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Strictly Confidential (FR) Class II FOMC

January 30, 1991

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 Commerce Department's advance estimate is that real GNP fell 2 percent at an annual rate in the fourth quarter, as businesses--especially automakers--reduced production aggressively to avoid a runup in inventories. Available data for the new year, although quite limited, indicate that economic activity is continuing to decline, and we are forecasting that real GNP will contract at somewhere between a 1 and 2 percent annual rate this quarter, before rebounding during the spring.

The onset of hostilities in the Middle East has created a new set of uncertainties in the economic outlook. Although one can only conjecture as to the length and intensity of the war, the staff's working assumption is that the war will end this spring. The associated increment to defense purchases will raise the level of federal spending relative to its prior path over the entire projection period. But in the very near term, the war is expected to have little net effect on aggregate demand. The uncertainties and anxieties of consumers and businesses probably have not been fully allayed, despite the initial successes of the Allied forces. In addition, the lagged effects of the contraction in real income that occurred last quarter and continued financial strains are weighing on the economy in the current quarter.

However, we remain optimistic about the prospects for economic recovery after the current quarter. In the December Greenbook, the staff had projected a short recession, ending with a clear rebound in growth in the second quarter. Incoming information appears consistent with that view.

Importantly, reports suggest that businesses have been largely successful in preventing a buildup of inventories. An additional encouraging note is that oil prices declined sharply after the outbreak of fighting; this will provide a stronger boost to real income. Moreover, short-term interest rates have moved down further since the last FOMC meeting, and in part because of higher defense outlays, this forecast incorporates less fiscal restraint than assumed previously.

As the war comes to an end, we assume that the positive forces just listed will lead to a firming in spending. And, with inventories expected to be relatively lean, additional spending should translate quickly into stronger production. As a result, the staff projects real GNP to advance nearly 3 percent at an annual rate in the second quarter, halting the rise in the unemployment rate at about 6-1/2 percent.

In the second half of the year, real GNP is expected to grow a bit above a 3 percent annual rate. This pace of activity is somewhat faster than in the last projection, reflecting our view that the Pentagon will be replacing some of the munitions and equipment expended during the war. Exports also are projected to provide substantial support to growth later this year, reflecting a pickup in foreign economic activity and the lagged effects of the dollar's decline in 1990. In addition, the resumption of income growth and improved sales prospects bolster consumer and business spending. The principal exception is commercial construction, where severe excess supply problems and reduced credit availability likely will keep activity on a downtrend for some time. In 1992, gradually rising real interest rates, a decline in real defense purchases, and a flatter trajectory of inventory investment moderate the expansion of aggregate demand, and real GNP growth is projected to slow to roughly a 2-1/2 percent pace--just a shade above the staff's 2.3 percent point estimate of intermediate-run potential output growth.

Recent data on consumer prices and especially compensation have been more favorable than we had anticipated, and oil prices have fallen further, improving the outlook for inflation in the near term. However, the faster economic growth now projected after the second quarter diminishes the projected slack in resource utilization, largely offsetting these near-term developments. Nonetheless, with the unemployment rate expected to average 6-1/4 percent in 1991 and 6 percent in 1992, we still expect to see a substantial improvement in core inflation over the forecast period. The CPI excluding food and energy, which rose 5-1/4 percent in 1990, is projected to slow to 4-3/4 percent in 1991 and to 4 percent in 1992.

Key Assumptions

The major change to the assumption underlying the staff projection is the onset of the Gulf war. Prior to this projection, we had assumed a peaceful resolution of the crisis early this year. Our assumption now is that the war will end in the spring and will raise military costs significantly above what we had assumed previously. Clearly, even in the aftermath of a decisive military victory by the Allied forces, the political situation in the Middle East could remain highly unstable--posing risks to our assumptions about oil markets and defense spending.

As it is, the projection assumes that the Gulf war will have little further effect on the level of crude oil prices. Oil prices have fallen somewhat more in recent weeks than was anticipated in the December Greenbook, and our current assumption is that the war will proceed without renewed concerns about oil supplies. One apparent reason for lower oil prices recently is the announced draws of supplies from the U.S. Strategic Petroleum Reserve and from similar caches in other industrial countries; we are assuming that additional draws from those reserves would be made available if production were disrupted enough to raise prices materially. The spot price of West Texas Intermediate is assumed to fluctuate around $22-1/2 per barrel over the course of the war. After the war ends, prices are assumed to remain at this level, in line with the OPEC target established last July.

OPERATION DESERT STORM AND THE BUDGET
(Billions of dollars)

	Total	FY1991	FY1992	Beyond
TOTAL INCREMENTAL COST:	75			
less				
UNREPLACED MILITARY HARDWARE:	15			
equals				
BUDGET OUTLAYS:	60	20	20	20
less				
ASSUMED ALLIED CONTRIBUTIONS:	45	20	20	5
equals				
NET BUDGET DEFICIT EFFECT:	15	0	0	15

These figures include the prewar buildup costs of Operation Desert Shield.

On the fiscal front, higher defense purchases offset some of the moderate restraint on aggregate demand assumed in the last Greenbook for FY1991.[1] Defense outlays stemming from the war are assumed to total $60 billion; this is less than the total cost because we assume that some

1. Despite the additions to defense outlays associated with Operation Desert Storm, it is important to point out that we continue to expect overall real defense expenditures to decline after the current quarter, though less rapidly than in the last Greenbook. Although the Desert Storm experience inevitably will influence future debates about defense appropriations, we assume that the plans for multi-year cutbacks agreed to last fall will remain highly relevant.

expended military hardware won't be replaced. Additional personnel and operating costs for the war add immediately to federal purchases; other expenditures, such as those related to replacement of military equipment and munitions, are assumed to occur more gradually, extending into 1992 and beyond. Despite this anticipated pickup in defense outlays, Operation Desert Storm is expected to have no net effect on the unified federal budget deficit in FY1991 and FY1992, as the additional spending is offset by cash and in-kind contributions from other countries. Nevertheless, the staff's estimate of the budget deficit is substantially higher than that in the December Greenbook, because of increased cost estimates for transfer and grant programs and a downward adjustment to receipts (excluding cash contributions for Operation Desert Storm). In particular, we now expect the unified budget deficit to be about $280 billion in both FY1991 and FY1992. (NIPA federal deficits are $165 billion in FY1991 and $136 billion in FY1992, as compared with $158 billion in FY1990.)

Short-term interest rates are 1/2 percentage point lower in this projection than in the December Greenbook, reflecting the recent easing of monetary policy. No further easing actions on the part of the System are assumed, however, and nominal rates remain at their current levels through 1992. With inflation expectations likely edging downward in coming quarters, this assumption implies a slight increase in real rates over time, helping to keep aggregate demand on a moderate growth track.

Credit conditions generally have evolved in line with previous assumptions. The recent spate of highly publicized bank failures has underscored the deepening problems of financial intermediaries, and we expect credit supply conditions to continue worsening in the near term.

Financial difficulties among nonfinancial enterprises also are manifest and will be intensified by the further deterioration in cash flow associated with the business downturn; thus, intermediaries and other lenders are likely to display increasing caution. However, with the economic recovery more firmly established by 1992, credit conditions are expected at least to stabilize, effectively providing a small boost to growth in aggregate demand. It is worth stating that the assumed influence of the "credit crunch" is small relative to what might be suggested by the decibel level of the current outcry, reflecting the staff's belief that the problems are relatively concentrated regionally and that much of the observed credit slowing is related to reduced investment opportunities.

M2 is expected to grow in the middle portion of its tentative range of 2-1/2 to 6-1/2 percent in 1991. The expansion of M3 is projected to roughly match the sluggish pace of 1990, with intermediation continuing to be damped by the thrift resolution process, cautious lending behavior, and the effects of higher capital requirements and elevated costs of funds for depositories. The growth rates of both aggregates are expected to pick up a little in 1992, influenced by credit supply developments.

The expectation regarding the foreign exchange value of the dollar on a trade-weighted basis is essentially the same as in the December Greenbook. The dollar benefited earlier in the intermeeting period from some safe-haven demand, but more recently it has edged back toward its late 1990 lows. In essence, no major movements in the dollar are anticipated in this forecast. The staff's projections for near-term economic activity in other major industrialized countries are slightly lower than in the last Greenbook, reflecting recent data. Growth in the other G-10 countries is projected to remain subdued in the near term but to rebound to nearly a 3 percent annual rate in 1992. (For further details, see the International Developments section.)

Recent Developments and the Near-Term Outlook

Real GNP is projected to decline around 1-1/2 percent, at an annual rate, in the current quarter. Generally, we expect that concerns emanating from the war and financial fragility will continue to damp consumer and business confidence in the near term and that weak private domestic demand will push manufacturing and construction activity substantially lower.

As noted above, the fourth-quarter decline in real GNP was characterized by a sharp drop in private domestic spending and a sizable liquidation of inventories. The magnitude of last quarter's contraction in output, as reported by BEA, was somewhat less than we had expected, principally because early estimates of defense purchases are higher than we had anticipated. Nonetheless, our expectation that businesses' efforts to control inventories would play a major role in the dynamics of the recession were confirmed. This is especially evident in the motor vehicle sector, where automakers cut assemblies sharply as dealers--who correctly anticipated sluggish consumer demand--held down orders to avoid excessive inventories. Arithmetically, the decline in motor vehicle output more than accounted for the fourth-quarter drop in real GNP.

Motor vehicle production thus far in January looks to be falling short of the fourth-quarter pace, but schedules for the remainder of the quarter suggest a considerable pickup from the current assembly rate. If held to, production at these levels would effectively bring the first-quarter total up to the fourth-quarter pace, eliminating a sizable drag on GNP growth.

Sales of autos and light trucks through the first 20 days of January were soft, however, and a further deterioration in demand could well prompt automakers to scale back their assembly plans.

The aggressive production response also has resulted in a sharp deterioration in labor market conditions in recent months. Nonfarm payroll employment dropped more than 500,000 in the fourth quarter, with job losses widespread across sectors. In addition, aggregate hours of production and nonsupervisory workers fell 4-1/4 percent at an annual rate during the quarter, and the civilian unemployment rate rose another 0.2 percentage point to 6.1 percent in December. Weekly initial claims for unemployment insurance have continued to fluctuate around 450,000 through the middle of January, a level that we think is indicative of further appreciable employment losses.

Among the components of final demand, real consumer outlays are expected to decline another 1-1/2 percent at an annual rate in the current quarter, as households defer purchases of motor vehicles and other discretionary items. Additional layoffs are expected to restrain labor income growth this quarter, and both the war and negative financial news should keep consumers cautious about near-term economic prospects; as a result of these latter influences, the personal saving rate is expected to move up sharply to near 5 percent.[2] Increases in federal excise taxes on alcoholic beverages and cigarettes and the new tax on luxury goods also are likely to depress PCE growth in the current quarter, as some consumers

2. Overall, real disposable personal income is expected to rise 2-1/2 percent at an annual rate in the first quarter despite declining employment because of social security benefit increases and falling energy prices.

apparently bought in advance of the January 1 tax increase; sales of luxury import cars appear to have dropped quite sharply after the start of the year. We estimate that this shift in the timing of purchases raised the growth of real PCE by around 1/2 percentage point in the fourth quarter and will reduce growth by roughly 1 percentage point in the first quarter.

Real business fixed investment is projected to fall 9 percent, at an annual rate, in the current quarter, nearly twice its rate of decline in the fourth quarter. Generally, the weakness in sales and slumping cash flows are expected to restrain business spending. The near-term outlook is especially weak for nonresidential construction; an overhang of office and other commercial space, together with declining rates of capacity utilization in the industrial sector, has led to a continued downtrend in building permits and contracts. However, spending on business equipment also is expected to turn down sharply in the first quarter. In part, the projected decline represents a dropback from an elevated level; both an unusually large number of domestic aircraft deliveries and a surge in outlays for office and computing equipment held up PDE in the fourth quarter. In addition, new orders for nondefense capital goods excluding aircraft declined in the fourth quarter, and motor vehicle sales have slowed further.

The recent declines in housing starts and permits suggest that residential construction will fall further in the current quarter. The decline in mortgage rates has made homebuying more attractive, but a decisive upturn in demand is likely to require some broader perception that prices have bottomed out. Builders appear hesitant at this point, especially in areas where stocks of unsold homes still loom large. Reduced credit availability may be crimping activity in the multifamily segment especially, although high rental vacancy rates are probably the most significant concern in this market. Under the circumstances, housing starts are projected to decline further this quarter, holding down residential investment outlays into the spring.

Government purchases are projected to edge up further in the first part of 1991, after a big rise in the fourth quarter. To a large extent, the initial outlays for Operation Desert Storm will be for soft goods and for personnel costs. There also are reports of stepped-up production of munitions and military equipment, although much of that expense is expected to be spread out over several years as defense-related inventories are partially rebuilt.

The external sector also is expected to provide some support to production in the near term. Although weaker growth abroad is damping foreign demand to some extent, real nonagricultural merchandise exports are projected to grow at a 3-1/2 percent annual rate in the current quarter. In addition, non-oil merchandise imports will be depressed by the overall softness in U.S. economic activity.

The preemptive moves by businesses to avoid inventory overhangs appear to have been largely successful, at least through year-end. Much of the sizable liquidation in stocks in the fourth quarter occurred at petroleum refineries and auto dealers. Yet, even outside of these sectors, stocks appear to be, for the most part, well aligned with sales. Nonetheless, with business confidence low and a decline projected for final sales in the first quarter, we anticipate some further paring of inventories early this year.[3]

Turning to wage and price developments, the consumer price index is projected to rise just 3-1/2 percent at an annual rate in the current quarter, after a 7 percent jump in the fourth quarter. Price increases toward the end of last year were a bit smaller than we had forecast, as oil prices turned down sharply and increases for shelter costs slowed. With the further decline in oil prices seen in recent weeks, we now expect a bigger drop in energy prices in the current quarter as well; indeed, survey data indicate that retail prices of petroleum products already have moved significantly lower. Excluding food and energy prices, however, inflation is expected to accelerate to around a 5-1/4 percent annual rate in the first quarter, reflecting in part higher excise taxes.

Labor costs also slowed more than anticipated in late 1990, with much of the deceleration in compensation among workers in sector that have experienced substantial job losses--notably, construction, manufacturing, and finance, insurance, and real estate. Rising unemployment should continue to restrain compensation growth in the near term. Nonetheless, this influence is temporarily offset by increases in the tax bases for social security and medicare and another rise in the minimum wage. Overall, the ECI is projected to rise at a 4-1/2 percent annual pace in the first half, about 1/2 percentage point slower than in the December Greenbook.

3. Nonfarm inventories excluding autos and oil fell $5 billion in the fourth quarter of 1990 and are projected to decline $14 billion in the current quarter; thus, the negative swing in stockbuilding is a significant drag on GNP growth this quarter.

The Recovery and Longer-term Outlook

The recession is projected to end by the second quarter, with growth in real GNP forecast to approach 3 percent at an annual rate. Reflecting lessening uncertainty associated with the war and a strong boost to real income from lower oil prices, a rebound in consumer spending accounts for most of the pickup in final demand next quarter; a reduced pace of inventory liquidation is the other major factor in the upturn in output.

Over the remainder of 1991, real GNP grows at a 3-1/4 percent annual pace, with continuing impetus from export demand and a movement back toward positive growth in spending for business fixed investment and inventory accumulation. In 1992, the level of defense spending begins to decline more rapidly and the positive effects of a lower dollar begin to wane, causing real activity to slow gradually over the year. As a result, real GNP growth is expected to average 2-3/4 percent in the first half of 1992 and 2-1/2 percent in the second half.

Consumer spending is projected to rise 2-1/2 percent at an annual rate in the second quarter of this year, with discretionary items such as motor vehicles and other durable goods expected to show the biggest response. Thereafter, real consumer spending is expected to moderate, closely tracking gains in real disposable income and holding the saving rate a bit below 5 percent. With disposable income growth expected to be damped by rising tax burdens over the next two years, PCE grows at roughly a 2 percent pace over the remainder of the projection, somewhat below the growth in real GNP overall.

Real business fixed investment continues to decline through the second quarter, but turns up in the second half, as sales trends improve. All of the increase is in the equipment category; outlays for nonresidential construction are projected to fall sharply over the next two years.

Residential construction is expected to stabilize by midyear and then to move higher, supported both by improved affordability and by prospective improvements in real income and consumer confidence. The bulk of the recovery in housing construction is expected to appear in the single-family sector, but the level of starts remains below 1 million units through 1992 as the current excess stock of units is absorbed. In the multifamily sector, the current overhang of vacant units looks to be a more serious impediment, particularly in light of less favorable demographic trends.

Government purchases are expected to be stronger than forecast in the December Greenbook. In contrast to the declines built into the budget package, real federal purchases are projected to remain about unchanged this year, with defense purchases off 2 percent. In 1992, the impact of the war on defense spending wanes, and defense purchases are projected to decline 5-1/2 percent and total federal purchases 3-1/4 percent. (Nondefense purchases are expected to rise 7 percent in 1991 and 3-1/2 percent in 1992.) In the state and local sector, fiscal difficulties are expected to restrain spending over the next two years. In 1991, state and local purchases rise just 1/2 percent; they grow 1-3/4 percent in 1992, as the projected improvement in economic conditions boosts tax receipts.

Our longer-term outlook continues to be for a noticeable slowing in inflation over the projection period. However, with stronger output growth in late 1991 and early 1992, the unemployment rate drifts back down to about 6 percent by next year, 1/2 percentage point lower than assumed previously. This level of joblessness still is above our estimate of the natural rate of unemployment, but the resulting downward pressure on labor costs is somewhat less than in the December Greenbook. Excluding social security and minimum wage effects, growth in the ECI is expected to decline only slowly between mid-1991 and the end of 1992. In addition, below-average rates of capacity utilization should continue to restrain price increases in the industrial sector. Consequently, the increase in the GNP fixed-weight price index is expected to slow to around 3-3/4 percent in 1992, compared with a 4 percent rise in 1991 and a 4-3/4 percent rise last year. Similarly, the consumer price index less food and energy, which rose 5-1/4 percent last year, is expected to rise 4-3/4 percent in 1991 and 4 percent in 1992.

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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)	
		12/12/90	1/30/91	12/12/90	1/30/91	12/12/90	1/30/91	12/12/90	1/30/91	12/12/90	1/30/91
Annual changes:											
1988	<2>	7.9	7.9	4.5	4.5	4.2	4.2	4.1	4.1	5.5	5.5
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990	<2>	5.1	5.0	.9	.9	4.6	4.5	5.4	5.4	5.5	5.5
1991		4.8	4.4	.5	.5	4.4	4.2	4.9	4.7	6.5	6.3
1992		6.1	6.5	2.5	2.8	3.8	3.9	4.0	4.0	6.5	6.0
Quarterly changes:											
1989	Q1 <2>	7.5	7.5	3.6	3.6	4.9	4.9	5.4	5.4	5.2	5.2
	Q2 <2>	5.8	5.8	1.6	1.6	4.6	4.6	6.0	6.0	5.3	5.3
	Q3 <2>	5.1	5.1	1.7	1.7	3.1	3.1	2.9	2.9	5.3	5.3
	Q4 <2>	3.9	3.9	.3	.3	3.8	3.8	3.9	3.9	5.3	5.3
1990	Q1 <2>	6.7	6.7	1.7	1.7	6.6	6.6	8.2	8.2	5.2	5.3
	Q2 <2>	5.1	5.1	.4	.4	3.9	3.9	3.8	3.8	5.3	5.3
	Q3 <2>	5.8	5.3	1.7	1.4	4.2	4.2	6.3	6.3	5.6	5.6
	Q4 <2>	.9	.3	-3.1	-2.1	4.5	4.1	7.2	6.9	5.9	5.9
1991	Q1	4.3	3.3	-.9	-1.5	5.5	5.0	4.2	3.4	6.4	6.4
	Q2	7.4	6.7	3.2	2.8	4.0	3.7	4.0	3.8	6.4	6.4
	Q3	6.1	6.8	2.5	3.1	3.8	4.0	4.1	4.3	6.5	6.2
	Q4	5.8	6.7	2.3	3.1	3.7	3.7	4.0	4.1	6.5	6.1
1992	Q1	6.2	6.8	2.4	2.8	4.2	4.3	4.0	4.1	6.5	6.1
	Q2	6.0	6.0	2.4	2.6	3.7	3.7	4.0	4.0	6.5	6.1
	Q3	5.9	6.0	2.4	2.5	3.6	3.7	3.7	3.8	6.5	6.0
	Q4	5.8	5.9	2.4	2.4	3.6	3.6	3.7	3.7	6.5	6.0
Two-quarter changes: <3>											
1989	Q2 <2>	6.7	6.7	2.6	2.6	4.7	4.7	5.7	5.7	.0	.0
	Q4 <2>	4.5	4.5	1.0	1.0	3.4	3.4	3.4	3.4	.0	.0
1990	Q2 <2>	5.9	5.9	1.1	1.1	5.3	5.3	5.9	5.9	.0	.0
	Q4 <2>	3.3	2.8	-.7	-.4	4.3	4.2	6.8	6.6	.6	.6
1991	Q2	5.8	5.0	1.2	.7	4.8	4.4	4.1	3.6	.5	.5
	Q4	6.0	6.8	2.4	3.1	3.7	3.8	4.1	4.2	.1	-.3
1992	Q2	6.1	6.4	2.4	2.7	4.0	4.0	4.0	4.1	.0	.0
	Q4	5.8	5.9	2.4	2.5	3.6	3.6	3.7	3.8	.0	-.1
Four-quarter changes: <4>											
1988	Q4 <2>	7.8	7.8	3.5	3.5	4.6	4.6	4.3	4.3	-.5	-.5
1989	Q4 <2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990	Q4 <2>	4.6	4.3	.2	.3	4.8	4.7	6.3	6.3	.6	.6
991	Q4	5.9	5.9	1.8	1.9	4.3	4.1	4.1	3.9	.6	.2
92	Q4	6.0	6.2	2.4	2.6	3.8	3.8	3.8	3.9	.0	-.1

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

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January 30, 1991

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

	Units	1984	1985	1986	1987	1988	1989	1990	Projection 1991	1992
EXPENDITURES										
Nominal GNP	Billions of $	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5463.0	5701.9	6071.5
Real GNP	Billions of 82$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4155.8	4177.7	4294.0
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	.3	1.9	2.6
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	-.2	1.2	2.2
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	1.2	1.1	2.4
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	-.2	.4	2.6
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.2	1.2	2.2
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	-.8	1.4	2.6
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-2.2	-.6	1.0
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.2	2.3	2.8
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	.9	-3.1	3.7
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	2.8	-1.9	6.2
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-5.0	-7.2	-5.3
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-8.7	-.9	7.4
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	5.0	5.8	8.5
Imports		17.4	4.5	10.0	10.4	5.5	4.5	1.0	1.2	6.0
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	3.8	.3	-.3
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	5.5	.0	-3.3
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	4.7	-2.2	-5.5
State and local		4.4	4.9	5.2	2.3	3.1	2.6	2.5	.5	1.8
Change in business inventories	Billions of 82$	62.3	9.1	5.6	22.8	23.6	23.8	-1.1	-1.1	20.9
Nonfarm	Billions of 82$	57.8	13.4	8.0	28.7	26.5	18.7	-2.9	-3.6	18.4
Net exports	Billions of 82$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-37.5	-1.6	17.4
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	4.3	5.9	6.2
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.5	108.4	110.3	110.5	112.4
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.3	6.0
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	.1	2.2	3.6
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.2	79.3	80.2
Housing starts	Millions	1.77	1.74	1.81	1.62	1.49	1.38	1.19	1.06	1.18
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.53	8.72	9.33
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.92	6.39	6.78
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.61	2.33	2.56
INCOME AND SAVING										
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	5.6	6.2	6.7
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	-.4	1.9	1.9
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.5	4.9	4.7
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-2.3	2.5	2.4
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.4	4.8	4.9
Federal govt. surplus/deficit	Billions of $	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-161.3	-160.3	-127.8
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	35.4	32.9	57.8
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-34.0	-39.8	-18.4
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.0	3.9	3.5
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.7	4.1	3.8
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.2	3.8	3.8
CPI		4.2	3.5	1.3	4.5	4.3	4.6	6.3	3.9	3.9
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.2	4.7	4.0
ECI hourly compensation		4.9	3.9	3.2	3.3	4.8	4.8	4.6	4.3	4.0
Nonfarm business sector										
Output per hour		1.5	1.6	1.3	2.3	1.8	-1.6	-.3	1.3	1.3
Compensation per hour		4.1	4.6	4.9	3.7	4.2	2.2	4.2	4.5	4.0
Unit labor costs		2.6	3.0	3.6	1.4	2.3	3.9	4.6	3.2	2.7

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

January 30, 1991

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	5443.3
Real GNP	Billions of 82$	3970.2	4005.8	4032.1	4059.3	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1
Real GNP	Percent Change	5.1	3.6	2.7	2.7	3.6	1.6	1.7	.3	1.7	.4
Gross domestic purchases		1.6	3.0	3.2	2.4	1.2	1.8	2.8	-1.2	.5	1.3
Final sales		7.1	5.1	1.1	4.6	2.4	1.7	1.8	.9	3.8	-.7
Private dom. final purchases		6.7	4.8	3.0	1.7	.8	1.4	4.1	-1.5	2.4	-1.2
Personal consumption expend.		6.9	2.7	3.5	3.5	-.3	1.3	4.6	-.8	1.1	.2
Durables		21.8	3.7	-1.1	14.1	-6.0	5.6	9.6	-13.0	14.4	-9.5
Nondurables		2.6	2.0	4.1	1.2	.6	-1.7	3.9	-.2	-3.2	-1.9
Services		5.6	2.9	4.5	1.9	.9	2.1	3.5	3.1	.1	5.1
Business fixed investment		11.4	15.7	1.6	-6.3	8.9	6.9	6.3	-3.8	5.0	-4.7
Producers' durable equipment		20.3	17.9	2.2	-5.5	9.5	12.2	6.1	-5.2	5.7	-3.3
Nonresidential structures		-10.5	9.9	-.3	-8.7	7.5	-8.2	7.1	1.3	2.3	-9.0
Residential structures		-6.8	6.8	.4	-.4	-3.6	-11.3	-7.6	-5.5	15.1	-11.2
Exports		31.7	4.4	5.4	16.7	15.8	12.4	-.5	13.5	11.2	-5.0
Imports		.5	.3	9.2	12.4	-2.3	12.8	6.4	1.7	2.5	.7
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	16.4
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	-.6
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	9.5
Nonfarm	Billions of 82$	28.8	19.2	31.0	27.2	16.4	21.5	21.7	15.3	-8.2	11.6
Net exports	Billions of 82$	-77.3	-72.2	-78.5	-75.7	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6
Nominal GNP	Percent change	7.8	8.3	7.4	7.7	7.5	5.8	5.1	3.9	6.7	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	104.3	105.1	105.9	106.8	107.6	108.2	108.7	109.2	109.9	110.5
Unemployment rate	Percent*	5.7	5.5	5.5	5.3	5.2	5.3	5.3	5.3	5.3	5.3
Industrial production index	Percent change	5.0	4.2	5.9	2.8	2.7	2.8	-1.2	.2	.6	4.2
Capacity utilization rate-mfg.	Percent*	83.1	83.6	84.3	84.6	84.7	84.5	83.7	82.9	82.6	82.8
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	5.3
Real disposable income	Percent change	7.3	2.7	4.9	2.3	4.2	-1.2	2.7	1.2	2.5	.3
Personal saving rate	Percent*	4.0	4.1	4.5	4.1	5.2	4.6	4.1	4.6	4.9	5.0
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	13.9
Profit share of GNP	Percent*	7.0	7.0	6.8	7.0	6.4	6.2	5.9	5.5	5.5	5.6
Federal govt. surplus/deficit	Billions of $	-153.7	-136.9	-120.1	-156.3	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0
State and local govt. surplus		45.5	48.3	46.8	45.2	48.9	50.3	48.1	38.5	38.1	38.6
Exc. social insurance funds		-15.6	-14.1	-17.0	-19.0	-16.2	-15.6	-18.7	-29.1	-30.2	-30.4
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	4.7
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	2.6
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
ECI hourly compensation**		5.2	5.2	3.8	5.1	4.2	4.9	5.3	4.4	5.6	5.1
onfarm business sector											
Output per hour		4.7	-.5	2.8	.2	-2.7	-.3	-1.0	-2.5	-1.3	.3
Compensation per hour		2.4	5.1	5.3	3.8	3.3	1.7	1.6	2.3	3.9	5.0
Unit labor costs		-2.2	5.7	2.5	3.6	6.1	2.0	2.6	5.0	5.3	4.7

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

January 30, 1991

CONFIDENTIAL - FR
CLASS II FOMC

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

	Units	1990 Q3	1990 Q4	Projection 1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 Q4
EXPENDITURES											
Nominal GNP	Billions of $	5514.6	5518.9	5563.3	5654.0	5748.1	5842.1	5939.5	6027.4	6115.6	6203.5
Real GNP	Billions of 82$	4170.0	4147.6	4132.2	4161.1	4192.5	4224.9	4254.1	4281.0	4307.4	4333.5
Real GNP	Percent Change	1.4	-2.1	-1.5	2.8	3.1	3.1	2.8	2.6	2.5	2.4
Gross domestic purchases		1.6	-4.2	-2.9	2.3	2.6	2.7	2.2	2.0	2.2	2.2
Final sales		1.9	-.1	-1.3	1.7	1.9	2.1	2.3	2.6	2.5	2.4
Private dom. final purchases		2.3	-4.0	-3.5	1.2	1.9	2.2	2.4	2.6	2.8	2.7
Personal consumption expend.		2.7	-3.1	-1.5	2.5	1.7	2.0	2.1	2.2	2.2	2.2
Durables		2.6	-8.6	-6.6	7.6	3.1	2.1	2.4	2.6	2.8	2.5
Nondurables		2.3	-5.8	-5.4	1.8	.5	.8	.9	1.0	1.0	1.0
Services		3.0	.7	2.9	1.5	2.1	2.7	2.7	2.8	2.8	2.8
Business fixed investment		8.9	-4.6	-9.3	-4.5	.4	1.6	3.1	3.6	4.0	4.1
Producers' durable equipment		10.2	-.7	-9.4	-3.8	2.5	3.8	5.6	6.2	6.6	6.6
Nonresidential structures		5.1	-16.5	-9.5	-7.2	-6.6	-5.6	-5.5	-5.4	-5.2	-5.2
Residential structures		-19.8	-15.4	-15.7	-2.8	8.8	8.2	5.6	7.5	9.5	6.9
Exports		6.9	7.8	-.3	6.5	7.8	9.3	8.9	8.7	8.5	7.8
Imports		7.6	-6.3	-9.0	3.2	5.1	6.3	5.3	5.5	6.9	6.4
Government purchases		1.2	4.9	.5	1.5	-.2	-.6	-.6	-.3	-.4	.0
Federal		.1	6.0	.2	2.6	-.9	-1.9	-3.2	-3.1	-3.7	-3.1
Defense		2.7	15.0	2.6	-3.7	-3.7	-3.7	-5.2	-5.3	-6.1	-5.5
State and local		2.0	4.0	.7	.7	.3	.3	1.2	1.7	1.9	2.2
Change in business inventories	Billions of 82$	4.7	-16.3	-18.3	-7.1	5.1	15.8	20.6	20.6	21.0	21.5
Nonfarm	Billions of 82$	4.7	-19.8	-21.8	-8.7	3.0	13.3	18.1	18.0	18.5	19.0
Net exports	Billions of 82$	-46.5	-23.6	-8.6	-3.6	.6	5.3	11.1	16.5	19.6	22.2
Nominal GNP	Percent change	5.3	.3	3.3	6.7	6.8	6.7	6.8	6.0	6.0	5.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	110.2	109.9	110.1	110.7	111.3	111.7	112.2	112.6	113.1
Unemployment rate	Percent*	5.6	5.9	6.4	6.4	6.2	6.1	6.1	6.1	6.0	6.0
Industrial production index	Percent change	3.9	-7.9	-4.6	4.0	4.9	5.0	4.1	3.5	3.5	3.2
Capacity utilization rate-mfg.	Percent*	82.8	80.5	78.8	79.0	79.4	79.8	80.1	80.2	80.3	80.3
Housing starts	Millions	1.13	1.05	1.00	1.04	1.09	1.11	1.15	1.17	1.20	1.22
Auto sales	Millions	9.68	8.93	8.20	8.73	8.91	9.02	9.15	9.29	9.40	9.49
Domestic	Millions	7.21	6.59	6.10	6.38	6.49	6.57	6.67	6.75	6.81	6.88
Foreign	Millions	2.47	2.34	2.10	2.35	2.42	2.45	2.48	2.54	2.59	2.61
INCOME AND SAVING											
Nominal personal income	Percent change	5.0	3.5	6.3	6.1	5.5	7.0	7.9	6.3	5.9	6.6
Real disposable income	Percent change	-.7	-3.6	2.5	2.2	.6	2.4	2.6	1.6	1.4	2.1
Personal saving rate	Percent*	4.2	4.1	5.0	4.9	4.7	4.8	4.9	4.8	4.6	4.6
Corp. profits with IVA & CCAdj	Percent change	-7.5	-20.1	-29.7	15.0	21.4	12.5	6.6	-3.0	.6	5.5
Profit share of GNP	Percent*	5.5	5.2	4.7	4.8	4.9	5.0	5.0	4.9	4.8	4.8
Federal govt. surplus/deficit	Billions of $	-145.7	-165.2	-175.6	-168.5	-149.0	-148.2	-144.2	-132.1	-118.6	-116.3
State and local govt. surplus		39.3	25.5	22.6	28.0	35.9	44.9	51.1	55.8	60.3	64.1
Exc. social insurance funds		-30.5	-44.9	-48.7	-44.2	-37.2	-29.1	-23.8	-20.0	-16.4	-13.5
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.7	2.8	4.7	3.8	3.7	3.5	3.9	3.4	3.4	3.3
GNP fixed-weight price index		4.2	4.1	5.0	3.7	4.0	3.7	4.3	3.7	3.7	3.6
Cons. & fixed invest. prices		5.4	6.1	3.4	3.8	4.1	3.8	3.9	3.8	3.7	3.6
CPI		6.3	6.9	3.4	3.8	4.3	4.1	4.1	4.0	3.8	3.7
Exc. food and energy		5.8	3.9	5.2	4.5	4.7	4.6	4.3	4.1	3.9	3.8
ECI hourly compensation**		4.3	3.8	4.6	4.4	4.1	4.0	4.3	3.9	3.8	3.8
Nonfarm business sector											
Output per hour		.2	-.3	-.6	2.6	1.8	1.5	1.4	1.3	1.2	1.2
Compensation per hour		4.6	3.6	5.9	4.2	4.0	4.1	4.4	3.9	3.8	3.8
Unit labor costs		4.4	3.8	6.5	1.6	2.2	2.6	3.0	2.6	2.6	2.6

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

CONFIDENTIAL - FR
CLASS II FOMC

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

	1988				1989				1990		1987	1988	1989	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	4.5	187.1	138.6	73.9	14.4
Gross domestic purchases	15.5	30.5	32.6	24.4	11.8	18.7	28.3	-12.7	4.9	13.7	163.0	103.0	46.1	-9.9
Final sales	66.9	49.7	10.6	45.7	24.4	17.0	18.5	9.3	38.4	-7.2	117.9	172.9	69.2	49.5
Private dom. final purchases	51.8	38.3	24.4	14.2	6.5	11.4	34.1	-12.9	20.2	-10.3	78.5	128.7	39.1	-5.1
Personal consumption expend.	42.6	17.3	22.3	22.4	-2.1	8.6	30.0	-5.4	7.4	1.5	56.4	104.6	31.1	5.9
Durables	19.8	3.8	-1.1	13.9	-6.6	5.8	9.9	-15.0	14.5	-10.8	-4.9	36.4	-5.9	-3.2
Nondurables	5.7	4.4	9.1	2.7	1.4	-3.9	8.8	-.4	-7.4	-4.4	11.7	21.9	5.9	-20.2
Services	17.1	9.1	14.2	6.0	3.0	6.7	11.3	10.0	.4	16.6	49.6	46.4	31.0	29.3
Business fixed investment	12.7	17.6	2.0	-8.0	10.5	8.4	7.8	-4.9	6.2	-6.2	26.6	24.3	21.8	4.8
Producers' durable equipment	16.0	14.9	2.0	-5.2	8.4	10.9	5.7	-5.2	5.4	-3.3	25.6	27.7	19.8	10.9
Nonresidential structures	-3.4	2.9	-.1	-2.8	2.2	-2.6	2.1	.4	.7	-2.9	1.0	-3.4	2.1	-6.1
Residential structures	-3.4	3.2	.2	-.2	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-4.5	-.2	-13.8	-15.9
Change in business inventories	-17.4	-14.1	15.7	-18.6	12.1	-.6	-.9	-5.7	-21.1	11.7	69.2	-34.4	4.9	-35.2
Nonfarm	-26.6	-9.6	11.8	-3.8	-10.8	5.1	.2	-6.4	-23.5	19.8	66.3	-28.2	-11.9	-35.1
Farm	9.1	-4.5	3.9	-14.8	22.9	-5.7	-1.1	.7	2.4	-8.1	3.0	-6.3	16.8	-.1
Net exports	34.0	5.1	-6.3	2.8	24.6	-2.2	-10.8	16.2	12.5	-9.2	24.1	35.6	27.8	24.3
Exports	34.7	5.6	7.0	21.0	20.8	17.1	-.7	19.1	16.5	-8.0	80.5	68.3	56.3	30.8
Imports	.7	.5	13.3	18.2	-3.7	19.2	10.1	2.8	4.1	1.2	56.4	32.7	28.4	6.6
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	30.3
Federal	-23.2	2.8	-8.9	23.9	-8.1	5.7	-6.9	-.3	.3	12.9	5.3	-5.4	-9.6	18.4
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	11.9
Nondefense	-19.4	3.7	-5.6	20.8	-.8	3.8	-11.4	4.4	1.4	10.8	-4.9	-.5	-4.0	6.4
State and local	4.3	3.5	1.3	4.8	1.5	2.1	2.1	6.3	5.5	-.7	10.0	13.9	12.0	11.9

CONFIDENTIAL - FR
CLASS II FOMC

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

	1990		Projection 1991				Projection 1992				1989 (fourth quarter to fourth quarter, net change)	1990	Projection 1991	Projection 1992
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Real GNP	14.9	-22.4	-15.4	28.9	31.4	32.4	29.2	27.0	26.4	26.1	73.9	14.4	77.3	108.6
Gross domestic purchases	16.8	-45.3	-30.4	23.9	27.2	27.7	23.4	21.5	23.3	23.4	46.1	-9.9	48.4	91.6
Final sales	19.7	-1.4	-13.4	17.7	19.2	21.7	24.4	27.0	26.0	25.6	69.2	49.5	45.2	102.9
Private dom. final purchases	19.1	-34.1	-29.4	9.7	15.4	18.3	19.9	22.2	23.9	22.9	39.1	-5.1	13.9	88.8
Personal consumption expend.	18.0	-21.0	-10.0	16.6	11.6	13.1	13.9	14.7	14.9	14.8	31.1	5.9	31.2	58.2
Durables	2.7	-9.6	-7.1	7.7	3.2	2.2	2.6	2.8	3.0	2.7	-5.9	-3.2	5.9	11.0
Nondurables	5.2	-13.6	-12.4	3.9	1.1	1.7	2.1	2.2	2.2	2.3	5.9	-20.2	-5.7	8.8
Services	10.0	2.3	9.6	5.0	7.2	9.2	9.2	9.7	9.7	9.8	31.0	29.3	31.0	38.4
Business fixed investment	10.9	-6.1	-12.4	-5.8	.5	2.0	3.8	4.5	5.0	5.2	21.8	4.8	-15.7	18.5
Producers' durable equipment	9.5	-.7	-9.6	-3.7	2.4	3.6	5.3	6.0	6.4	6.5	19.8	10.9	-7.3	24.3
Nonresidential structures	1.5	-5.4	-2.9	-2.1	-1.9	-1.6	-1.5	-1.5	-1.4	-1.4	2.1	-6.1	-8.5	-5.8
Residential structures	-9.8	-7.1	-6.9	-1.1	3.4	3.2	2.3	3.0	3.9	2.9	-13.8	-15.9	-1.5	12.1
Change in business inventories	-4.8	-21.0	-2.0	11.2	12.2	10.7	4.8	.0	.4	.5	4.9	-35.2	32.1	5.7
Nonfarm	-6.9	-24.5	-2.0	13.1	11.7	10.3	4.8	-.1	.5	.5	-11.9	-35.1	33.1	5.7
Farm	2.1	3.5	.0	-1.9	.5	.4	.0	.1	-.1	.0	16.8	-.1	-1.0	.0
Net exports	-1.9	22.9	15.0	5.0	4.2	4.7	5.8	5.4	3.0	2.7	27.8	24.3	28.9	16.9
Exports	10.4	11.9	-.5	10.1	12.4	14.9	14.6	14.6	14.7	13.7	56.3	30.8	37.0	57.5
Imports	12.3	-11.0	-15.5	5.2	8.2	10.3	8.8	9.1	11.6	11.0	28.4	6.6	8.2	40.6
Government purchases	2.5	9.8	1.1	3.0	-.4	-1.3	-1.4	-.7	-.9	.1	2.3	30.3	2.4	-2.9
Federal	.1	5.1	.2	2.2	-.8	-1.7	-2.9	-2.7	-3.2	-2.6	-9.6	18.4	-.1	-11.4
Defense	1.7	9.2	1.7	-2.5	-2.5	-2.5	-3.5	-3.5	-4.0	-3.5	-5.6	11.9	-5.8	-14.5
Nondefense	-1.6	-4.2	-1.4	4.7	1.7	.8	.6	.8	.8	.9	-4.0	6.4	5.8	3.1
State and local	2.4	4.7	.9	.8	.4	.4	1.5	2.0	2.3	2.7	12.0	11.9	2.5	8.5

FEDERAL SECTOR ACCOUNTS[1]
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990a	1991	1992	Ia	IIa	IIIa	IVa	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts[2]	991	1031	1115	1183	230	319	254	254	253	331	278	262	272	353	296	277
Budget outlays[2]	1144	1252	1398	1459	310	331	312	341	344	358	356	373	359	362	364	361
Surplus/deficit(-)[2]	-153	-220	-283	-276	-80	-12	-58	-87	-91	-27	-78	-111	-87	-10	-68	-84
(On-budget)	-206	-277	-347	-345	-94	-41	-65	-97	-107	-50	-93	-118	-107	-35	-85	-93
(Off-budget)	53	57	64	69	14	29	7	10	16	23	15	7	20	26	16	9
Surplus excluding deposit insurance[3]	-131	-162	-192	-182	-74	17	-41	-72	-71	0	-49	-88	-63	14	-45	-71
Means of financing:																
Borrowing	140	263	298	261	90	41	69	99	67	46	85	101	63	38	60	84
Cash decrease	3	1	0	5	8	-16	-6	8	6	-9	-4	15	5	-20	5	10
Other[4]	10	-44	-15	10	-18	-13	-6	-20	17	-10	-3	-5	19	-8	4	-10
Cash operating balance, end of period	41	40	40	35	18	35	40	32	26	36	40	25	20	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1038	1092	1166	1263	1081	1106	1126	1135	1157	1175	1199	1222	1257	1276	1295	1318
Expenditures	1174	1249	1331	1399	1249	1272	1272	1300	1333	1343	1348	1371	1401	1408	1414	1435
Purchases	400	415	446	451	411	422	426	439	446	449	449	449	453	452	450	449
Defense	301	307	330	326	307	310	313	327	333	332	329	327	328	325	322	318
Nondefense	99	107	116	126	104	112	113	112	113	118	120	122	125	127	129	131
Other expend.	774	835	885	947	838	850	846	862	887	894	899	921	948	956	964	985
Surplus/deficit	-136	-158	-165	-136	-168	-166	-146	-165	-176	-168	-149	-148	-144	-132	-119	-116
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-149	-150	-109	-82	-166	-154	-127	-123	-114	-107	-90	-92	-90	-78	-66	-64
Change in HEB, percent of potential GNP	0	0	-.8	-.5	.3	-.2	-.5	-.1	-.2	-.1	-.3	0	0	-.2	-.2	0
Fiscal impetus measure (FI), percent	-3.5 *	-3.4 *	-3.1 *	-3.7 *	-2.3	1.2	-.8	1.4	-4.3	.7	-.5	-.6	-2.2	-.7	-.8	-.6

a--actual *--calendar year

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

1. Staff projections. CBO's January deficit estimates are $298 billion in FY1991 and $284 billion in FY1992. OMB's baseline deficit estimates made for the Budget Summit (September 1990), in combination with their preliminary estimates of the savings in the recent budget agreement, imply deficits of $255 billion in FY1991 and $233 billion in FY1992.
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. CBO's January deficit estimates, excluding deposit insurance spending, are $194 billion in FY1991 and $186 billion in FY1992. OMB's September deficit projections, excluding deposit insurance spending, are $158 billion in FY1991 and $153 billion in FY1992.
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 2.3% potential output growth in the forecast period. 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

Developments in the Middle East exerted considerable influence on stock and bond markets over the intermeeting period. With the prospects for a peaceful resolution to the Gulf crisis fading and oil prices rising, stock and bond prices lost ground as the January 15 deadline approached. After the outbreak of hostilities, however, sentiment shifted, as investors concluded that oil supplies were likely to remain ample. For the period as a whole, net changes in long-term rates were narrowly mixed, while most major stock indexes moved about 2 percent higher.

In the money market, Treasury bill rates fell between 40 and 50 basis points, primarily in conjunction with the easing of monetary policy. Other money market rates posted much larger declines, reflecting the unwinding of year-end financing pressures. With their funding costs falling, major banks responded in early January by lowering their prime lending rate one-half percentage point to 9-1/2 percent. The federal funds rate varied widely over the period, buffeted by year-end pressures, reserve shortfalls at the end of maintenance periods, and fluctuating demands for excess reserves associated with the elimination of reserve requirements on nontransaction accounts.

Incoming data point to continued sluggish growth in the broad monetary aggregates. M2 grew at an estimated 2 percent rate in January, around December's pace. The continued weakness in M2 partly reflected the behavior of core deposits--consisting of money market deposit accounts, savings deposits, and small time deposits--which increased only slightly despite further declines in opportunity costs. Also damping growth in M2 was a large decline in demand deposits that appears, at least partly, to represent a new seasonal pattern arising from increased use of fees, rather than compensating balances, to pay for bank services. In contrast, money funds grew rapidly, owing primarily to an unusually wide gap between yields on money fund shares and Treasury bill rates; in addition, apprehension about the condition of the banking system may have prompted some individuals to shift out of bank deposits, as evidenced both by the increase in noncompetitive tenders at the weekly bill auctions and by relatively strong inflows to government-only money funds. Currency growth also was strong in January, as shipments abroad increased.

After being essentially unchanged since October, M3 grew at an estimated 4 percent rate in January. It was boosted by a surge in large time deposits, as banks apparently shifted some of their funding from overseas sources to the U.S. CD market. Growth in M3 did not reflect a strengthening in depository credit; indeed, preliminary data indicate that the shrinkage of thrift assets continued apace in January and bank credit probably declined slightly after rising at a 2-1/2 percent rate in December. Business loans contracted in January in reflection of generally weak business credit demands. In addition, a shift back into commercial paper by those borrowers who moved out of that market as the year-end approached may have contributed to the falloff in business lending. Consumer lending, which had been boosted in December by special factors, also was weak this month, as was real estate lending, which has been negligible for the past two months, apart from two banks' purchases of thrift assets in December.

In line with the falloff in economic activity, debt growth of the nonfederal sectors declined to an estimated 4-1/2 percent rate in the fourth quarter. Borrowing by state and local governments fell sharply, primarily because of a decrease in short-term borrowings, which had been heavy in the second and third quarters when several states funded revenue shortfalls. In the household sector, weak housing demand damped mortgage borrowing, while consumer borrowing slowed significantly. Even revolving consumer credit, which had grown at double-digit rates for most of the year, slackened in the fourth quarter, held back by reduced consumer spending and a step-up in repayments of high-cost debt. Business debt continued to advance at a lackluster pace in the fourth quarter, evidently reflecting a decrease in fixed investment and inventory liquidation; early evidence suggests that business borrowing softened further in January. The composition of corporate borrowing shifted during the fourth quarter toward bonds and away from bank loans and commercial paper, as corporations took advantage of the drop in long-term yields in November and early December. In contrast to the nonfederal sectors, Treasury borrowing increased sharply, primarily reflecting the effect of the recession on revenue growth.

New information on the credit crunch points to a little more credit stringency. The most recent survey of senior loan officers at large banks revealed further tightening in lending terms on business, consumer, and real estate loans between October and January. In addition, quality spreads on corporate bonds are unchanged to up slightly, while those for commercial paper, though down from their elevated year-end levels, are a bit above levels prevailing prior to the onset of year-end pressure. Moreover, ratings changes on municipal, nonfinancial, and financial securities displayed further deterioration in the fourth quarter. Finally, December's survey of credit conditions for small businesses, taken by the National Federation of Independent Business, continued to show only a small percentage of respondents encountering increased difficulty in obtaining credit. No deterioration in credit availability has been picked up in the survey since June of last year, and the degree of credit stringency reported thus far is mild compared with earlier recessions.

Outlook

The staff's economic projection is based on the assumption that the federal funds rate remains around 6-3/4 percent through 1992. This level represents about a 1/2 percentage point reduction from that assumed in the December projection, which did not envision the policy easing undertaken since then. Long-term interest rates have not shared in the recent easing, and no major change in the benchmark Treasury bond yield is anticipated over the next two years.

The economic outlook is such as to suggest, however, that risk premia on business and municipal debt obligations will increase further. In the past, these premia have risen throughout recessions, and with the credit quality of both sectors likely to show further deterioration in coming months, a similar pattern is expected in the current downturn. Furthermore, lenders probably will remain relatively cautious farther into the recovery than they typically have in the past, partly because of the need for many intermediaries to rebuild capital and the slow improvement in many borrowers' financial condition.

In this context, debt of the domestic nonfinancial sectors is projected to expand at about a 6-1/2 percent rate in 1991 and 1992, slightly above nominal GNP growth but down a bit from last year's rate. In the past, debt growth has picked up in economic recoveries; the failure to do so in 1991 primarily reflects the relatively subdued pace of the recovery in the presence of credit supply constraints, which restrain borrowing by the nonfederal sectors. In 1992, nonfederal borrowing strengthens but is offset by a sharp drop in federal government borrowing, resulting from a reduction in net outlays for the RTC, along with more rapid revenue growth. Over the projection period, the effect of RTC-related outlays on federal debt growth is considerable, adding 3 percentage points in 1991 and 2 percentage points in 1992.

Among the nonfederal sectors, borrowing by nonfinancial businesses is expected to be about unchanged in the current quarter, with the financing needed for AT&T's expected acquisition of NCR offsetting what are otherwise weak credit demands. Over the remainder of the projection period, corporate cash flow recovers much more slowly than capital expenditures, producing a steady but moderate rise in the financing gap. Net equity retirements, however, are expected to fall back in the second quarter to the lowest level since 1983. Little change from this level is anticipated thereafter, as lenders likely will remain cool to highly leveraged transactions, limiting acquisition activity primarily to transactions financed by equity exchanges or to purchasers with strong balance sheets. With limited merger-related borrowing, business debt picks up only a little through 1992.

In the household sector, consumer debt is expected to be about unchanged in the current quarter but will start to grow with the start of the economic recovery in the spring. Consumer debt growth should strengthen over the remainder of the projection period but remain well below the rates experienced throughout most of the 1980s. The restrained growth of consumer credit is largely a demand phenomenon that reflects a moderate increase in consumption spending, relatively high debt burdens, and the availability of tax-advantaged home equity loans. Traditional providers of consumer credit--banks and finance companies--are not likely to pull back from this lucrative business unless delinquency rates move well above current levels, which is not expected to occur in the projected mild recession.

The rate of expansion of home mortgage debt should begin to increase modestly by midyear in line with rising housing starts and higher turnover of existing homes. Nonetheless, mortgage debt growth projected through 1992 is moderate, especially compared with the double-digit rates that prevailed over most of the past decade and a half.

Borrowing by state and local governments will be negligible this year but will strengthen a bit in 1992. Many governmental units have encountered revenue shortfalls, which are expected to lead to cutbacks or delays in capital projects. Net bond offerings also will be damped this year by heavy retirements financed from the proceeds raised in previous advance refundings.

GROWTH RATES OF DEBT BY SECTOR[1]
(Period-end to period-end)

	Domestic Nonfinancial Sectors								Memo	
				Households						
	Total	U.S. govt.	Non-federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets[2]	Nominal GNP[3]
Annual (percent)										
1982	9.3	19.4	6.9	5.4	4.5	4.4	7.8	9.1	10.3	3.1
1983	11.5	18.8	9.6	11.4	11.0	12.6	8.3	7.1	11.8	10.4
1984	14.4	16.9	13.7	12.9	11.7	18.7	15.6	7.9	13.4	8.6
1985	14.2	16.2	13.6	14.1	11.9	15.9	11.4	23.7	12.0	6.6
1986	12.3	13.4	12.0	12.8	14.9	9.6	12.0	7.6	9.1	4.6
1987	9.0	8.0	9.3	11.6	14.0	5.1	7.0	9.6	7.8	8.2
1988	9.1	8.0	9.5	10.9	12.2	7.2	8.2	8.2	8.7	7.8
1989	7.5	7.2	7.5	8.9	10.5	5.3	6.7	4.9	7.4	5.6
1990	7.1	12.0	5.6	7.6	9.1	2.0	4.2	2.0	5.8	4.3
1991	6.5	11.6	4.8	5.6	7.1	1.3	4.7	0.7	4.7	5.9
1992	6.5	8.5	5.8	6.5	7.9	2.9	5.6	3.2	5.0	6.2
Quarterly (percent-SAAR)										
1989 -- Q1	8.2	7.0	8.6	9.2	10.6	5.1	8.4	6.6	8.5	7.5
Q2	7.2	4.6	7.9	8.0	9.7	4.9	8.3	5.4	8.0	5.8
Q3	7.2	8.0	6.9	8.7	10.2	4.8	5.6	4.6	8.5	5.1
Q4	6.4	8.3	5.9	8.5	9.6	5.7	3.8	2.6	3.6	3.9
1990 -- Q1	7.8	10.9	6.8	8.6	10.2	1.8	6.0	1.4	8.4	6.7
Q2	6.2	9.7	5.2	7.6	9.4	1.2	3.2	2.3	4.9	5.1
Q3	7.0	11.9	5.4	7.8	8.4	3.5	3.4	3.2	5.5	5.3
Q4	6.6	13.1	4.6	5.7	7.1	1.2	4.0	0.9	3.8	0.3
1991 -- Q1	5.7	9.7	4.4	5.1	6.8	0.0	4.3	0.9	4.3	3.3
Q2	5.7	9.6	4.5	5.4	6.7	1.3	4.3	0.1	3.7	6.7
Q3	7.0	13.1	4.9	5.7	7.0	2.0	4.9	0.6	5.3	6.8
Q4	6.8	12.2	5.0	5.8	7.2	2.0	4.9	1.4	5.0	6.7
1992 -- Q1	6.1	7.8	5.5	6.1	7.4	2.5	5.3	2.9	4.8	6.8
Q2	6.1	7.7	5.5	6.2	7.6	2.7	5.3	2.8	4.5	6.0
Q3	6.5	8.4	5.9	6.4	7.8	3.1	5.7	3.5	4.9	6.0
Q4	6.7	8.9	5.9	6.5	8.0	3.1	5.7	3.4	5.3	5.9

1. Published data through 1990:3; projections for other periods
2. Sometimes referred to as the "Kaufman debt proxy"; it includes holdings of liquid assets (currency and deposits) and credit market instruments.
3. Annual figures are Q4 to Q4.

2.6.3 FOF

FLOW OF FUNDS PROJECTION HIGHLIGHTS[1]
(Billions of dollars, seasonally adjusted annual rates)

		Calendar year				1990				1991			
		1989	1990	1991	1992	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Net funds raised by domestic												
1	nonfinancial sectors	554.0	633.0	633.0	686.4	693.1	576.6	634.6	627.7	539.8	568.3	713.4	710.4
2	Net equity issuance	-124.2	-63.0	-49.8	-45.0	-69.0	-48.0	-74.0	-61.0	-64.0	-45.0	-45.0	-45.0
3	Net debt issuance	678.2	696.0	682.7	731.4	762.1	624.6	708.6	688.7	603.8	613.3	758.4	755.4
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	33.9	35.2	36.7	52.9	10.7	28.1	58.3	43.6	21.9	29.7	40.4	54.9
5	Net equity issuance	-124.2	-63.0	-49.8	-45.0	-69.0	-48.0	-74.0	-61.0	-64.0	-45.0	-45.0	-45.0
6	Credit market borrowing	211.9	143.8	165.5	208.0	205.4	110.7	118.1	141.0	153.0	153.8	176.9	178.4
	Households												
7	Net borrowing, of which:	285.0	266.6	212.0	258.0	300.0	270.2	283.4	212.5	193.7	205.4	221.4	227.3
8	Home mortgages	221.6	213.6	183.1	218.1	239.3	226.6	208.1	180.4	175.5	176.2	187.1	193.9
9	Consumer credit	39.1	15.6	10.9	23.8	14.6	9.8	27.7	10.1	0.1	10.8	16.8	16.1
10	Debt/DPI (percent)[3]	89.8	92.3	93.7	93.7	92.0	92.8	94.0	94.6	94.3	94.1	94.3	94.2
	State and local governments												
11	Net borrowing	29.6	12.6	4.8	20.7	9.0	14.9	20.5	6.0	5.8	0.5	4.2	8.9
12	Current surplus[4]	-25.7	-37.8	-30.5	-10.9	-34.2	-39.7	-41.6	-35.4	-38.7	-34.6	-28.1	-20.4
	U.S.government												
13	Net borrowing from public	151.6	273.0	300.4	244.8	247.6	228.7	286.7	329.1	251.4	253.6	355.9	340.8
14	Net borrowing from public[5]	151.6	273.0	300.4	244.8	64.5	40.8	68.4	98.8	67.4	45.7	85.5	101.2
15	Unified budget deficit[5]	155.0	236.7	307.0	248.3	80.2	11.8	57.8	86.9	90.6	26.7	78.4	111.3
	Funds supplied by												
16	depository institutions	92.8	-7.6	-65.2	-23.4	133.0	-73.1	-47.1	-43.0	-83.9	-54.6	-57.9	-64.3
17	Share of total (percent)[6]	13.5	-1.1	-9.2	-3.1	17.5	-11.0	-6.4	-6.1	-13.4	-8.6	-7.4	-8.2
	Memoranda: As percent of GNP:												
18	Dom. nonfinancial debt[3]	181.7	186.5	191.4	191.4	186.4	187.0	188.6	191.6	192.7	192.4	192.5	192.6
19	Dom. nonfinancial borrowing	13.0	12.7	12.0	12.0	14.2	11.5	12.9	12.5	10.9	10.8	13.2	12.9
20	U.S. government[7]	2.9	5.0	5.3	4.0	4.6	4.2	5.2	6.0	4.5	4.5	6.2	5.8
21	Private	10.1	7.7	6.7	8.0	9.6	7.3	7.7	6.5	6.3	6.4	7.0	7.1

1. Published data through 1990:3; projections for other periods.
2. For corporations: excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by annual GNP.
4. NIPA surplus, net of retirement funds.
5. Quarterly data at quarterly rates, nsa.
6. Total in this ratio includes foreign borrowing in U.S.
7. Excludes gov't-insured mortgage pool securities.

2.6.4 FOF

Recent developments

The weighted-average foreign exchange value of the dollar, in terms of the other G-10 currencies, is virtually unchanged on balance, since the December 18 FOMC meeting. The dollar declined 1 percent against the yen and sterling, but rose 3/4 percent against the mark. The dollar exhibited wide swings over the period. In thin pre-Christmas markets, the dollar rose more than 3 percent amid concerns about dollar funding for the year-end and then remained firm until trading began for the new year. The deteriorating political situation in the Soviet Union also contributed to the dollar's temporary strength, especially against the German mark. Soon after year-end, the dollar rose further as the likelihood of war in the Persian Gulf appeared to increase. Following the outbreak of war, the dollar appreciated very briefly, but then declined sharply on news of the apparent success of the first strike by Allied forces.

Interest rates abroad changed little over the intermeeting period, except in Canada where short-term interest rates eased by a full percentage point. Short-term Japanese rates declined 5 to 10 basis points while long-term rates fell somewhat more. German short-term rates rose early in the period, but subsequently retraced that rise as expectations of an increase in the Bundesbank's Lombard rate were not fulfilled. In both Germany and Japan, stock prices declined considerably in the weeks before the outbreak of war. Since the fighting began, stock prices in both countries have partially recovered from pre-war losses.

. U.S. authorities did not intervene, but the Desk did convert funds received from Japan to help finance our efforts in the Persian Gulf.

The latest indicators of activity in the foreign industrial countries show a somewhat mixed pattern, but on balance growth seems to have slowed in recent months. The reduced pace of activity appears to have come largely in reaction to monetary policy tightness that began several quarters ago, higher oil prices, uncertainties about effects of the Gulf crisis, and slower U.S. growth. In Japan, although pressures on capacity have increased and labor markets remain tight, there are signs in some sectors that the economy may be slowing in response to the tighter stance of monetary policy that has been in place for several quarters. Growth in Western Germany slowed in the fourth quarter as net exports weakened. Although industrial production in Eastern Germany picked up in November, the fourth-quarter average was still nearly 50 percent below the year-earlier level. French activity appears to have slumped again in the fourth quarter, following a third-quarter recovery. Fourth-quarter indicators in Canada and the United Kingdom point to continued recessions.

Declines in oil prices and lessened demand helped moderate the pace of consumer-price inflation in some countries at the end of the year. The consumer price index moved up sharply in Japan in January, although special factors are cited as largely responsible, while accelerating wages and the introduction of the Goods and Services Tax in Canada may have added to Canadian price pressures.

The U.S. merchandise trade deficit widened in October to $11.0 billion (seasonally adjusted, Census basis), but then narrowed to $9.7 billion in the preliminary data for November. For October-November combined, the deficit was substantially greater than quarterly averages earlier in 1990. This increase was more than accounted for by a higher value of oil imports, as higher prices were partly offset by declines in the quantity of imported oil. The average value of non-oil imports in October-November was 4 percent higher than in the third quarter, while the value of exports rose 5 percent.

According to data released by the BLS, prices of imported oil dropped for the the second successive month in December, after having doubled between July and October. Prices of non-oil imports rose at an annual rate of 6.1 percent in the fourth quarter, after increasing only moderately earlier in the year. Export prices rose at a 4.4 percent rate in the fourth quarter, as sharp increases in the prices of nonagricultural products were only partly offset by further declines in the prices of agricultural exports.

Outlook

The current forecast incorporates a path for the foreign exchange value of the dollar essentially unchanged from the projection in the December Greenbook. Growth in foreign industrial and developing countries, weighted by their importance to U.S. exports, is projected to be slightly weaker in the near term than in the December Greenbook, but then to rebound later this year to record a rate of 2-1/4 percent over the four quarters of 1991 and to reach 3-1/4 percent in 1992.

The projected quantities of both U.S. exports and imports have been revised up in the near term. Real net exports are forecast to improve substantially in the current quarter, much the same as presented in the December Greenbook. Following this improvement in the current quarter, the projected pattern of external adjustment in both real and nominal terms calls for continuing, although less rapid, improvement through 1992. External balances in real and nominal terms are still expected to improve significantly over the forecast horizon.

The Dollar. The outlook for the foreign exchange value of the dollar is little changed from that in the December Greenbook, both in terms of the other G-10 currencies and in terms of the currencies of eight major developing countries. Against the G-10 currencies, the dollar is expected to decline slightly in the near term as the safe-haven demand recedes further and then to remain unchanged at near its lows in November 1990. Against the developing country currencies, the dollar is projected to depreciate slightly in real terms. Risks to the forecast for the dollar appear to be about evenly balanced in the near term. If the Allied forces suffer setbacks in the Persian Gulf, if oil supplies are threatened, or if turmoil in the Soviet Union intensifies, the dollar could appreciate. A relatively quick resolution of these problems, on the other hand, might cause market participants to refocus on the weakness in the U.S. economy and perceptions of fragility in the U.S. financial system and prompt a decline in the dollar.

Foreign Industrial Countries. On average, growth in the foreign G-10 countries is projected to remain this year at about 2-1/2 percent (on a Q4/Q4 basis), before strengthening to about 2-3/4 percent in 1992. This forecast has been revised down slightly in the near term from what had been projected in December, but the expected rate of growth is unchanged for 1992. Continued growth is projected for Japan and Western Germany in the 3-1/2 to 3-3/4 percent range in both years, although in the latest forecast some West German growth has been put off to 1992 in light of the weaker-than-expected stimulus from Eastern Germany and diminished net exports. The recession in the United Kingdom appears to be more severe than had been judged earlier; the staff now estimates that the United Kingdom experienced nearly 1/2 percent negative growth during 1990 and expects recovery to proceed more slowly than was forecast in December. Projected recoveries in Canada and the United Kingdom, as well as positive effects on all countries of resolution of the uncertainties related to the Gulf crisis, are expected to contribute to the modest bounce-back of foreign G-10 growth later this year and next year.

A somewhat more favorable projection for oil prices and slightly weaker near-term activity have contributed to a slight lowering of the forecast for average consumer-price inflation for the foreign G-10 countries this year to 4 percent (Q4/Q4 basis), nearly a full percentage point less than the rate of inflation estimated for last year. Average inflation is expected to ease further to about 3-3/4 percent in 1992.

Monetary policy abroad is expected to be generally unchanged from what had been assumed for the December outlook. Short-term interest rates in the foreign G-10 countries on average are expected to remain at about current levels in the first half of this year and then to move down gradually by about a percentage point by the end of the forecast horizon. The near-term projection for short-term interest rates in Germany has been moved up slightly since the December Greenbook to reflect recent increases. Once German interest rates reach a peak at roughly mid-year, they still are expected to move down by about 1/2 percentage point by the end of 1992. Over the forecast period, Japanese short-term interest rates are expected to move down from present levels, also by about 1/2 percentage point.

Developing Countries. On average, growth in developing countries slowed in 1990 to about 2-1/2 percent and is projected to remain largely unchanged this year before accelerating to about 4 percent in 1992. Since the last Greenbook, the outlook for growth in 1991 has been revised down across all regions, especially in the Middle East. Overall growth in 1992 is largely unchanged since the last Greenbook. Average output in developing countries in the Western Hemisphere is estimated to have declined somewhat last year, but is projected to recover in 1991-92, due to stronger growth in oil-exporting countries and a recovery of activity in many non-oil exporting countries. Output in Asia, which grew 5 percent in 1990, is not expected to accelerate further until 1992 when external demand improves.

U.S. Merchandise Trade Quantities. The quantity of U.S. nonagricultural exports is expected to grow moderately during the current quarter and then to expand at double-digit rates over the rest of the forecast period. This outlook reflects the effects of the 15 percent decline in the weighted-average foreign exchange value of the dollar over the past year and a projected rebound in growth abroad after the middle of this year.

Agricultural exports are expected to pick up somewhat in the first quarter as sales to the Soviet Union increased significantly in recent weeks. Beyond the first quarter little further growth is anticipated because demand for imported grains and soybeans in the major U.S. export markets is expected to remain sluggish.

TRADE QUANTITIES*
(Percent change, annual rate)

		---------- Projection ----------			
	1990	1991			1992
	Q4/Q4	Q1/Q4	Q2/Q1	Q4/Q2	Q4/Q4
Nonagricultural exports	9.0	3.6	10.3	12.4	11.3
Agricultural exports	-5.1	31.8	0.2	-10.2	1.3
Non-oil imports	2.3	-7.8	0.7	7.1	7.2
Oil imports	-9.8	6.1	33.0	7.0	6.7

* GNP basis, 1982 dollars.

The quantity of non-oil imports is projected to decline in the first quarter, as a result of the downturn in U.S. domestic demand. This near-term drop in imports is somewhat larger than in the December forecast, reflecting an expected reversal of some of the unusually strong increases recorded in the fourth quarter. These imports are projected to resume expanding with the recovery in U.S. economic activity.

After having declined in the fourth quarter, the quantity of oil imports is expected to continue at a low rate in the first quarter as oil is withdrawn from the strategic petroleum reserve. Oil imports are projected to expand steadily over the next two years as domestic demand recovers and as domestic production of crude oil continues to trend down.

Real Net Exports of Goods and Services. Real net exports of merchandise are expected to improve significantly in the first quarter and less rapidly thereafter. After the first quarter, this outlook is a bit weaker than in the December Greenbook, largely because of some strengthening in the projection for U.S. real GNP and a slightly weaker outlook for demand in the rest of the world. With real net exports of services still expected to show a moderately positive trend over the forecast period, net exports of goods and services are projected to improve by nearly $30 billion at an annual rate during the four quarters of 1991 and by another $17 billion next year.

Merchandise Trade Prices. The fixed-weight price index for nonagricultural exports is projected to increase only moderately during the first half of 1991 and then to rise at about a 2-3/4 percent rate thereafter, in line with the projected rate of increase in domestic producer prices (weighted by export shares). The rate of increase in prices of non-oil imports is expected to be about 5-1/2 percent through the first half of this year, and then to decline over the forecast period. This outlook is only marginally changed from the last Greenbook forecast.

SELECTED PRICE INDICATORS
(Percent change, annual rate)

	1990	----------- Projection	----------		
		1991			1992
	Q4/Q4	Q1/Q4	Q2/Q1	Q4/Q2	Q4/Q4
PPI (export-share wts.)	4.7	-0.7	0.4	2.4	2.7
Nonagric exports (Fx-Wt)	2.7	1.0	1.4	2.6	2.7
Non-oil imports (Fx-Wt)	3.2	5.4	5.3	4.4	3.6
Oil imports (Fx-Wt)	63.7	-60.3	-24.1	0.0	0.0

Oil Import Price. The quarterly average price of oil imports peaked in 1990-Q4 at an estimated $29 per barrel and is expected to decline to $21 per barrel in the second quarter and remain at that level through 1992. This projection for oil import prices is somewhat lower than in the December Greenbook, reflecting recent events and our changed assumptions about developments in the Middle East. Underlying the current price path is the assumption that OPEC producers will set production in order to maintain the $21 per barrel target agreed upon in the July 1990 accord. This outcome would be achieved, for example, if Saudi Arabian production averaged more than 8 mb/d during 1991 and Iraq gradually resumed production after the assumed end to the Gulf war in the middle of the second quarter. To maintain the $21 per barrel price in 1992, Saudi Arabia would need to reduce production if Iraq increased production further and Kuwaiti production began to recover. There is tremendous uncertainty regarding post-war production capability in both Iraq and Kuwait and the response of Saudi Arabia to a resumption of production in Iraq and Kuwait. Moreover, prices are likely to move in an erratic pattern in the short run, depending on the course of events.

Current Account Balance. The continuing effects of the depreciation of the dollar are projected to contribute to a gradual improvement in the trade deficit, which is forecast to reach an annual rate of about $90 billion in 1991 and $80 billion in 1992. The projected deficits for 1991 and 1992 are not significantly different from the forecast in the December Greenbook.

Net portfolio payments to foreigners are expected to rise over the next two years because of rising U.S. international indebtedness. These rising net payments are expected to be offset by increased receipts on net direct investment income. While both projected receipts and expenditures on travel have been lowered slightly for the first three quarters of 1991 as a result of the Persian Gulf war, net travel receipts are little changed. The outlook for military transactions (part of "services") incorporates increased military sales and expenditure. Sales to Saudi Arabia under special Desert Shield/Storm arrangements amounted to an estimated $1.7 billion (not annual rate) in the fourth quarter of 1990; since this equipment came out of military inventories, these transactions were excluded from exports in the GNP accounts. Similar sales of military equipment to foreign governments from U.S. inventories are projected for 1991.

The outlook for the current account also includes an estimate for cash grants received from foreign governments associated with Operation Desert Shield/Storm. These grants are now estimated to amount to $4-1/2 billion (not at an annual rate) in the fourth quarter of 1990, and $20 billion in both 1991 and 1992 (assumed to be received at a rate of $5 billion per quarter). As a result, the current account balance is now projected to have narrowed substantially during the fourth quarter, to narrow further in the first quarter, and to continue to improve on balance at a more moderate pace thereafter, reaching about $35 billion for 1992.

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	-Q4	Q1-P	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-38.0	-13.1	9.7	-41.3	-55.9	-24.3	-14.0	-9.6	-4.5	2.1	8.1	12.3	16.4
Exports of G+S	670.4	713.5	790.1	672.7	687.7	688.8	703.0	720.8	741.3	760.9	780.4	800.1	818.9
Imports of G+S	708.4	726.7	780.5	714.1	743.7	713.2	717.1	730.5	745.8	759.0	772.4	787.9	802.6
Constant 82 $, Net	-37.5	-1.6	17.4	-46.5	-23.6	-8.6	-3.6	0.6	5.3	11.1	16.5	19.6	22.2
Exports of G+S	630.3	659.5	715.7	630.5	642.4	641.9	652.1	664.5	679.4	694.0	708.6	723.2	736.9
Imports of G+S	667.8	661.1	698.3	677.0	666.0	650.5	655.7	663.9	674.2	682.9	692.1	703.7	714.7
2. Merchandise Trade Balance 2/	-111.2	-92.5	-80.6	-119.0	-128.4 P	-99.7	-92.2	-90.4	-87.9	-84.3	-81.6	-79.4	-77.1
Exports	389.1	425.2	480.4	384.6	399.7 P	406.4	417.7	431.4	445.2	459.9	473.9	487.7	500.0
Agricultural	40.6	42.7	45.1	38.9	38.3 P	41.8	42.7	43.1	43.1	43.7	44.4	45.6	46.6
Non-Agricultural	348.5	382.5	435.3	345.7	361.4 P	364.6	375.0	388.4	402.1	416.1	429.4	442.1	453.3
Imports	500.3	517.7	561.0	503.6	528.1 P	506.1	509.9	521.8	533.0	544.2	555.5	567.1	577.1
Petroleum and Products	63.1	64.2	68.1	62.8	78.5 P	63.2	63.4	64.5	65.5	66.3	67.1	68.9	69.9
Non-Petroleum	437.3	453.5	492.9	440.9	449.6 P	442.9	446.5	457.3	467.5	477.9	488.3	498.2	507.2
3. Other Current Account Trans.													
Capital Gains and Losses 3/	2.7	0.0	0.0	5.6	0.0 P	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other D.I. Income, Net	45.4	46.7	47.4	47.7	49.2 P	46.4	46.9	46.9	46.6	47.2	47.7	47.5	47.3
Portfolio Income, Net	-43.4	-45.8	-46.6	-43.5	-44.4 P	-45.7	-45.5	-45.9	-46.1	-46.2	-46.4	-46.7	-47.0
Other Current Account, Net	13.2	38.1	46.4	6.8	29.0 P	35.5	37.1	39.9	40.0	44.7	46.7	48.1	46.3
4. U.S. Current Account Balance													
Including Capital G/L	-93.4	-53.5	-33.3	-102.3	-94.6 P	-63.4	-53.7	-49.4	-47.4	-38.7	-33.6	-30.5	-30.4
Excluding Capital G/L	-96.0	-53.5	-33.3	-107.9	-94.6 P	-63.4	-53.7	-49.4	-47.4	-38.7	-33.6	-30.5	-30.4
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.1	1.9	2.8	2.7	0.8 P	1.7	2.2	2.9	3.0	2.8	2.8	2.8	2.8
Real GNP--LDC 6/	2.6	2.6	4.2	2.3	2.2 P	2.2	2.7	3.3	3.8	4.3	4.6	4.8	5.0
Consumer Prices--Ten Ind. 5/	4.6	4.4	3.7	3.8	5.5 P	4.4	4.4	3.1	3.9	3.5	4.0	3.3	4.1

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