168.8	170.6	173.0	160.0	163.4	169.8
Imports of G&S	783.5	805.0	824.6	843.4	849.9	867.8	880.8	900.3	913.6	933.0	766.9	846.4	906.9
Goods	674.6	695.9	711.5	731.2	737.4	754.6	766.9	785.6	798.3	816.7	658.5	733.7	791.9
Oil	64.3	57.1	55.4	56.7	60.6	60.3	60.8	63.1	64.2	61.4	59.6	58.2	62.4
Computers	115.4	128.9	133.0	140.6	149.0	157.9	165.7	174.0	182.7	191.8	112.7	145.1	178.5
Other Goods	494.9	510.0	523.1	533.9	527.9	536.5	540.4	548.5	551.4	563.6	486.2	530.3	551.0
Services	108.9	109.1	113.2	112.3	112.6	113.2	114.0	114.8	115.5	116.4	108.5	112.8	115.2
Memo:(Percent change 1/)													
Exports of G&S	14.8	20.2	4.8	7.2	3.6	11.3	7.1	12.0	5.8	13.2	11.6	6.7	9.5
Agricultural	38.8	61.8	-0.0	-24.4	18.2	18.4	-0.1	-0.9	16.5	-0.0	17.4	1.4	3.6
Computers	37.7	54.7	28.5	29.9	29.3	29.8	31.3	31.8	32.0	32.0	29.5	29.4	31.8
Other Goods	12.2	14.8	3.6	9.4	-3.4	8.4	2.3	10.5	-2.5	11.5	10.3	4.4	5.3
Services	5.4	7.6	-3.1	-1.5	2.0	4.6	4.3	5.0	4.3	5.9	4.6	0.5	4.8
Imports of G&S	15.6	11.4	10.1	9.4	3.1	8.7	6.2	9.2	6.0	8.7	13.8	7.8	7.5
Oil	29.3	-37.8	-11.4	9.7	30.6	-2.3	3.5	16.5	7.0	-16.7	-1.7	5.5	1.8
Computers	35.8	55.7	13.3	24.9	26.0	26.1	21.5	21.5	21.5	21.5	36.3	22.5	21.5
Other Goods	12.1	12.8	10.7	8.5	-4.4	6.7	3.0	6.1	2.1	9.1	14.0	5.2	5.0
Services	5.7	0.7	15.9	-3.1	0.9	2.4	2.6	2.9	2.3	3.2	1.4	3.8	2.8
				Projection									
Current Account Balance	-158.9	-173.1	-162.0	-185.4	-166.4	-172.3	-163.0	-168.1	-166.6	-177.6	-151.2	-171.5	-168.8
Goods & Serv (BOP), net	-115.2	-109.9	-120.1	-134.6	-120.6	-111.5	-112.4	-111.4	-115.0	-109.9	-106.2	-121.7	-112.2
Goods (BOP), net	-178.5	-174.0	-180.2	-195.6	-182.3	-175.1	-177.9	-178.8	-184.2	-181.7	-166.1	-183.3	-180.6
Services (BOP), net	63.3	64.1	60.1	61.0	61.6	63.6	65.5	67.3	69.2	71.8	59.9	61.6	68.4
Investment Income, net	-10.1	-18.3	-10.8	-18.9	-13.8	-18.3	-18.1	-24.1	-19.1	-24.8	-9.3	-15.4	-21.5
Direct, net	44.6	45.7	54.7	54.5	58.6	61.6	62.3	61.8	64.7	65.9	45.1	57.4	63.7
Portfolio, net	-54.7	-64.0	-65.5	-73.4	-72.4	-79.9	-80.4	-85.9	-83.7	-90.6	-54.4	-72.8	-85.2
Unilateral Transfers, net	-33.5	-45.0	-31.1	-32.0	-32.0	-42.5	-32.5	-32.5	-32.5	-43.0	-35.8	-34.4	-35.1

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