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Strictly Confidential (FR) Class II FOMC

August 15, 1990

SUMMARY AND OUTLOOK

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

Recent Developments

Incoming information suggests that economic activity around the middle of the year was expanding at a pace little different from the 1-1/2 percent rate reported for the first half of the year. Underlying trends in inflation also were about unchanged: Although consumer price inflation slowed in the second quarter, the CPI was still running 4-3/4 percent above year-earlier levels. Despite a noticeable softening in labor demand this spring, labor costs showed no sign of decelerating.

Virtually all of the current indicators of production and spending relate to conditions before the jump in crude oil prices. The labor market reports for July indicated a small decline in nonfarm jobs (abstracting from Census terminations) and a rise in unemployment. Construction jobs continued to contract, manufacturing employment edged down a bit further, and hiring elsewhere was slow. Nonetheless, the index of aggregate hours worked by production or nonsupervisory workers in July was 1-1/2 percent above the second-quarter average (at an annual rate). In addition, weekly unemployment insurance claims through the end of the month continued to hover around the 350,000 mark, suggesting no acceleration in layoffs.

Industrial production for July is estimated to have been unchanged. Production of final business and consumer goods (other than motor vehicles) changed little while output of construction supplies declined. Motor vehicle assemblies also dropped back a bit in July, but they are scheduled to move noticeably higher again by September. The weakness in the products area in July, however, was offset by some further gains in production of materials, particularly metals.

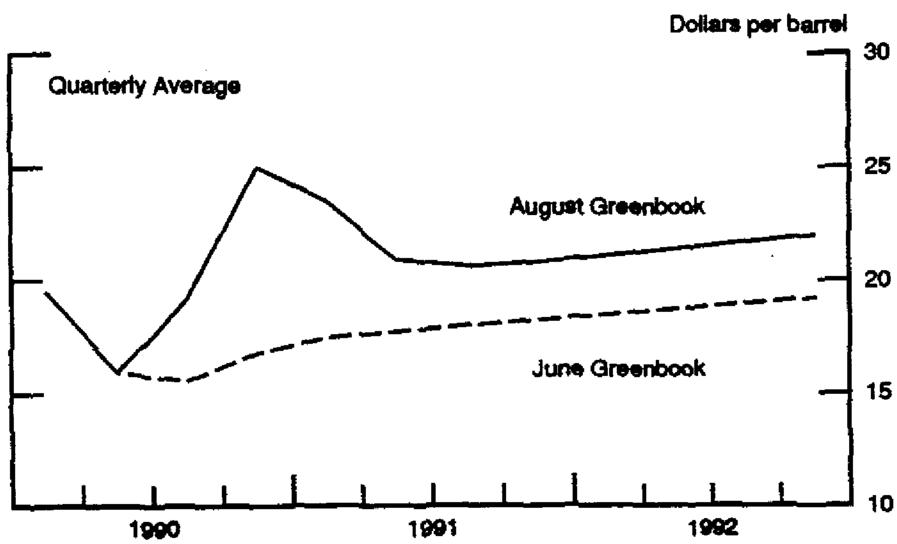
On the spending side, the most significant information was the July report on retail sales. Although retail sales in July were about flat, consumer spending on nonauto goods now is estimated to have been significantly stronger in May and June than previously reported. These changes likely will lead to a sizable upward revision of real PCE in the second quarter. Moreover, we interpret the June data on manufacturing and trade stocks in current-cost terms to indicate that the estimated buildup in inventories during the second quarter may have been substantially overstated in the national income accounts. This information, in conjunction with the upward revision to retail sales, implies that most businesses did not face serious stock imbalances at midyear; such imbalances might have exacerbated adjustments to a slowdown in sales resulting from the oil price increase. Elsewhere, the news has been mixed, but the implications for our projection are relatively minor: Housing starts, as expected, remained weak in June, spending for nonresidential construction showed a surprising uptick, but orders for nondefense capital goods were slightly more sluggish than we had anticipated.

On balance, the staff's assessment is that, absent developments in oil markets, growth in real GNP over the second half of 1990 would have been close to the 1-1/2 percent annual rate projected in the June Greenbook.

<u>Oil Prices</u>

The outlook for inflation and real activity, however, was altered significantly by recent developments in oil markets. Prices for crude petroleum began to move up in mid-July when key OPEC members appeared willing to agree to rein in production; later in the month they did reach an accord on production for the second half of the year. The current Greenbook forecast is based on an assumed pattern of petroleum prices in which the spot price of West Texas Intermediate remains close to the recent average of about $26.50 per barrel over the balance of 1990. This price translates into an average import price of $25 per barrel, which is shown in the chart. This path for petroleum prices envisions a full cutoff of the 4.3 million barrels per day of exports from Iraq and Kuwait for the balance of this year and an expansion of output of 2.3 million barrels per day by other producers.[1]

Prices of Imported Petroleum and Products
(Import Unit Value; Balance of Payments Basis)



In the first half of next year, the forecast assumes a resolution of the conflict in the Middle East that, by mid-1991, would allow total OPEC

1. The assumed expansion of output includes 1.5 million barrels per day from Saudi Arabia, 0.4 million for Venezuela, and 0.2 million each from Nigeria and the United Arab Emirates.

production to return to the rate targeted in the July OPEC accord. As a result, prices are assumed to decline nearly $5 per barrel over that period. After mid-1991, these developments would leave the rate of world production about 3/4 million barrels per day below the rate assumed in the June Greenbook; that shortfall would add roughly $3 per barrel to the path for oil prices compared with our June assumptions. In light of the considerable political uncertainties, we view this pattern, and the associated output and inflation projections, as only one of many reasonable scenarios. For contrast, after summarizing the Greenbook forecast, we present below a scenario in which the spot price of West Texas Intermediate remains at $26.50 through the end of 1992.

As outlined above, the staff is assuming that most of the recent jump in petroleum prices is transitory. Consequently, the principal economic effects are likely to be a rise in consumer price inflation and the resulting reduction in real income growth. Higher costs of crude oil typically are passed through quickly into prices of domestically consumed petroleum products, within a month or so. The indirect effects of the oil price shock on prices of goods and services that use energy as an input and on prices of competing energy products as well as on wages appear with some lag; these factors would contribute to a larger and more persistent effect on inflation if the jump in oil prices were to be sustained.

Because the United States is a net importer of crude oil, higher prices of crude act like an excise tax in reducing demand. Domestic purchasing power is depressed, and household spending is restrained. The eventual slowing in domestic production is associated not only with lower consumer spending but also with the accelerator effects on business spending, and the size of these latter effects depends on whether the price hike is lasting.

Policy and Other Assumptions

The projection assumes that interest rates remain near current levels through the forecast period. This assumption is consistent with both somewhat higher inflation and somewhat weaker real activity in the near term than in the last forecast, in light of the less favorable outcomes for inflation, output, or both as a consequence of the oil price shock. Over the next few quarters, we continue to assume that tighter lending terms and a reduction in credit availability to some businesses act to restrain aggregate demand. Indeed, the economic uncertainty created by the oil price shock may induce even more cautious behavior by lenders. Despite the more adverse price developments in the next few quarters, the assumed policy is consistent with longer-run progress in bringing down inflation, given the degree of slack that emerges by early 1991 and is sustained through the forecast period.

Growth of M2 is expected to remain in the lower half of its annual range over the rest of this year, and M3 is projected to grow just above the lower limit of its annual range. After this year, both aggregates, particularly M3, will continue to be depressed by developments that are paring depository funding needs: the thrift resolution process and sluggish bank lending. However, as these two influences abate and income growth picks up, the growth rates of the aggregates are expected to increase over 1991 and 1992. In 1991, M2 is projected to grow around the midpoint and M3 in the lower half of their respective tentative ranges.

Regarding foreign exchange rates, we have lowered the projected path of the dollar by 4-1/4 percent, incorporating most of the depreciation that has occurred since the June Greenbook. The dollar remains around this lower level throughout the current forecast.

For fiscal policy, our assumption regarding deficit reduction is unchanged. We are still assuming that the budget negotiations will result in a deficit-reduction package totaling $35 billion in FY1991, which is less ambitious than the summit participants initially planned. For FY1992, we are assuming an additional $35 billion in cuts.

Near-Term Developments

As a consequence of recent developments in oil prices, growth of real GNP is expected to average about 1 percent at an annual rate over the next three quarters, down from the 1-3/4 percent rate that we were projecting in June. We expect domestic production of goods to be affected disproportionately by the softening in demand, and industrial production is projected to flatten out in the final quarter of this year and in the first quarter of 1991.

NEAR-TERM PROJECTIONS
(Percent change from preceding period; compound annual rate)

	1990		1991
	Q3	Q4	Q1
Real GNP	1.2	.5	1.3
Personal consumption expenditures	1.7	.6	1.5
Real disposable personal income	.2	.2	2.6
Consumer price index	6.1	5.3	4.4
Excluding energy	5.0	4.8	4.9

The steep increases in gasoline prices have begun to hit consumers' pocketbooks this month, and they will be followed quickly by similar hikes for heating oil this fall and winter. As a result of these increases and the slower pace of real activity, real disposable personal income is anticipated to be about flat in the second half of the year, which will hold down purchases of consumer goods, not only big-ticket items like motor vehicles but nondurables as well. The depressing effects of lower income on demand for new homes also is expected to lead to slightly weaker housing starts in the near term. Businesses are anticipated to respond to lower-than-expected levels of demand and heightened uncertainty by postponing spending for new capital goods, particularly for items like personal computers that typically are purchased off the shelf. Moreover, throughout the period, businesses are assumed to keep a tight rein on inventories. The boost to domestic oil drilling, which shows up in nonresidential construction spending, is assumed to be constrained by shortages of skilled labor and supplies.

In contrast to the components of domestic demand, the net contribution of the external sector has been raised in the near term. Exports continue to grow at a fairly strong rate in the current forecast, with the effect of a lower foreign exchange value of the dollar about offsetting somewhat slower growth of demand abroad. At the same time, import demand is curtailed by the slowdown in domestic spending.

For inflation, the staff is projecting that the consumer price index will rise at annual rates of 6 percent in the current quarter and 5-1/4 percent next quarter. This pace averages more than 1-3/4 percentage points higher for the second half of 1990 than previously anticipated. Certainly, the direct and some indirect effects of rising oil prices account for most of the change in the near-term inflation outlook. But food prices also appear to be rising more rapidly this quarter than expected earlier, and our estimate for prices of services has been raised in light of recent CPI figures.

Energy prices are projected to rise at close to a 20 percent annual rate in the third quarter, with the rise contributing more than 1 percentage point to overall CPI inflation. Despite the assumed leveling off of crude oil prices, the rise in energy prices remains sizable (almost 11 percent, annual rate) in the fourth quarter because of lags in the response of heating oil prices and the spillover to prices of natural gas and electricity. The direct effect of the fourth-quarter increase in energy costs is to add roughly 1/2 percentage point to the overall CPI. Over this period and in the first quarter of 1991, the indirect effects of higher energy prices, which are anticipated to be smaller than the direct effects, should be apparent in higher prices for various consumer goods and services for which energy is an input in production.

The rise in labor compensation, as measured by the employment cost index, is projected to remain at about its recent trend rate of 5 percent through year-end. The rapid rates of consumer price inflation should begin to affect cost-of-living adjustments in wages by the end of the year. At the same time, cutbacks in employment assumed to accompany the slowdown in economic activity later this year are expected to move the jobless rate close to 6 percent by the turn of the year, and thus to restrain wage demands.

Longer-Term Outlook

As oil prices in early 1991 retrace much of this summer's increase, the pace of economic activity will initially receive a boost from the acceleration in growth of real income. After that, the financial and fiscal environment assumed in our baseline projection is consistent with the resumption of growth of real GNP at about its potential rate. Nonetheless, the unemployment rate, which, on average, is higher than in the previous forecast, imparts a downward tilt to the underlying inflation trend.

By the second quarter of 1991, the pace of consumer spending is projected to have picked up; and, in the second half of the year, the attendant effects on business investment are expected to emerge. As we projected in the June Greenbook, the easing of restraints on credit supplies also provides a lift to activity. In sum, gross private domestic purchases, which are projected to have risen only a little over the preceding three quarters, are expected to rise at an annual rate of 2-1/4 percent over the final three quarters of 1991 and to expand 2-3/4 percent in 1992. Over the rest of the forecast, growth of both exports and imports is projected to pick up, on average, and the rate of increase in real net exports to subside. Finally, government purchases are projected to change little throughout the period, as modest growth in state and local government spending is offset by the restraint in federal outlays.

In light of BEA's downward revision to the estimate of growth in real GNP between 1987 and 1989, we have lowered our current estimate of potential GNP growth from 2-3/4 to 2-1/2 percent. Other things being equal, this change narrows slightly the slack in labor and product markets that results from any shortfall of GNP growth below its potential rate. Accordingly, although the jobless rate rises more rapidly over the coming year than the previous projection assumed, it ends up, as before, at 6.1 percent in late 1991 and 1992.

On balance, overall CPI inflation is projected to come down to just under 4-1/2 percent in the first half of 1991. Consistent with our assumed path for oil prices, energy prices are projected to decline early next year and then to rise at a rate roughly in line with overall inflation. Other prices continue to be boosted in the first half of next year by the earlier increases in energy costs and a somewhat faster rise in prices of non-oil imports; excluding energy, the CPI is projected to rise at a 4-3/4 percent annual rate over the period. Over the subsequent year and a half, however, consumer prices excluding energy are projected to drift down a bit, to around the 4-1/4 percent mark by the end of 1992. The principal factor in this deceleration is the anticipated slowdown in hourly labor compensation from the 5 percent trend projected to persist into early 1991 to around 4-1/2 percent in 1992.

An Alternative Scenario

Because of the uncertainties surrounding any single assumption about the path of world oil prices, the staff, using our econometric models, has simulated the economic effects of a less optimistic scenario. In the simulation, the spot price of West Texas Intermediate is assumed to remain at $26.50 per barrel through the end of the forecast horizon. Our assumptions regarding financial market conditions, fiscal policy, and the foreign exchange value of the dollar were not altered. As a result, although the near-term economic outcomes are the same, this scenario shows both more persistent higher inflation and a longer period of economic activity below its potential rate than shown in the Greenbook baseline.

With the failure of crude oil prices to drop back, CPI inflation probably would average 5-1/4 percent at an annual rate in the first quarter of next year and 4-3/4 percent in the second quarter and would remain around a 5 percent rate in the second half. On balance, these changes would add about 1/2 percentage point to the CPI increase for 1991 relative to the Greenbook projection of 4-1/2 percent.

ALTERNATIVE SCENARIO
(Percent change from end of previous period; compound annual rate)

	1990	1991		1991:Q4 to
	H2	H1	H2	1992:Q4
Real GNP	.8	1.5	1.9	2.4
Personal consumption expenditures	1.2	1.2	1.3	1.9
Real disposable personal income	.2	1.5	1.2	1.5
Consumer price index	5.7	5.0	4.9	4.4
Excluding energy	4.9	4.9	4.9	4.3
Unemployment rate (percent)[1]	5.9	6.1	6.2	6.3
Current account balance (billions)[1]	-98	-86	-74	-61

1. End of period.

Growth of real economic activity is shown to be depressed somewhat more in 1991 and 1992 than the current Greenbook forecast has indicated. Growth of consumer spending would be slower throughout 1991, by about 1/2 percentage point. Moreover, the spillover effects on housing and business investment would be larger and would extend into 1992. The simulation suggests that growth of real GNP would remain below its longer-run potential rate through the end of 1991 and average just under

2-1/2 percent in 1992. Accordingly, slack accumulates throughout the alternative scenario, and the unemployment rate rises gradually in 1991 and 1992, ending just above 6-1/4 percent.

The current account deficit would be $8 to $10 billion greater during 1991 under the alternative scenario. However, this difference with the baseline forecast would diminish during the latter part of 1991 and during 1992 as the relative rise in U.S. real GNP raises imports.

Rules of Thumb

In general, the Greenbook forecast and the alternative scenario outlined above are consistent with the rules of thumb[2] developed by the staff to summarize the economic effects of an oil price shock. Those rules estimate that a $5 per barrel increase in the level of crude oil prices, if sustained, would

- raise inflation as measured by the CPI roughly 1 percentage point in the first year and perhaps another 1/4 percentage point in the second year;
- reduce growth of real GNP roughly 1/2 percentage point in the first year and perhaps another 1/4 percentage point in the second year; and
- increase the current account deficit nearly $15 billion on impact, but by less than $6 billion after one year, and only $3 billion after two years.

These estimates include not only the direct effect of higher crude oil costs on retail energy prices, but also the indirect effects on the prices of other inputs to production. In particular, they take into account that, as price inflation picks up, wages are likely to accelerate, boosting price inflation further.

2. These rules were formulated under the assumptions that nominal interest rates are unchanged and that the unemployment rate initially is at its estimated natural rate.

August 15, 1990

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STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
	6/27/90	8/15/90	6/27/90	8/15/90	6/27/90	8/15/90	6/27/90	8/15/90	6/27/90	8/15/90
Annual changes:										
1988 <2>	7.9	7.9	4.4	4.5	4.2	4.2	4.1	4.1	5.5	5.5
1989 <2>	7.2	6.7	3.0	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990	6.0	5.4	1.7	1.2	4.4	4.6	4.8	5.3	5.5	5.5
1991	6.1	5.8	1.9	1.4	4.1	4.5	4.3	4.7	5.9	6.1
1992		6.5		2.4		4.2		4.4		6.1
Quarterly changes:										
1989 Q1 <2>	7.9	7.5	3.7	3.6	4.8	4.9	5.4	5.4	5.2	5.2
Q2 <2>	7.1	5.8	2.5	1.6	5.0	4.6	6.0	6.0	5.3	5.3
Q3 <2>	6.2	5.1	3.0	1.7	2.9	3.1	2.9	2.9	5.3	5.3
Q4 <2>	4.6	3.9	1.1	.3	3.6	3.8	3.9	3.9	5.3	5.3
Q1 <2>	7.1	6.7	1.9	1.7	6.4	6.6	8.2	8.2	5.2	5.2
Q2 <2>	5.8	5.8	1.3	1.2	4.2	3.9	3.3	3.8	5.4	5.3
Q3	5.7	5.7	1.6	1.2	3.6	4.7	3.7	6.1	5.6	5.6
Q4	5.3	3.9	1.6	.5	3.8	4.0	4.1	5.3	5.8	5.9
1991 Q1	6.7	6.2	1.8	1.3	4.7	4.9	4.6	4.4	5.8	6.0
Q2	6.4	6.7	2.1	2.0	4.2	4.5	4.5	4.3	5.9	6.1
Q3	6.3	6.3	2.3	2.3	4.1	4.2	4.4	4.4	6.0	6.1
Q4	6.2	6.3	2.4	2.4	4.0	4.1	4.4	4.5	6.1	6.1
1992 Q1		7.1		2.4		4.6		4.5		6.1
Q2		6.3		2.4		4.1		4.4		6.1
Q3		6.4		2.5		4.0		4.3		6.1
Q4		6.3		2.5		4.0		4.3		6.1
Two-quarter changes: <3>										
1989 Q2 <2>	7.5	6.7	3.1	2.6	5.0	4.7	5.7	5.7	.0	.0
Q4 <2>	5.4	4.5	2.0	1.0	3.3	3.4	3.4	3.4	.0	.0
1990 Q2 <2>	6.5	6.2	1.6	1.5	5.2	5.3	5.7	5.9	.1	.0
Q4	5.5	4.8	1.6	.8	3.7	4.4	3.9	5.7	.4	.6
1991 Q2	6.5	6.5	2.0	1.7	4.4	4.7	4.5	4.4	.1	.2
Q4	6.2	6.3	2.4	2.3	4.0	4.1	4.4	4.4	.2	.0
1992 Q2		6.7		2.4		4.3		4.4		.0
Q4		6.3		2.5		4.0		4.3		.0
Four-quarter changes: <4>										
1988 Q4 <2>	7.5	7.8	3.4	3.5	4.5	4.6	4.3	4.3	-.5	-.5
1989 Q4 <2>	6.4	5.6	2.6	1.8	4.1	4.0	4.6	4.6	.0	.0
1990 Q4	6.0	5.5	1.6	1.1	4.4	4.8	4.8	5.8	.5	.6
1991 Q4	6.4	6.4	2.2	2.0	4.2	4.4	4.5	4.4	.3	.2
Q4		6.5		2.4		4.2		4.4		.0

<1> For all urban consumers.
<2> Actual.
<3> Percent change from two quarters earlier.
<4> Percent change from four quarters earlier.

August 15, 1990

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1984	1985	1986	1987	1988	1989	Projection 1990	1991	1992
EXPENDITURES										
Nominal GNP	Billions of $	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5483.8	5802.0	6181.3
Real GNP	Billions of 82$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4167.3	4227.6	4327.8
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	1.1	2.0	2.4
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	.6	1.5	2.2
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	1.3	1.8	2.0
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	.4	1.6	2.2
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.8	1.8	2.0
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	1.3	1.2	1.8
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-2.2	.7	1.1
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.7	2.7	2.7
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	-.2	.9	3.3
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	.4	2.4	5.3
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-1.8	-4.1	-3.6
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-3.7	1.3	2.2
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	4.7	7.4	6.6
Imports		17.4	4.5	10.0	10.4	5.5	4.5	1.0	3.8	5.1
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	2.0	-.2	-.3
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	1.8	-3.1	-3.3
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	-1.5	-5.4	-4.9
State and local		4.4	4.9	5.2	2.3	3.1	2.6	2.1	1.8	1.6
Change in business inventories	Billions of 82$	62.3	9.1	5.6	22.8	23.6	23.8	14.9	20.3	35.9
Nonfarm	Billions of 82$	57.8	13.4	8.0	28.7	26.5	18.7	12.9	17.2	32.4
Net exports	Billions of 82$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-35.9	-12.8	3.4
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	5.5	6.4	6.5
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.6	108.6	110.6	111.3	112.6
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.1	6.1
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	1.7	2.3	3.4
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.4	81.3	81.4
Housing starts	Millions	1.75	1.74	1.81	1.62	1.49	1.38	1.25	1.25	1.31
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.52	8.99	9.08
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.82	6.51	6.58
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.70	2.48	2.50
INCOME AND SAVING										
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	6.6	6.9	6.6
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	.8	1.8	1.5
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.9	4.8	4.5
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-2.9	-2.4	2.0
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.4	4.8	4.5
Federal govt. surplus/deficit	Billions of $	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-153.1	-127.2	-87.8
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	36.7	47.4	68.9
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-32.8	-25.7	-7.8
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.3	4.3	4.0
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.8	4.4	4.2
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.2	4.3	4.2
CPI		4.2	3.5	1.3	4.5	4.3	4.6	5.8	4.4	4.4
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.3	4.8	4.5
ECI hourly compensation		4.9	3.9	3.2	3.3	4.8	4.8	5.1	4.9	4.6
Nonfarm business sector										
Output per hour		1.5	1.6	1.3	2.2	1.7	-1.3	.2	1.3	1.3
Compensation per hour		4.2	4.6	5.0	3.7	4.7	2.0	5.1	4.9	4.6
Unit labor costs		2.6	3.0	3.6	1.4	2.9	3.4	4.9	3.6	3.3

* Percent changes are from fourth quarter to fourth quarter.

August 15, 1990

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1988 Q1	1988 Q2	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2
EXPENDITURES											
Nominal GNP	Billions of $	4735.8	4831.4	4917.9	5009.8	5101.3	5174.0	5238.6	5289.3	5375.4	5451.6
Real GNP	Billions of 82$	3970.2	4005.8	4032.1	4059.3	4095.7	4112.2	4129.7	4133.2	4150.6	4163.2
Real GNP	Percent Change	5.1	3.6	2.7	2.7	3.6	1.6	1.7	.3	1.7	1.2
Gross domestic purchases		1.6	3.0	3.2	2.4	1.2	1.8	2.8	-1.2	.5	2.3
Final sales		7.1	5.1	1.1	4.6	2.4	1.7	1.8	.9	3.8	-1.5
Private dom. final purchases		6.7	4.8	3.0	1.7	.8	1.4	4.1	-1.5	2.4	-2.0
Personal consumption expend.		6.9	2.7	3.5	3.5	-.3	1.3	4.6	-.8	1.1	-.3
Durables		21.8	3.7	-1.1	14.1	-6.0	5.6	9.6	-13.0	14.4	-8.7
Nondurables		2.6	2.0	4.1	1.2	.6	-1.7	3.9	-.2	-3.2	-4.4
Services		5.6	2.9	4.5	1.9	.9	2.1	3.5	3.1	.1	5.5
Business fixed investment		11.4	15.7	1.6	-6.3	8.9	6.9	6.3	-3.8	5.0	-6.1
Producers' durable equipment		20.3	17.9	2.2	-5.5	9.5	12.2	6.1	-5.2	5.7	-6.2
Nonresidential structures		-10.5	9.9	-.3	-8.7	7.5	-8.2	7.1	1.3	2.3	-6.0
Residential structures		-6.8	6.8	.4	-.4	-3.6	-11.3	-7.6	-5.5	15.1	-13.5
Exports		31.7	4.4	5.4	16.7	15.8	12.4	-.5	13.5	11.2	-3.7
Imports		.5	.3	9.2	12.4	-2.3	12.8	6.4	1.7	2.5	3.2
Government purchases		-9.2	3.3	-3.8	15.7	-3.3	4.0	-2.4	3.0	2.9	6.2
Federal		-24.1	3.5	-10.4	33.6	-9.1	7.0	-7.9	-.4	.4	15.2
Defense		-5.6	-1.4	-5.0	4.9	-10.9	3.2	7.2	-7.0	-1.7	3.3
State and local		3.9	3.2	1.2	4.3	1.3	1.8	1.8	5.6	4.8	.2
Change in business inventories	Billions of 82$	31.0	16.9	32.6	14.0	26.1	25.5	24.6	18.9	-2.2	26.2
Nonfarm	Billions of 82$	28.8	19.2	31.0	27.2	16.4	21.5	21.7	15.3	-8.2	27.3
: exports	Billions of 82$	-77.3	-72.2	-78.5	-75.7	-51.1	-53.3	-64.1	-47.9	-35.4	-46.5
Nominal GNP	Percent change	7.8	8.3	7.4	7.7	7.5	5.8	5.1	3.9	6.7	5.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	104.4	105.2	106.0	106.8	107.7	108.3	108.9	109.4	110.2	110.7
Unemployment rate	Percent*	5.7	5.5	5.5	5.3	5.2	5.3	5.3	5.3	5.2	5.3
Industrial production index	Percent change	5.0	4.2	5.9	2.8	2.7	2.8	-1.2	.2	.6	4.0
Capacity utilization rate-mfg.	Percent*	83.1	83.6	84.3	84.6	84.7	84.5	83.7	82.9	82.6	82.7
Housing starts	Millions	1.46	1.49	1.47	1.54	1.51	1.35	1.34	1.35	1.45	1.20
Auto sales	Millions	10.91	10.67	10.15	10.88	10.03	10.26	10.20	9.09	10.01	9.53
Domestic	Millions	7.60	7.50	7.20	7.89	7.08	7.26	7.36	6.56	7.11	6.78
Foreign	Millions	3.30	3.17	2.95	2.99	2.95	3.00	2.84	2.53	2.90	2.75
INCOME AND SAVING											
Nominal personal income	Percent change	6.4	8.6	8.1	7.4	11.6	5.8	3.7	6.2	8.6	5.4
Real disposable income	Percent change	7.3	2.7	4.9	2.3	4.2	-1.2	2.7	1.2	2.5	.5
Personal saving rate	Percent*	4.0	4.1	4.5	4.1	5.2	4.6	4.1	4.6	4.9	5.1
Corp. profits with IVA & CCAdj	Percent change	9.5	6.6	-1.7	19.5	-23.2	-7.0	-17.1	-19.1	8.4	18.9
Profit share of GNP	Percent*	7.0	7.0	6.8	7.0	6.4	6.2	5.9	5.5	5.5	5.7
Federal govt. surplus/deficit	Billions of $	-153.7	-136.9	-120.1	-156.3	-132.6	-122.7	-131.7	-150.1	-168.3	-153.2
State and local govt. surplus		45.5	48.3	46.8	45.2	48.9	50.3	48.1	38.5	38.1	32.3
Exc. social insurance funds		-15.6	-14.1	-17.0	-19.0	-16.2	-15.6	-18.7	-29.1	-30.2	-36.8
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.7	4.4	4.7	4.7	3.9	3.9	3.2	3.8	4.8	4.4
GNP fixed-weight price index		3.9	4.7	5.5	4.4	4.9	4.6	3.1	3.8	6.6	3.9
Cons. & fixed invest. prices		2.9	4.9	4.5	5.0	5.0	5.3	2.3	4.6	6.8	3.0
CPI		3.5	4.2	5.2	4.1	5.4	6.0	2.9	3.9	8.2	3.8
Exc. food and energy		4.4	4.7	4.6	4.6	5.2	4.1	3.8	4.4	6.2	4.9
*CI hourly compensation**		5.2	5.2	3.8	4.6	4.6	4.9	4.9	4.8	5.6	5.1
nfarm business sector											
Output per hour		4.2	-.6	2.8	.5	-1.7	-.5	-.8	-2.2	-1.9	1.6
Compensation per hour		4.3	5.0	5.3	4.2	2.0	1.5	1.8	2.7	3.2	5.6
Unit labor costs		.1	5.6	2.5	3.6	3.8	2.0	2.7	5.1	5.2	3.9

* Not at an annual rate.
** Private industry workers

August 15, 1990

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	Projection									
		1990		1991				1992			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	5527.3	5580.7	5665.7	5758.0	5847.0	5937.5	6040.2	6132.8	6228.2	6324.2
Real GNP	Billions of 82$	4175.2	4180.2	4193.7	4214.6	4238.2	4263.7	4289.1	4314.2	4340.7	4367.3
Real GNP	Percent Change	1.2	.5	1.3	2.0	2.3	2.4	2.4	2.4	2.5	2.5
Gross domestic purchases		.1	-.5	.7	1.7	1.8	1.8	1.9	2.2	2.4	2.3
Final sales		1.6	1.2	1.2	1.5	2.2	2.3	1.8	2.0	2.0	2.1
Private dom. final purchases		1.0	.2	.8	1.5	2.1	2.0	2.1	2.2	2.3	2.3
Personal consumption expend.		1.7	.6	1.5	1.8	2.0	1.8	2.0	2.0	2.1	2.0
Durables		4.9	-3.7	-.6	1.5	2.9	.9	1.7	1.7	2.0	1.6
Nondurables		-1.0	-.2	.6	.6	.6	.9	1.1	1.1	1.2	1.2
Services		2.6	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Business fixed investment		2.0	-1.1	-1.8	.4	2.1	2.7	3.1	3.2	3.4	3.5
Producers' durable equipment		2.7	-.4	-.6	1.8	3.9	4.6	5.2	5.3	5.4	5.4
Nonresidential structures		-.1	-3.2	-5.4	-4.1	-3.6	-3.3	-3.7	-3.8	-3.6	-3.4
Residential structures		-12.0	-2.0	-1.5	.7	3.8	2.4	1.3	1.2	2.9	3.4
Exports		6.8	4.9	5.8	7.2	8.0	8.6	7.4	6.0	6.6	6.6
Imports		-.1	-1.4	1.8	4.8	4.7	4.2	4.4	4.9	5.9	5.4
Government purchases		-1.0	.0	-.4	-.4	-.1	.1	-1.8	.3	.1	.1
Federal		-4.6	-2.6	-3.5	-3.6	-2.9	-2.3	-6.9	-1.8	-2.1	-2.1
Defense		-3.8	-3.7	-5.8	-5.8	-5.0	-4.9	-4.8	-4.8	-4.7	-5.1
State and local		1.7	1.9	1.8	1.8	1.8	1.8	1.6	1.6	1.6	1.6
Change in business inventories	Billions of 82$	21.4	14.3	15.5	20.9	21.7	23.2	29.3	33.4	38.5	42.6
Nonfarm	Billions of 82$	20.4	12.3	12.5	17.8	18.5	19.9	25.9	29.9	34.9	38.9
et exports	Billions of 82$	-35.9	-25.9	-19.7	-16.2	-11.1	-4.1	.8	2.8	3.9	6.1
Nominal GNP	Percent change	5.7	3.9	6.2	6.7	6.3	6.3	7.1	6.3	6.4	6.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	110.7	110.9	111.1	111.5	111.8	112.1	112.4	112.8	113.2
Unemployment rate	Percent*	5.6	5.9	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Industrial production index	Percent change	2.6	-.3	1.4	1.8	2.8	3.1	3.3	3.4	3.4	3.4
Capacity utilization rate-mfg.	Percent*	82.5	81.8	81.5	81.2	81.2	81.2	81.3	81.3	81.4	81.5
Housing starts	Millions	1.19	1.21	1.23	1.25	1.26	1.27	1.29	1.30	1.32	1.33
Auto sales	Millions	9.52	9.02	8.90	8.95	9.05	9.05	9.05	9.05	9.10	9.10
Domestic	Millions	6.94	6.45	6.45	6.50	6.55	6.55	6.55	6.55	6.60	6.60
Foreign	Millions	2.58	2.57	2.45	2.45	2.50	2.50	2.50	2.50	2.50	2.50
INCOME AND SAVING											
Nominal personal income	Percent change	6.0	6.5	7.9	6.4	6.2	7.1	7.7	6.1	5.9	6.5
Real disposable income	Percent change	.2	.2	2.6	1.5	1.2	1.9	2.4	1.1	1.0	1.5
Personal saving rate	Percent*	4.8	4.7	4.9	4.9	4.7	4.7	4.8	4.6	4.3	4.2
Corp. profits with IVA & CCAdj	Percent change	-6.2	-26.3	-2.2	-2.2	-4.1	-1.0	-4.2	-1.0	3.3	10.6
Profit share of GNP	Percent*	5.5	5.1	5.0	4.9	4.7	4.6	4.5	4.4	4.4	4.4
Federal govt. surplus/deficit	Billions of $	-143.0	-148.0	-146.1	-128.9	-116.4	-117.3	-106.0	-93.1	-77.9	-74.1
State and local govt. surplus		37.0	39.5	42.3	44.5	48.9	54.0	60.5	66.0	71.4	77.7
Exc. social insurance funds		-33.0	-31.4	-29.5	-28.2	-24.7	-20.5	-14.9	-10.3	-5.8	-.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.6	3.4	4.9	4.6	4.0	3.8	4.6	3.8	3.8	3.7
GNP fixed-weight price index		4.7	4.0	4.9	4.5	4.2	4.1	4.6	4.1	4.0	4.0
Cons. & fixed invest. prices		5.7	5.4	4.4	4.2	4.3	4.3	4.3	4.2	4.1	4.1
CPI		6.1	5.3	4.4	4.3	4.4	4.5	4.5	4.4	4.3	4.3
Exc. food and energy		5.0	5.1	5.0	4.8	4.7	4.6	4.6	4.5	4.4	4.4
ECI hourly compensation**		4.7	4.9	5.2	5.1	4.7	4.7	5.1	4.5	4.5	4.3
onfarm business sector											
Output per hour		.8	.3	.9	1.4	1.4	1.4	1.3	1.3	1.3	1.3
Compensation per hour		5.9	5.8	3.8	5.6	4.8	5.3	5.1	4.5	4.5	4.3
Unit labor costs		5.1	5.5	2.9	4.1	3.4	3.8	3.8	3.2	3.2	3.0

* Not at an annual rate.
** Private industry workers

August 15, 1990

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

	1988				1989				1990		1987	1988	1989	Projection 1990
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	49.5	35.6	26.3	27.2	36.4	16.5	17.5	3.5	17.4	12.6	187.1	138.6	73.9	47.0
Gross domestic purchases	15.5	30.5	32.6	24.4	11.8	18.7	28.3	-12.7	4.9	23.7	163.0	103.0	46.1	25.0
Final sales	66.9	49.7	10.6	45.7	24.4	17.0	18.5	9.3	38.4	-15.8	117.9	172.9	69.2	51.5
Private dom. final purchases	51.8	38.3	24.4	14.2	6.5	11.4	34.1	-12.9	20.2	-17.0	78.5	128.7	39.1	13.6
Personal consumption expend.	42.6	17.3	22.3	22.4	-2.1	8.6	30.0	-5.4	7.4	-2.1	56.4	104.6	31.1	21.1
Durables	19.8	3.8	-1.1	13.9	-6.6	5.8	9.9	-15.0	14.5	-9.9	-4.9	36.4	-5.9	5.7
Nondurables	5.7	4.4	9.1	2.7	1.4	-3.9	8.8	-.4	-7.4	-10.2	11.7	21.9	5.9	-20.4
Services	17.1	9.1	14.2	6.0	3.0	6.7	11.3	10.0	.4	18.0	49.6	46.4	31.0	35.8
Business fixed investment	12.7	17.6	2.0	-8.0	10.5	8.4	7.8	-4.9	6.2	-8.1	26.6	24.3	21.8	-.8
Producers' durable equipment	16.0	14.9	2.0	-5.2	8.4	10.9	5.7	-5.2	5.4	-6.2	25.6	27.7	19.8	1.4
Nonresidential structures	-3.4	2.9	-.1	-2.8	2.2	-2.6	2.1	.4	.7	-1.9	1.0	-3.4	2.1	-2.2
Residential structures	-3.4	3.2	.2	-.2	-1.8	-5.7	-3.7	-2.6	6.5	-6.7	-4.5	-.2	-13.8	-6.8
Change in business inventories	-17.4	-14.1	15.7	-18.6	12.1	-.6	-.9	-5.7	-21.1	28.4	69.2	-34.4	4.9	-4.6
Nonfarm	-26.6	-9.6	11.8	-3.8	-10.8	5.1	.2	-6.4	-23.5	35.5	66.3	-28.2	-11.9	-3.0
Farm	9.1	-4.5	3.9	-14.8	22.9	-5.7	-1.1	.7	2.4	-7.0	3.0	-6.3	16.8	-1.6
Net exports	34.0	5.1	-6.3	2.8	24.6	-2.2	-10.8	16.2	12.5	-11.1	24.1	35.6	27.8	22.0
Exports	34.7	5.6	7.0	21.0	20.8	17.1	-.7	19.1	16.5	-5.9	80.5	68.3	56.3	28.6
Imports	.7	.5	13.3	18.2	-3.7	19.2	10.1	2.8	4.1	5.2	56.4	32.7	28.4	6.7
Government purchases	-18.9	6.3	-7.5	28.7	-6.7	7.8	-4.8	6.0	5.7	12.3	15.3	8.6	2.3	15.9
Federal	-23.2	2.8	-8.9	23.9	-8.1	5.7	-6.9	-.3	.3	12.0	5.3	-5.4	-9.6	6.0
Defense	-3.8	-.9	-3.3	3.1	-7.4	2.0	4.5	-4.7	-1.1	2.1	10.2	-4.9	-5.6	-3.9
Nondefense	-19.4	3.7	-5.6	20.8	-.8	3.8	-11.4	4.4	1.4	9.9	-4.9	-.5	-4.0	9.9
State and local	4.3	3.5	1.3	4.8	1.5	2.1	2.1	6.3	5.5	.2	10.0	13.9	12.0	9.9

CONFIDENTIAL - FR
CLASS II FOMC

August 15, 1990

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

	Projection											Projection		
	1990		1991				1992				1989	1990	1991	1992
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	12.0	5.0	13.5	21.0	23.6	25.6	25.4	25.0	26.5	26.6	73.9	47.0	83.6	103.5
Gross domestic purchases	1.5	-5.1	7.3	17.5	18.5	18.5	20.5	23.1	25.4	24.4	46.1	25.0	61.8	93.4
Final sales	16.8	12.1	12.3	15.6	22.8	24.1	19.3	20.9	21.4	22.5	69.2	51.5	74.7	84.1
Private dom. final purchases	8.3	2.1	6.9	12.9	18.0	16.7	18.2	18.4	20.0	20.1	39.1	13.6	54.5	76.6
Personal consumption expend.	11.5	4.3	9.8	12.1	13.7	12.2	13.7	13.8	14.4	14.1	31.1	21.1	47.8	55.8
Durables	5.2	-4.1	-.6	1.6	3.1	.9	1.8	1.9	2.2	1.8	-5.9	5.7	5.0	7.7
Nondurables	-2.3	-.5	1.4	1.4	1.4	2.0	2.5	2.5	2.7	2.7	5.9	-20.4	6.1	10.4
Services	8.6	8.9	9.1	9.1	9.2	9.3	9.3	9.4	9.5	9.5	31.0	35.8	36.7	37.7
Business fixed investment	2.5	-1.4	-2.3	.5	2.7	3.4	4.0	4.1	4.3	4.5	21.8	-.8	4.3	16.9
Producers' durable equipment	2.5	-.4	-.6	1.7	3.7	4.4	5.1	5.2	5.4	5.4	19.8	1.4	9.3	21.1
Nonresidential structures	.0	-1.0	-1.7	-1.2	-1.1	-1.0	-1.1	-1.1	-1.0	-1.0	2.1	-2.2	-5.0	-4.2
Residential structures	-5.7	-.9	-.7	.3	1.7	1.1	.6	.5	1.3	1.5	-13.8	-6.8	2.3	3.9
Change in business inventories	-4.8	-7.1	1.2	5.4	.8	1.5	6.1	4.1	5.1	4.1	4.9	-4.6	8.9	19.4
Nonfarm	-6.9	-8.1	.2	5.3	.7	1.4	6.0	4.0	5.0	4.0	-11.9	-3.0	7.6	19.0
Farm	2.0	1.0	1.0	.1	.1	.1	.1	.1	.1	.1	16.8	-1.6	1.3	.4
Net exports	10.6	10.1	6.2	3.5	5.1	7.1	4.9	2.0	1.1	2.2	27.8	22.0	21.8	10.2
Exports	10.3	7.7	9.1	11.4	12.9	14.1	12.4	10.3	11.4	11.6	56.3	28.6	47.4	45.7
Imports	-.2	-2.4	2.9	7.9	7.8	7.0	7.5	8.3	10.3	9.5	28.4	6.7	25.6	35.6
Government purchases	-2.0	.0	-.8	-.9	-.3	.3	-3.8	.6	.3	.3	2.3	15.9	-1.6	-2.7
Federal	-4.0	-2.2	-3.0	-3.1	-2.5	-1.9	-5.8	-1.4	-1.7	-1.7	-9.6	6.0	-10.4	-10.7
Defense	-2.5	-2.4	-3.7	-3.7	-3.1	-3.0	-2.9	-2.9	-2.8	-3.0	-5.6	-3.9	-13.5	-11.6
Nondefense	-1.5	.2	.7	.6	.6	1.1	-2.9	1.5	1.1	1.3	-4.0	9.9	3.1	.9
State and local	2.0	2.2	2.2	2.2	2.2	2.2	2.0	2.0	2.0	2.0	12.0	9.9	8.8	8.0

FEDERAL SECTOR ACCOUNTS[1]
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990	1991	1992	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts[2]	991	1038	1120	1211	230	319	261	244	256	341	279	262	279	369	301	279
Budget outlays[2]	1143	1261	1337	1354	310	331	321	350	332	330	325	346	334	336	339	354
Surplus/deficit(-)[2]	-152	-223	-216	-143	-80	-12	-60	-106	-76	11	-46	-83	-55	33	-38	-76
(On-budget)	-207	-285	-285	-219	-94	-41	-72	-112	-96	-15	-63	-92	-77	6	-55	-86
(Off-budget)	55	61	69	76	14	29	12	7	20	26	17	9	22	27	18	10
Surplus excluding RTC spending[3]	-143	-166	-146	-117	-77	11	-35	-85	-57	28	-31	-71	-47	37	-36	-75
Means of financing:																
Borrowing	140	267	208	133	90	41	73	94	58	22	33	76	37	-5	25	72
Cash decrease	3	2	3	0	8	-16	-4	13	5	-25	10	10	5	-20	5	10
Other[4]	8	-47	5	10	-18	-13	-9	-2	12	-8	2	-2	13	-8	7	-7
Cash operating balance, end of period	41	38	35	35	18	35	38	25	20	45	35	25	20	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1038	1091	1176	1267	1081	1104	1124	1139	1171	1189	1204	1223	1262	1281	1302	1325
Expenditures	1174	1245	1310	1366	1249	1257	1267	1287	1317	1318	1321	1341	1368	1374	1380	1399
Purchases	400	413	424	427	411	421	422	422	425	425	424	424	429	429	428	428
Defense	301	306	306	301	307	310	308	307	308	305	303	301	303	301	299	296
Nondefense	99	107	118	127	103	111	114	115	117	119	121	123	126	128	130	132
Other expend.	774	831	887	938	838	836	845	865	891	893	897	917	939	946	951	972
Surplus/deficit	-136	-154	-135	-99	-168	-153	-143	-148	-146	-129	-116	-117	-106	-93	-78	-74
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-162	-163	-116	-71	-182	-161	-143	-137	-128	-107	-92	-92	-79	-65	-49	-45
Change in HEB, percent of potential GNP	.1	0	-.9	-.8	.3	-.4	-.3	-.1	-.2	-.4	-.3	0	-.2	-.2	-.2	-.1
Fiscal impetus measure (FI), percent	-3.5 *	-4.3 *	-4.9 *	-4.6 *	-2.3	.7	-.5	-1.7	-2.3	-.9	-.7	-1.4	-2	-.6	-.6	-1.3

a--actual *--calendar year

Note: Details may not add to totals due to rounding.

1. Staff projections. The FY1990, FY1991 and FY1992 deficits in OMB's Mid-Session Review (July 1990) are $220 billion, $176 billion and $134 billion, respectively. These estimates incorporate approximately $53 billion of cuts from the adjusted Gramm-Rudman-Hollings baseline in FY1991 and $70 billion in FY1992. CBO's FY1990, FY1991 and FY1992 baseline deficits (July 1990) are $195 billion, $232 billion and $239 billion, respectively.
2. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. 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 FY1990.
3. The *Administration's* deficit projections, excluding RTC spending, for FY1990, FY1991 and FY1992, were $163 billion, $114 billion and $93 billion, respectively. CBO's July deficit estimates, excluding RTC spending, for FY1990, FY1991 and FY1992, were $159 billion, $162 billion, and $179 billion, respectively.
4. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.5% potential output growth. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Recent Developments

Short-term interest rates fell during July in response to the announcement that the System had eased and the subsequent 1/4 percentage point drop in the federal funds rate on July 13. Bond yields fluctuated over a fairly wide range last month, but at the beginning of August they had shown little net change. A rally in equity markets pushed several major stock price indexes to record highs early in the intermeeting period. However, prices in financial markets reacted sharply to events in the Middle East and to the associated runup in oil prices. These circumstances apparently heightened expectations of an easing of monetary policy, but also deepened the uncertainty about the course of the economy and interest rates and the concern about inflation pressures. The result has been a further decline in short-term rates, a jump in bond yields, and a sharp selloff in equity markets. Treasury bill rates have fallen about 30 basis points since the July 3 FOMC, while bond yields have risen nearly 40 basis points. The reversal in the equity market has left most major stock price indexes roughly 5-1/2 percent below the levels recorded at the time of the last FOMC meeting.

The monetary aggregates changed little in July, as they had over the previous three months. Even abstracting from deposit shifts associated with a reserve-evasion tactic, growth of M2 remained well below rates that would have been expected in light of recent income growth and movements in opportunity costs. Growth in bank assets remained moderate, and the assets of thrift institutions evidently continued to contract last month. With funding needs subdued, M3 was unchanged in July, after edging down over the second quarter as a whole. The rise in M3 thus far in 1990 has been at an annual rate of only 1 percent, leaving this aggregate at the lower end of its new target range.

Bank credit expanded at a pace of nearly 5-1/2 percent in July, about the same as that over the second quarter. July growth was buoyed by an increase in security loans at several large banks and a rise in real estate loans as a result of RTC transfers from insolvent thrift institutions at the beginning of the month. Aside from these activities, the growth of bank credit was noticeably more restrained than it was during the second quarter. Government security acquisitions dropped off sharply, as purchases of mortgage-backed securities by banks slowed. Abstracting from RTC transfers, growth in real estate loans continued to be weak--a development consistent with the responses to the Survey of Senior Loan Officers at large banks taken in early August. Respondents indicated a significant tightening of standards for loans for commercial real estate and construction and development.

Business credit flows appear to have weakened in July. Loans at banks and commercial paper outstanding both declined. Some of the commercial paper runoff evidently was financed by bond offerings brought to market in June, when a number of firms exploited earlier declines in bond yields by substituting longer-term debt for short-term paper. Gross public bond issuance was quite high in June, but declined substantially in July. The weakness in bank loans to businesses evidently has been prompted in part by supply factors. A significant minority of large domestic banks responding to the Survey of Senior Loan Officers indicated a further tightening of standards and lending terms for business borrowers of all sizes. Separately, an even larger share of officers at branches and agencies of foreign banks responded that they had tightened lending standards and loan terms during the past six months. Some businesses have apparently turned to alternative sources of credit or sought ways to bolster lender confidence in recent months. Data on finance company loans to businesses are not available for July, but such loans again grew smartly in June. Moreover, the Small Business Administration reported a jump in loan guarantee applications in recent months. Equity issuance picked up in July, but a number of nonfinancial firms withdrew plans for new stock issuance in the wake of the August price declines.

In the household sector, credit demands appear to have remained sluggish. Installment credit in June was up only 1 percent at an annual rate, so that the increase over the first half of the year was held to just 2-1/2 percent, the smallest rise in a decade. The slow growth of installment credit in large measure reflects weakness in consumption, especially consumer durables. Household use of home equity credit has also been a factor in trimming the growth of consumer credit. Home equity credit again grew briskly in July at banks, despite reports that some lenders in the Northeast may have tightened terms on new loans in response to weakening in real estate values and to increases in delinquencies. Recent declines in construction activity and home sales appear to have held down growth in total mortgage debt relative to the average in recent years. In addition to the weakness of growth of real estate lending at commercial banks, holdings of mortgage assets at thrift institutions are expected to have contracted in July, as their liabilities continued to drop sharply.

The federal government is borrowing heavily in the third quarter to meet a deficit of $60 billion. The staff anticipates that the Treasury's total marketable borrowing will reach a record $68 billion in the current quarter, split about evenly between the bill and the coupon markets. Treasury borrowing for RTC working capital is again expected to bulk large, although spending since early July for thrift resolutions has slowed to a trickle. Municipal borrowing declined in July after a relatively large volume of offerings in June that had been bolstered by heavy short-term debt issuance by New York State. In July, short-term issuance fell back to a more normal pace, and offerings of long-term debt also weakened.

Outlook

Events in the Middle East have intensified uncertainty in financial markets about the likely course of output and inflation. This uncertainty may accentuate lenders' caution and delay any reversal of the recent trend toward tighter credit standards. Nonfederal borrowing in the near term is now expected to be somewhat weaker than was anticipated at the time of the last Greenbook, in line with the smaller projected rise in nominal GNP in the second half of this year. Growth in nonfederal debt next year is expected to edge down further, before firming in 1992.

Growth in business credit should moderate over the projection period. Corporate restructuring activity has dropped substantially in recent months, in part because of the higher cost of credit for highly leveraged transactions; we anticipate that such activity will remain at current lower levels over the next year and a half. Moreover, a reduction in projected capital spending has lowered anticipated borrowing needs, even though cash flow should be weaker. The projected economic setting suggests that downgrades and defaults in both the financial and nonfinancial sectors will continue to constrain lending to businesses.

Household debt is also expected to decelerate, in line with the anticipated weakness in income growth and spending. With consumption subdued, growth in consumer credit likely will remain quite slow over the next year. Mortgage debt also is likely to extend its recent lower growth path in line with reduced construction levels and slower advances in house prices.

In municipal markets, debt growth is projected to remain moderate. While spending pressures from demographic changes and other underlying needs should continue for some time, relatively high interest rates, concerns about credit quality, and voter resistance are likely to restrain debt issuance.

Growth in federal debt is expected to reach 11 percent this year, the fastest rate since 1986. Projected RTC activity accounts for roughly 3-1/2 percentage points of this growth, as borrowing for working capital purposes is assumed to total nearly $70 billion. Lower net outlays by RTC in 1991, in part reflecting anticipated sales of some assets, and implementation of a deficit-reduction package are expected to restrict federal debt growth to around 8 percent.

The acceleration in federal debt in 1990 is expected to raise the growth of the nonfinancial debt aggregate to about 7 percent, the midpoint of its monitoring range. As federal borrowing declines in 1991, expansion in total nonfinancial debt is anticipated to slow to roughly 6 percent, in the lower half of the provisional range adopted at the July FOMC meeting.

Recent Developments

The weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has declined nearly 5 percent since the July FOMC meeting. The dollar depreciated 5-1/2 percent against the mark and 2-1/2 percent against the yen. Signs the U.S. economy might be weakening, a slight easing of U.S. monetary policy, and some tightening of monetary conditions abroad contributed to downward pressures on the dollar. Late in the intermeeting period, the dollar received some temporary support from the rise in international tensions associated with the Iraqi invasion of Kuwait.

Short-term market interest rates in Germany and Japan rose about 1/4 percentage point during the intermeeting period. The Bank of Japan has allowed the rise in rates because of concerns about inflation pressures. In Germany, the call money rate remained near the 8 percent Lombard rate, where it has been since German monetary union in early July. Following the Iraqi invasion of Kuwait and the subsequent rise in world oil prices, gold prices rose significantly and stock and bond prices declined sharply in most major foreign countries.

. The U.S. Treasury purchased over $400 million in the market

.

Economic indicators for the second quarter suggest continued robust real growth in Japan and West Germany. In the other major foreign industrial countries, the pace of activity appears to have slowed. Economic developments in West Germany have been dominated by the process of unification. The treaty implementing economic and monetary union went into effect on July 1, and the initial adjustment, at least with respect to monetary unification, proceeded relatively smoothly.

Measured inflation rates have either remained unchanged or have declined slightly recently in each of the major industrial countries, except the United Kingdom. Authorities in many countries nevertheless remain concerned about a possible increase in underlying inflation pressures as indicated by high capacity utilization rates in Japan and France, higher wage settlements in Italy and Canada, and economic and financial strains arising from economic unification of Germany.

Output growth in Latin America has slowed somewhat so far this year compared with 1989. Disinflation programs initiated in Argentina and Brazil have caused a contraction in economic activity in those countries, although activity in Brazil appears to have stabilized in June and July. Growth in Mexico has slowed marginally as fiscal and monetary policies there have been tightened. In contrast, growth has picked up recently in some Asian countries, particularly Korea and Singapore.

The U.S. merchandise trade deficit widened slightly in May to $7.7 billion (seasonally adjusted, Census basis). A rise in nonagricultural exports in May was more than offset by increases in imports of oil and non-oil products. For April-May combined, the deficit was $9 billion smaller than it was in the first-quarter (annual rate, balance of payments basis). This improvement was due largely to a decline in the value of oil imports.

World oil prices reversed declines of the preceding few months in July, following an initial informal agreement among Persian Gulf producers that was later formalized in an accord to reduce production by 1 million barrels per day. Oil prices rose further in response to threats from Iraq and the movement of Iraqi troops toward the border with Kuwait. The invasion of Kuwait resulted in a peak spot price for West Texas Intermediate of nearly $30 per barrel on August 7. World oil prices retraced some of their rise during the following days, as forces moved to protect Saudi Arabia and some producers indicated a willingness to increase production.

The average price of U.S. non-oil imports declined slightly in the second quarter, partly in response to an appreciation of the dollar against the yen that was largely offset by depreciation against other currencies. Prices of U.S. exports rose 4 percent at an annual rate in the second quarter, led by increases in agricultural prices.

Outlook

Compared with the June Greenbook, the current forecast incorporates higher prices for oil over the forecast period and a lower dollar. Higher oil prices contribute to a weaker outlook for foreign growth in the near term and also result in a larger projected U.S. nominal trade deficit over the next few quarters than in the preceding forecast. The effects on foreign growth are more muted than in the U.S. case because of lower energy dependence and a larger excise tax wedge in retail prices of energy products abroad, on average. In the longer term, the lower dollar, along with a pick-up in growth abroad and an assumed backing-off of oil prices, leads to a downward revision in the projected trade deficit. In sum, the trade deficit is now projected to widen somewhat in the second half of this year, to narrow significantly during 1991, and to level off during 1992. The current account follows a similar pattern.

The Dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to remain unchanged over the forecast horizon at its recent average level of about 88 on the staff's index. The dollar's level is noticeably lower than that in the last Greenbook, consistent with its movements in the interim and the slightly lower U.S.

short-term interest rates. The uncertainties associated with this outlook for the dollar are large, in light of recent developments in the Middle East and world oil markets and the wide range of possible policy responses to these and future developments.

Against the currencies of eight major developing countries, the dollar is expected to appreciate slightly in real terms in 1990 and then to retrace part of that rise over the remainder of the forecast horizon.

Foreign Industrial Countries. The staff outlook for the major foreign industrial countries incorporates increases in short-term interest rates by authorities in several countries. In West Germany, high rates of capacity utilization and rapid growth heighten the risk that the recent rise in world oil prices will intensify upward pressures on prices. As a result, the Bundesbank is expected to allow short-term market interest rates to increase 1/2 percentage point from current levels through mid-1991. Rates are expected to remain at the higher level over the remainder of the forecast period. The Bank of Japan is expected to allow for a slight further rise in short-term rates of about 1/4 percentage point from current levels through the end of this year. With Japanese real growth expected to slow a little over the forecast period, short-term interest rates may edge down in 1991 and 1992 if inflation does not rise significantly. Short-term interest rates in the United Kingdom are expected to decline slightly during the remainder of this year and to trend down over the rest of the forecast period, for a net decline of 3 percentage points from current levels. U.K. rates are very high and real activity is already showing signs of slowing. Moreover, the United Kingdom is expected to join the exchange rate mechanism of the European Monetary System later this year, which would provide scope for the downward adjustment of interest rates.

Real growth in the foreign industrial countries in the second half of 1990 is expected to average a bit more than 2 percent, down from 3-1/4 percent in 1989 and 3-1/2 percent at an annual rate in the first half of 1990; both monetary restraint and the effects of the oil price increase contribute to this slowing. The higher oil prices assumed for the second half of this year have resulted in a lowering of the forecast for growth in the second half of 1990 (by 1/2 percentage point at an annual rate) that is partially offset by a slightly stronger expansion in 1991. Growth is projected to pick up to 3-1/4 percent in 1991, and to remain at about the same rate through the end of the forecast horizon.

Growth in West Germany is projected to rise to 4-1/2 percent (fourth quarter to fourth quarter) this year and 4-3/4 percent next year, rises that reflect mainly the effects of German reunification and the liberalization of East European economies. In 1992, German growth is expected to moderate to about 4 percent as monetary restraint begins to bite. Japanese growth is expected to slow to about 4 percent over the forecast period, in response to continuing tightening of monetary policy instituted to contain growing inflation pressures. After sharp slowdowns this year, Canadian and U.K. growth are both projected to recover in 1991 and to increase further in 1992. U.K. activity is expected to be boosted by lower interest rates.

The average increase in consumer prices in the foreign G-10 countries is expected to rise to about 5 percent (fourth quarter to fourth quarter) this year, almost 1/2 percentage point above the increase projected in the June Greenbook. Foreign inflation is then expected to decline to slightly less than 4 percent in 1991 and 1992, somewhat below the preceding projection.

Developing Countries. Growth in the developing countries on average is expected to be about 3 percent (year over year) in 1990 and then to rebound to about 4 percent in 1991 and 1992. Activity is expected to strengthen particularly in Latin America, as a result of recovery in Brazil and Argentina. This outlook calls for slower growth this year and next than the June forecast, as a result of the higher world oil prices, the loss of output expected for Iraq and Kuwait, and the slower growth expected in exports to the industrial countries.

U.S. Merchandise Trade Quantities. Growth of the quantity of U.S. nonagricultural exports is projected to ease slightly in the second half of this year as foreign growth slows, and then to pick up during the next two years in response to the recent decline in the dollar and a rebound in growth abroad. (See the table below.) The quantity of U.S. agricultural exports is expected to continue to rise much less rapidly than other exports will, because Soviet purchases are not expected to expand further during the next two years. Relative to the June projection, the path of total exports is slightly lower in the near term in response to slower growth abroad, but somewhat higher thereafter as a result of the lower dollar.

TRADE QUANTITIES *
(Percent change, annual rate)

			--- Projection ---	
	1989-Q4 / 1988-Q4	1990-Q2 / 1989-Q4	1990-Q4 / 1990-Q2	1992-Q4 / 1990-Q4
Nonagricultural exports	12.2	7.7	6.5	10.0
Agricultural exports	12.1	-2.4	5.5	1.0
Non-oil imports	6.6	1.7	2.1	5.4
Oil imports	2.4	5.8	-10.6	5.1

* GNP basis data.

Growth in the quantity of non-oil imports is projected to remain sluggish in the second half of this year, and to rebound over the next two years as U.S. economic growth picks up. Relative to the June projection, the forecast for the level of imports has been revised downward this year because of slower U.S. growth, and next year because of the projected lower level of the dollar. The volume of oil imports eased somewhat in the second quarter from the unusually high rate in the first quarter and is expected to decline gradually through the rest of the year, as domestically-held stocks of crude oil are reduced to more normal levels. This projection assumes that events in the Middle East will not induce users to increase stocks of refined products substantially. Next year, oil imports are projected to expand considerably faster, as domestic production of crude oil trends down and as economic activity picks up.

On balance, total real net exports of merchandise are expected to increase moderately in the current quarter and more strongly in the fourth quarter. Next year, the expansion will be sustained by increases in shipments to Europe, as real activity there strengthens. Compared with the June forecast, real net exports of goods rise somewhat faster in the second half of 1990 (from a revised, weaker second quarter), and are roughly $7 billion (1982 dollars) stronger on average by the end of 1991 (annual rate). Much of this revision can be accounted for by the lower path for the dollar. A greater downward adjustment of projected real growth in the United States than abroad also contributes, particularly in the near-term.

Merchandise Trade Prices. The fixed-weight index of prices of nonagricultural exports is expected to rise moderately this year and next, at about the projected rate of increase in domestic producer prices (export-share weighted), shown in the table below. The revisions to the outlook for the dollar and foreign inflation have raised the projected rate of increase in prices of non-oil imports somewhat.

The average price of oil imports is expected to follow the pattern of spot oil prices discussed in the section on domestic nonfinancial developments. The import price is assumed to average $25 per barrel in the fourth quarter, to decline to about $20.50 by the third quarter next year, and then to resume a gradual upward trend. From the third quarter of next year through the end of the forecast period, oil import prices are approximately $3 per barrel higher than those incorporated in the June forecast, largely reflecting the results of the July OPEC accord.

SELECTED PRICE INDICATORS
(Percent change, annual rate)

			--- Projection ---	
	1989-Q4 / 1988-Q4	1990-Q2 / 1989-Q4	1990-Q4 / 1990-Q2	1992-Q4 / 1990-Q4
PPI (export-share weighted)	3.4	2.2	4.2	2.3
Nonagric. exports (Fx-Wt)	0.0	2.3	4.5	2.3
Non-oil imports (Fx-Wt)	-1.0	2.6	5.6	3.7
Oil imports	36.8	-18.7	146.3	-6.2

Nominal Balances: Trade and Services. The merchandise trade deficit is expected to increase significantly in the second half of this year, largely in response to rising oil prices, and to narrow next year. It is then projected to stabilize at an annual rate of about $85 billion during 1992. Net portfolio payments to foreigners are expected to rise significantly over the forecast period because of rising U.S. international indebtedness. This deterioration is not significantly different than that projected in the June forecast. These rising net payments are expected to be more than fully offset by increases in net receipts on services, transfers, and net direct investment income. As a result, the current account balance is projected to improve somewhat more than the trade balance over the forecast period, to less than \$70 billion at an annual rate by the end of 1991 and roughly \$60 billion throughout 1992.

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Outlook for U.S. Net Exports and Related Items
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1990		1991				1992			
	1990-P	1991-P	1992-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-30.4	-13.7	4.4	-27.6	-36.9	-26.5	-15.6	-9.6	-3.1	1.7	3.5	4.7	7.5
Exports of G+S	673.9	733.2	800.4	679.4	693.1	707.9	723.7	741.3	759.8	777.0	791.7	808.1	824.8
Imports of G+S	704.3	746.9	796.0	707.1	730.0	734.4	739.3	750.9	762.9	775.2	788.2	803.3	817.4
Constant 82 $, Net	-35.9	-12.8	3.4	-35.9	-25.9	-19.7	-16.2	-11.1	-4.1	0.8	2.8	3.9	6.1
Exports of G+S	630.8	667.8	716.4	632.5	640.2	649.3	660.7	673.6	687.7	700.0	710.3	721.7	733.4
Imports of G+S	666.7	680.6	713.0	668.5	666.1	669.0	676.9	684.7	691.7	699.2	707.5	717.8	727.3
2. Merchandise Trade Balance 2/	-103.6	-94.6	-84.0	-102.0	-113.6	-105.4	-95.8	-91.1	-86.1	-84.3	-83.9	-83.9	-84.0
Exports	390.2	430.8	478.3	391.7	401.5	412.1	423.6	436.7	450.8	462.4	473.2	483.7	493.7
Agricultural	42.9	44.8	47.9	42.6	43.4	43.9	44.5	45.0	45.9	46.5	47.4	48.2	49.3
Non-Agricultural	347.3	386.0	430.4	349.1	358.1	368.2	379.2	391.7	405.0	415.9	425.8	435.5	444.4
Imports	493.8	525.5	562.3	493.7	515.0	517.6	519.5	527.9	537.0	546.7	557.1	567.6	577.8
Petroleum and Products	61.7	67.2	70.7	59.7	74.9	71.0	65.2	65.8	66.9	68.3	70.0	71.8	72.8
Non-Petroleum	432.1	458.2	491.5	434.0	440.1	446.6	454.2	462.1	470.0	478.3	487.1	495.8	504.9
3. Other Current Account Transactions													
Capital Gains and Losses 3/	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other D.I. Income, Net	44.7	47.7	49.0	46.9	47.7	48.2	47.9	47.5	47.2	48.6	48.6	48.6	50.0
Portfolio Income, Net	-42.7	-45.8	-49.3	-42.9	-43.7	-44.4	-45.2	-46.2	-47.2	-48.0	-48.9	-49.8	-50.7
Other Current Account, Net	11.6	18.5	24.1	12.7	11.8	16.6	18.4	20.1	18.9	23.2	24.4	25.5	23.6
4. U.S. Current Account Balance													
Including Capital G/L	-89.8	-74.2	-60.2	-85.4	-97.8	-84.9	-74.8	-69.7	-67.2	-60.4	-59.7	-59.7	-61.1
Excluding Capital G/L	-90.0	-74.2	-60.2	-85.4	-97.8	-84.9	-74.8	-69.7	-67.2	-60.4	-59.7	-59.7	-61.1
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.2	2.8	3.3	2.1	2.1	3.0	3.5	3.6	3.4	3.2	3.2	3.1	3.2
Real GNP--LDC 6/	3.0	3.9	4.2	3.4	3.8	4.1	4.1	4.0	4.0	4.0	4.3	4.7	5.1
Consumer Prices--Ten Ind. 5/	4.6	4.3	3.7	4.0	5.0	4.0	4.9	3.1	3.7	3.7	4.1	3.5	3.8

1/ National Income and Product Account data.
2/ International accounts basis.
3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.
4/ Percent change, annual rates.
5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.
6/ Weighted by share in LDC GNP.
P/ Projected