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Strictly Confidential (FR) Class II FOMC

May 8, 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 of the Staff Forecast

Although there are signs that the trough of the recession is near--and might even be here now--a decisive upturn in economic activity still appears a little way off. On the positive side, the production of motor vehicles has increased from the extremely low level of the first quarter, and activity appears to be picking up in the housing market. However, layoffs continue to be numerous, and the prices of industrial materials give no hint of a significant stepup in overall industrial production. On balance, the data in hand, as well as the thrust of the available anecdotal evidence, suggest to us that the average level of real GNP will not change materially in the current quarter.

The exact monthly timing of the trough notwithstanding, the recovery is expected to be fully under way by this summer and to continue through 1992. Real GNP is projected to expand at about a 4 percent annual rate in the third and fourth quarters of this year, before moderating to a 3 percent pace on average next year. Nonetheless, with considerable slack in labor and product markets expected through 1992, wage and price inflation is expected to slow significantly by the end of 1992.

The projected recovery is relatively mild by historical standards. In part, this reflects the stance of economic policy. There has been no discretionary countercyclical fiscal action at the federal level; indeed, fiscal policy is expected to remain on the restrictive side over the next two years. The financial position of state and local governments also will impose an unusual drag on aggregate demand. Monetary policy has moved to counter the downturn, but it is assumed that no further easing actions will be taken--in contrast to what has occurred in the initial phases of some other recoveries. Meanwhile, troubled financial institutions are constrained in their provision of credit, and this situation will improve only gradually. A large overhang of unoccupied real estate represents a basic impediment to a typically robust recovery.

Near-term Economic Conditions

The Commerce Department's advance estimate of real GNP growth in the first quarter indicated a more pronounced drop in final sales than we had been projecting. Although consumer spending held up better than we expected, residential investment and business capital spending were notably weaker. The inventory picture also appears to be a bit less favorable than we anticipated; stocks were drawn down somewhat less than we expected, and they appear to be high enough in a few areas to cause some hesitancy in orders and production in the near term.

One sector in which inventories appear to be largely under control is the motor vehicle industry. Production cuts in the first quarter pushed inventories to unusually low levels despite sluggish sales. Output of cars and trucks in the second quarter is scheduled to rise to an 8.9 million unit annual rate, versus 7.6 million units in the first quarter. In the March Greenbook, we had projected some overshooting of these plans. However, sales in April came in below our forecast, and manufacturers clearly are being very cautious as they close out the 1991 model year. As a result, we now are projecting an underbuild for the remainder of the quarter. Even so, higher motor vehicle production is likely to contribute about a percentage point to real GNP growth in the current quarter.

The present forecast indicates less second-quarter growth in real consumer spending--both motor vehicles and other goods and services--than did the March projection. Real disposable income was much weaker than expected through March, and the April employment report suggests only marginal gains early in the current quarter. With the personal saving rate considerably lower in the first quarter than we previously anticipated, there seems to be less potential for a surge in spending; in a sense, the higher first-quarter spending "borrowed" from the second quarter. Thus, spending on consumer goods (excluding motor vehicles) is projected to fall further this period, while the pickup in the growth of the consumption of services reflects only a bounceback in energy use from an unusually low level in the first quarter.

STAFF PROJECTIONS
(Percent change from end of preceding comparable period; annual rate)

	1991			1992	
	Q1	Q2	H2	H1	H2
Real GNP	-2.8	-.2	4.0	3.3	2.7
(previous)	-2.4	1.9	3.9	3.0	2.6
Real PCE	-1.4	1.5	2.6	2.8	2.6
(previous)	-3.5	3.6	2.8	2.6	2.5
Real disposable personal income	-1.6	1.8	2.0	3.0	2.6
(previous)	1.4	3.3	2.0	2.4	2.3

Households do appear to be stepping up their purchases of homes; surveys and other anecdotal reports suggest an improvement in activity beyond that captured by the March statistics. Actual construction will turn around only with a lag, but the much smaller decline in real spending on residential investment this quarter implies a decidedly reduced subtraction from real GNP.

In the business sector, recent orders and contracts point to further declines in outlays for industrial equipment and nonresidential structures. As noted above, some additional liquidation of inventories also appears likely in the second quarter. Net exports still appear to be benefiting from the 1989-90 depreciation of the dollar, but the underlying improvement this quarter likely will be masked by a restocking of imported oil.

On the inflation front, key measures of labor costs and prices in the first quarter came in about as expected in the March Greenbook. The employment cost index for private-industry workers rose at a 4-1/2 percent annual rate in the first quarter. Contributing to the stepup in the pace of ECI increases relative to the fourth quarter were higher payroll tax rates and a large jump in commissions for sales workers in the financial sector. Basically, wages and total compensation still appear to be on the decelerating trend we anticipated would accompany higher unemployment. The March CPI confirmed our analysis that the bulge in "core" inflation earlier in the year was something of a fluke, attributable to a variety of one-time price hikes (such as the increase in the federal excise tax on alcoholic beverages) and seasonal adjustment problems in a few key components (apparel, in particular). Competitive pressures remain intense in the goods-producing sector, and with import prices rising only slowly, there is less scope for domestic price increases. Although tightness in supplies is expected to put upward pressure on gasoline prices, the continued pass-through of the earlier decline in energy prices should hold down other prices (e.g., airline fares). In addition, the seasonal adjustment problems that boosted prices in the first quarter are expected to depress them in the second quarter. On balance, increases in the CPI of about 0.3 percent per month are expected in the second quarter.

Outlook Beyond Midyear

Real GNP is projected to grow at a 4 percent annual rate in the second half of this year and to taper off thereafter, averaging 3 percent for 1992 as a whole. The dynamics of the recovery are similar in many respects to those of other postwar upturns: Lower interest rates stimulate homebuilding, inventory decumulation runs its course and is succeeded by stock accumulation, and over time capital spending exhibits an accelerator effect as sales trends improve. However, consumer spending rises only moderately in the forecast; the increase in stock prices has bolstered household wealth, but with house prices subdued, a decline in the personal saving rate from its already low level seems unlikely. Government spending is weak, and the external sector is not expected to be an important contributor to growth over the next year and a half.

The forecast anticipates considerable progress in reducing inflation. The civilian unemployment rate is expected to remain relatively high, averaging 6-3/4 percent in the current quarter and declining only to 6-1/4 percent in 1992. As a result of this slack and further reductions in inflation expectations, increases in hourly compensation slow steadily over the forecast horizon. Consumer price inflation averages about 3-1/2 percent through the end of this year, as the slowdown in labor costs begins to be passed through to the retail level, energy costs decline, and capacity utilization in manufacturing remains low. The CPI decelerates to about a

3 percent annual pace by the end of 1992, as prices continue to adjust to the slowdown in labor costs.

STAFF INFLATION PROJECTIONS
(Percent change from end of preceding comparable period; annual rate)

	1991				1992	
	Q1	Q2	Q3	Q4	H1	H2
Consumer price index	3.6	2.7	4.0	3.6	3.7	3.1
(previous)	3.7	2.7	4.2	4.0	4.0	3.5
CPI ex. food and energy	6.8	3.7	3.9	3.9	3.8	3.1
(previous)	7.0	3.9	4.2	4.1	4.1	3.5
ECI hourly compensation	4.6	4.1	3.6	3.5	3.4	3.3
(previous)	4.4	4.2	3.8	3.7	3.9	3.6
Civilian unemployment rate	6.5	6.8	6.8	6.6	6.3	6.2
(previous)	6.5	6.8	6.5	6.3	6.2	6.0

Key assumptions. The System's recent easing action has pushed the federal funds rate 25 basis points lower than anticipated in the March projection; the current projection assumes that the funds rate remains near 5-3/4 percent through 1992. Long-term rates may come under some upward pressure in coming months as the economy strengthens, but following a pattern observed in some other recoveries, we have projected that bond yields will be below current levels in 1992 as the expansion moderates and disinflationary trends are recognized fully. Credit availability problems are assumed to ease gradually as the recovery progresses and asset quality consequently improves.

As in the last Greenbook, growth in M2 over this year is anticipated to be about in line with the growth of nominal GNP, as the effects of declines in short-term interest rates since the fourth quarter about offset the impact of the continuing constriction in depository institutions; this would place the aggregate just in the upper half of its range of 2-1/2 to 6-1/2 percent. The growth of M3 in 1991 is projected at around the midpoint of its 1 to 5 percent range, as it continues to be held down by modest bank credit growth and sizable RTC activity for the year as a whole. The staff foresees M2 in 1992 growing slightly more rapidly than in 1991; with short-term interest rates flat and no longer boosting money demand, that pace of M2 growth still is somewhat below the faster growth of nominal income. M3 will likely maintain this year's pace as the restructuring of the thrift industry continues.

The foreign exchange value of the dollar is expected to decline somewhat from its recent highs. However, relative to the path in the March Greenbook, the dollar now is expected to be about 6 percent higher, on average, over the forecast period. The staff also has lowered its projection for growth in the other G-10 countries slightly, but the general pattern remains much the same: Economic activity abroad is expected to strengthen in the second half of this year from its recent weakness and to continue to expand at a fairly brisk pace in 1992. Crude oil prices have firmed since the time of the March Greenbook, and we now anticipate that the spot price of West Texas Intermediate will average $20.75 per barrel in the second quarter, instead of $19. Oil prices then fall gradually over the second half and stabilize at $19.50 per barrel in 1992.

<u>Consumer spending and income</u>. Real personal consumption expenditures are projected to rise at a 2-1/2 percent annual rate in the second half of 1991 and at a 2-3/4 percent pace in 1992. This is moderate by the standards of past recoveries, reflecting slow growth in real disposable income and our assessment that the personal saving rate probably has fallen about as far as is likely in the present economic environment. Rising profits and falling bond yields suggest that the stock market may retain its recent gains, but residential real estate values probably will not rise substantially until the market digests a good part of the current excess supply. Overall, household net worth is not expected to change materially relative to income. As a result, consumer spending is projected to grow in line with real DPI, and the personal saving rate is flat over the forecast horizon.

Among the components of PCE, sales of cars and light trucks are expected to increase substantially in the second half from their depressed first-half levels, but sales growth moderates noticeably in 1992. In general, we do not think that a great deal of pent-up demand has developed during this recession, and as a result, the pickup in sales of durable goods is well below that in an "average" cyclical recovery.

<u>Business fixed investment</u>. Real BFI is projected to increase at about a 1-1/2 percent annual pace in the second half of this year. The recovery is concentrated in producers' durable equipment, while spending on nonresidential structures continues to contract rapidly. Within PDE, recent orders figures suggest that the demand for computers may already be firming, and business purchases of motor vehicles are expected to edge up in the second half. However, the upturn in industrial machinery and other types of

equipment with longer lead times is not expected to begin until the end of the year.

Real BFI is projected to rise 5 percent in 1992, as rising sales expectations and improving cash flows prompt broad advances in equipment spending; PDE is forecast to rise 7-3/4 percent next year. The decline in structures investment is expected to slow to a 4-3/4 percent pace next year, as industrial building picks up a bit. Although the availability of credit to this sector may begin to ease next year as the overhang of office and commercial space begins to be absorbed in some markets, the level of activity still is likely to remain depressed.

Housing. Absent a significant upturn in residential real estate prices, the investment motive in this sector is likely to remain weak even with mortgage interest rates at the low end of the range observed since the mid-1970s. Nonetheless, affordability in cash flow terms has improved appreciably, and as real income growth resumes, construction activity is expected to increase moderately. However, the magnitude of the upturn is considerably smaller than typically occurs in a business recovery, and by the end of 1992, starts are projected to move back only to the weak 1.2 million unit pace seen last year. Apart from financial factors, building is likely to be damped by a slower pace of household formation and by the large overhang of unoccupied units in some parts of the country. The demographic trends are least unfavorable to the single-family sector; it is this segment of the market in which almost all of the projected increase in construction occurs. In the multifamily area, high vacancy rates, relatively slow growth in the young-adult population, and continued lender caution in funding new projects are expected to hold starts to only a meager gain over the projection period.

Government sector. As mentioned in the overview, the staff continues to expect federal fiscal policy to be somewhat restrictive over the next year and a half. The FY1992 budget is assumed to adhere closely to the budget act (OBRA) of last year; new tax and spending legislation is expected to have only marginal effects on the deficit. As a result of defense cutbacks, real purchases are projected to fall 1 percent over the four quarters of 1991 and another 4-1/4 percent in 1992.

The staff estimate of the unified federal budget deficit for FY1991 is $264 billion--up $7 billion from the March Greenbook. Tax receipts in recent months have lagged expectations, and lower projected income growth has reduced revenue estimates for the balance of the fiscal year; this has been partially offset by lower outlays for the RTC and Bank Insurance Fund. In FY1992, the deficit is expected to rise to $303 billion, $12 billion higher than in the March Greenbook. Some Desert Storm contributions that had been expected in the second half of FY1991 now likely will spill over into FY1992. However, the FY1992 receipts forecast has been reduced by lower projected income and the recent tax collections experience, and outlays for deposit insurance are somewhat greater than in the March Greenbook.

In the state and local sector, continued fiscal stress is expected to prompt a small decline in real purchases this year. States are coping with budgetary imbalances in part through financial gimmicks (such as sales-leaseback agreements with special authorities), but also by trimming staff and construction budgets. These cuts are expected to be sufficient to hold the state and local NIPA deficit (excluding social insurance funds) this year at $35 billion--close to its 1990 level. In 1992, real purchases are expected to rise slowly, while receipts are projected to be boosted by higher tax rates and by a pickup in revenues as the economy recovers. As a result, the fiscal position of state and local governments is expected to improve next year, with the NIPA deficit falling to about $7 billion.

Net exports. The external sector is not expected to be a major contributor to real GNP growth later this year and in 1992. The outlook for net exports is weaker mainly because of the higher path for the dollar in this forecast. Growth in nonagricultural merchandise exports is expected to slow a bit in the second and third quarters of this year and to pick up thereafter as activity abroad recovers. Non-oil merchandise imports are projected to be flat in the first half of 1991, reflecting the weakness in U.S. economic activity, but they bounce back in the second half and in 1992 as the recovery begins and import price increases remain small. A more detailed discussion of these projections is presented in the International Developments section, below.

Labor costs and prices. Despite the hike in the federal minimum wage to $4.25 per hour on April 1, hourly compensation (as measured by the employment cost index) is expected to slow to about a 4 percent annual pace in the second quarter. Hourly compensation is projected to rise at only a 3-1/2 percent annual pace in the second half of this year, and further deceleration is anticipated in 1992, although, with the recession over and unemployment declining, the downward pressure on wages is expected to be a bit less than in 1991. Overall, increases in hourly compensation slow to a 3-1/4 percent annual pace by the fourth quarter of 1992.

Consumer price inflation is expected to slow significantly over the forecast horizon. Food prices are projected to rise at about the overall rate of inflation, assuming an absence of major supply or demand shocks. Energy prices are projected to fall 6-1/2 percent in 1991, as the prices of refined petroleum products retrace much of the runup in 1990, and to rise only 3 percent next year. Excluding food and energy, the CPI is forecast to slow from the 6-3/4 percent increase during the first quarter of 1991 to a 4 percent annual pace by the end of this year and to under 3-1/4 percent annual rate by the fourth quarter of 1992. As noted above, much of the deceleration during 1991 reflects the absence or the reversal of special factors that boosted inflation in the first quarter. In 1992, the improvement in underlying price performance reflects slack in labor and product markets as well as continued intense competition from foreign producers.

May 8, 1991

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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)	
	3/20/91	5/8/91	3/20/91	5/8/91	3/20/91	5/8/91	3/20/91	5/8/91	3/20/91	5/8/91
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	5.1	.9	1.0	4.6	4.6	5.4	5.4	5.5	5.5
1991	4.1	3.7	.3	-.1	4.1	4.2	4.6	4.5	6.5	6.7
1992	6.5	6.4	3.1	3.2	3.6	3.4	3.9	3.5	6.1	6.3
Quarterly changes:										
1989 Q1 <2>	7.5	7.5	3.6	3.6	4.9	4.9	5.1	5.1	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	3.3	3.3	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	7.5	7.5	5.3	5.3
Q2 <2>	5.1	5.1	.4	.4	3.9	3.9	3.8	3.8	5.3	5.3
Q3 <2>	5.3	5.3	1.4	1.4	4.2	4.2	7.0	7.0	5.6	5.6
Q4 <2>	.5	.9	-2.0	-1.6	4.7	4.7	6.9	6.9	5.9	5.9
1991 Q1 <2>	2.1	2.6	-2.4	-2.8	4.7	5.1	3.7	3.6	6.5	6.5
Q2	5.7	3.0	1.9	-.2	3.5	3.1	2.7	2.7	6.8	6.8
Q3	7.6	7.5	3.9	4.1	3.7	3.5	4.2	4.0	6.5	6.8
Q4	7.2	7.4	3.8	4.0	3.5	3.5	4.0	3.6	6.3	6.6
1992 Q1	6.7	7.2	3.0	3.5	4.0	4.0	4.2	3.8	6.2	6.4
Q2	6.0	6.0	2.9	3.1	3.4	3.3	3.8	3.5	6.2	6.3
Q3	5.6	5.4	2.6	2.8	3.3	3.0	3.5	3.1	6.1	6.3
Q4	5.5	5.1	2.6	2.6	3.2	2.9	3.5	3.1	6.0	6.2
Two-quarter changes: <3>										
1989 Q2 <2>	6.7	6.7	2.6	2.6	4.7	4.7	5.5	5.6	.0	.0
Q4 <2>	4.5	4.5	1.0	1.0	3.4	3.4	3.6	3.6	.0	.0
1990 Q2 <2>	5.9	5.9	1.1	1.1	5.3	5.3	5.6	5.6	.0	.0
Q4 <2>	2.9	3.1	-.3	-.1	4.4	4.4	6.9	6.9	.6	.6
1991 Q2	3.9	2.8	-.2	-1.5	4.1	4.2	3.2	3.1	.9	.9
Q4	7.4	7.4	3.9	4.0	3.6	3.5	4.1	3.8	-.5	-.2
1992 Q2	6.3	6.6	3.0	3.3	3.7	3.6	4.0	3.7	-.1	-.3
Q4	5.6	5.3	2.6	2.7	3.2	3.0	3.5	3.1	-.2	-.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>	4.4	4.5	.4	.5	4.8	4.8	6.3	6.3	.6	.6
Q4	5.6	5.1	1.8	1.2	3.9	3.8	3.7	3.5	.4	.7
Q4	5.9	5.9	2.8	3.0	3.5	3.3	3.7	3.4	-.3	-.4

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

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May 8, 1991

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

	Units	1984	1985	1986	1987	1988	1989	1990	Projection 1991	Projection 1992
EXPENDITURES										
Nominal GNP	Billions of $	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5465.1	5669.3	6032.5
Real GNP	Billions of 82$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4157.3	4153.2	4285.9
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	.5	1.2	3.0
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	-.5	.9	3.0
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	1.6	.3	2.5
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	-.1	.1	3.4
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.1	1.3	2.7
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	-1.8	1.8	3.4
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-2.4	-1.1	1.9
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.5	2.7	3.0
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	2.2	-4.9	5.1
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	4.6	-3.7	7.8
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-5.4	-9.4	-4.8
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-10.2	-3.1	9.7
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	5.8	4.3	7.4
Imports		17.4	4.5	10.0	10.4	5.5	4.5	-.5	2.3	7.5
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	3.8	-.6	-.9
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	5.2	-1.0	-4.2
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	4.0	-3.8	-7.2
State and local		4.4	4.9	5.2	2.3	3.1	2.6	2.7	-.3	1.5
Change in business inventories	Billions of 82$	62.3	9.1	5.6	22.8	23.6	23.8	-3.6	-11.6	29.2
Nonfarm	Billions of 82$	57.8	13.4	8.0	28.7	26.5	18.7	-5.1	-15.0	25.4
Net exports	Billions of 82$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-33.8	3.1	2.6
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	4.5	5.1	5.9
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.5	108.4	110.3	109.5	111.2
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.7	6.3
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	.3	-.3	4.6
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.3	77.7	78.8
Housing starts	Millions	1.77	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.15
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.51	8.70	9.48
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.90	6.28	6.85
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.60	2.42	2.63
INCOME AND SAVING										
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	5.6	4.4	6.6
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	-.4	1.0	2.8
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.6	4.0	4.1
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-.7	13.0	6.6
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.5	5.3	5.7
Federal govt. surplus/deficit	Billions of $	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-166.0	-143.9	-161.9
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	35.4	37.2	69.3
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-34.0	-35.3	-6.7
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.0	3.8	2.9
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.8	3.8	3.3
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.3	3.3	3.2
CPI		4.2	3.5	1.3	4.5	4.3	4.6	6.3	3.5	3.4
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.3	4.6	3.5
ECI hourly compensation		4.9	3.9	3.2	3.8	4.8	4.8	4.6	3.9	3.3
Nonfarm business sector										
Output per hour		1.5	1.6	1.3	2.3	1.8	-1.6	-.3	1.9	1.6
Compensation per hour		4.1	4.6	4.9	3.7	4.2	2.2	4.4	4.0	3.4
Unit labor costs		2.6	3.0	3.6	1.4	2.3	3.9	4.7	2.1	1.7

* Percent changes are from fourth quarter to fourth quarter.

May 8, 1991

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	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
ominal 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	82.7	82.8
Housing starts	Millions	1.43	1.49	1.48	1.55	1.46	1.36	1.35	1.35	1.43	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		3.2	4.5	5.2	4.4	5.1	6.0	3.3	3.9	7.5	3.8
Exc. food and energy		4.1	4.7	4.6	4.6	4.9	4.2	3.8	4.7	5.9	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

May 8, 1991

CONFIDENTIAL - FR
CLASS II FOMC

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

	Units	1990 Q3	1990 Q4	1991 Q1	1991 Q2 (Projection)	1991 Q3 (Projection)	1991 Q4 (Projection)	1992 Q1 (Projection)	1992 Q2 (Projection)	1992 Q3 (Projection)	1992 Q4 (Projection)
EXPENDITURES											
Nominal GNP	Billions of $	5514.6	5527.3	5562.3	5603.2	5704.8	5807.0	5908.5	5995.5	6075.1	6151.0
Real GNP	Billions of 82$	4170.0	4153.4	4123.9	4121.8	4163.0	4204.0	4240.1	4272.4	4301.9	4329.4
Real GNP	Percent Change	1.4	-1.6	-2.8	-.2	4.1	4.0	3.5	3.1	2.8	2.6
Gross domestic purchases		1.6	-5.1	-3.8	-.2	3.9	4.1	3.6	3.1	2.8	2.5
Final sales		1.9	1.4	-3.3	.6	2.1	1.9	2.3	2.6	2.6	2.6
Private dom. final purchases		2.3	-3.8	-4.8	-.1	2.8	2.9	3.3	3.5	3.5	3.3
Personal consumption expend.		2.7	-3.4	-1.4	1.5	2.7	2.5	2.8	2.8	2.7	2.6
Durables		2.6	-12.3	-10.8	6.0	8.2	5.0	4.3	3.3	3.2	2.9
Nondurables		2.3	-6.5	-2.9	-2.6	.4	.9	1.8	2.1	2.0	1.9
Services		3.0	1.8	2.6	3.0	2.6	2.7	3.0	3.1	3.0	2.9
Business fixed investment		8.9	.1	-14.4	-7.5	.6	2.6	4.3	5.2	5.5	5.3
Producers' durable equipment		10.2	6.3	-15.5	-6.7	3.5	5.5	7.5	8.0	8.0	7.5
Nonresidential structures		5.1	-18.2	-11.2	-10.2	-9.0	-7.2	-6.9	-5.1	-3.9	-3.4
Residential structures		-19.8	-20.6	-26.5	-4.1	12.5	11.2	9.5	9.7	9.8	9.6
Exports		6.9	11.0	-.4	3.6	6.1	8.0	7.4	7.3	7.1	8.0
Imports		7.6	-11.8	-6.9	3.5	4.9	8.6	8.1	7.2	7.2	7.4
Government purchases		1.2	4.7	-2.3	3.5	-1.9	-1.5	-1.1	-.9	-.7	-.8
Federal		.1	4.6	-3.5	9.4	-4.2	-4.8	-4.1	-4.2	-4.1	-4.4
Defense		2.7	12.1	-.8	1.7	-8.0	-7.7	-6.9	-7.1	-7.1	-7.5
State and local		2.0	4.9	-1.4	-.6	-.1	.9	1.1	1.5	1.7	1.8
Change in business inventories	Billions of 82$	4.7	-26.4	-20.7	-29.0	-9.0	12.5	24.5	29.4	31.5	31.5
Nonfarm	Billions of 82$	4.7	-28.5	-25.5	-31.4	-12.2	9.0	20.8	25.6	27.6	27.6
Net exports	Billions of 82$	-46.5	-8.8	2.2	2.4	4.3	3.4	2.3	2.5	2.3	3.3
minal GNP	Percent change	5.3	.9	2.6	3.0	7.5	7.4	7.2	6.0	5.4	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	110.2	109.5	109.1	109.3	109.9	110.5	111.0	111.4	111.9
Unemployment rate	Percent*	5.6	5.9	6.5	6.8	6.8	6.6	6.4	6.3	6.3	6.2
Industrial production index	Percent change	3.9	-7.0	-9.3	-1.6	5.3	5.3	5.1	4.9	4.3	4.2
Capacity utilization rate-mfg.	Percent*	82.9	80.8	78.1	77.1	77.6	78.0	78.3	78.7	78.9	79.1
Housing starts	Millions	1.13	1.04	.91	1.01	1.06	1.08	1.12	1.14	1.17	1.20
Auto sales	Millions	9.68	8.97	8.23	8.32	8.97	9.25	9.40	9.45	9.50	9.55
Domestic	Millions	7.21	6.59	6.00	5.93	6.48	6.70	6.80	6.83	6.86	6.90
Foreign	Millions	2.47	2.38	2.23	2.39	2.48	2.55	2.60	2.62	2.64	2.65
INCOME AND SAVING											
Nominal personal income	Percent change	5.0	3.5	1.4	4.5	5.4	6.5	8.1	5.9	5.9	6.3
Real disposable income	Percent change	-.7	-3.5	-1.6	1.8	1.3	2.6	3.8	2.1	2.4	2.7
Personal saving rate	Percent*	4.2	4.2	4.1	4.2	3.9	3.9	4.2	4.0	4.0	4.0
Corp. profits with IVA & CCAdj	Percent change	-7.5	-14.8	-6.4	-7.9	41.2	34.1	18.6	7.3	-.9	2.5
Profit share of GNP	Percent*	5.5	5.2	5.1	5.0	5.3	5.6	5.8	5.8	5.7	5.7
Federal govt. surplus/deficit	Billions of $	-145.7	-184.3	-97.4	-164.7	-162.8	-150.6	-174.9	-162.7	-154.0	-156.0
State and local govt. surplus		39.3	25.7	24.0	29.8	42.3	52.7	60.8	66.9	72.7	76.9
Exc. social insurance funds		-30.5	-44.8	-47.1	-42.2	-30.6	-21.1	-13.9	-8.7	-3.8	-.5
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.7	2.8	5.5	3.1	3.3	3.2	3.6	2.9	2.6	2.4
GNP fixed-weight price index		4.2	4.7	5.1	3.1	3.5	3.5	4.0	3.3	3.0	2.9
Cons. & fixed invest. prices		5.4	6.4	3.1	2.8	3.8	3.4	3.4	3.3	3.1	3.0
CPI		7.0	6.9	3.6	2.7	4.0	3.6	3.8	3.5	3.1	3.1
Exc. food and energy		6.1	4.2	6.8	3.7	3.9	3.9	4.0	3.5	3.1	3.1
ECI hourly compensation**		4.3	3.8	4.6	4.1	3.6	3.5	3.4	3.3	3.3	3.2
farm business sector											
itput per hour		.6	-.7	1.0	1.8	2.2	2.4	1.8	1.8	1.6	1.3
ompensation per hour		4.7	3.9	4.0	4.4	3.9	3.6	3.9	3.3	3.2	3.2
Unit labor costs		4.1	4.7	3.0	2.6	1.7	1.2	2.1	1.5	1.6	1.9

* 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	20.2
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	-18.9
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	65.4
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	-3.8
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	3.7
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	-7.5
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	-21.8
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	32.9
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	11.0
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	17.7
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	-6.7
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	-18.5
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	-45.3
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	-43.8
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	-1.5
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	39.1
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	35.6
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	-3.4
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	30.1
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	17.2
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	10.2
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	7.0
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	12.9

May 8, 1991

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

	1990		1991 Projection				1992 Projection				1989	1990	1991 Projection	1992 Projection
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	14.9	-16.6	-29.5	-2.1	41.2	41.0	36.1	32.2	29.5	27.6	73.9	20.2	50.6	125.4
Gross domestic purchases	16.8	-54.3	-40.5	-2.3	39.2	41.9	37.2	32.0	29.7	26.6	46.1	-18.9	38.4	125.5
Final sales	19.7	14.5	-35.2	6.2	21.2	19.5	24.1	27.3	27.4	27.6	69.2	65.4	11.7	106.4
Private dom. final purchases	19.1	-32.8	-41.4	-1.1	23.1	23.7	27.5	29.0	29.1	28.2	39.1	-3.8	4.3	113.8
Personal consumption expend.	18.0	-23.2	-9.5	10.1	17.9	16.4	18.7	18.9	18.4	17.6	31.1	3.7	34.9	73.5
Durables	2.7	-13.9	-11.7	6.0	8.1	5.1	4.5	3.5	3.4	3.1	-5.9	-7.5	7.5	14.5
Nondurables	5.2	-15.2	-6.6	-5.8	.9	2.0	4.0	4.7	4.5	4.3	5.9	-21.8	-9.5	17.4
Services	10.0	5.9	8.8	10.1	8.9	9.3	10.2	10.7	10.5	10.2	31.0	32.9	37.0	41.6
Business fixed investment	10.9	.1	-19.8	-9.7	.8	3.2	5.2	6.3	6.8	6.6	21.8	11.0	-25.6	25.0
Producers' durable equipment	9.5	6.1	-16.6	-6.6	3.3	5.2	7.1	7.7	7.8	7.5	19.8	17.7	-14.7	30.1
Nonresidential structures	1.5	-6.0	-3.4	-3.0	-2.6	-2.0	-1.9	-1.4	-1.0	-.9	2.1	-6.7	-11.0	-5.1
Residential structures	-9.8	-9.7	-12.1	-1.6	4.5	4.1	3.6	3.8	3.9	3.9	-13.8	-18.5	-5.0	15.3
Change in business inventories	-4.8	-31.1	5.7	-8.3	20.0	21.5	12.0	4.9	2.1	.0	4.9	-45.3	38.9	19.0
Nonfarm	-6.9	-33.2	3.0	-5.9	19.2	21.2	11.8	4.8	2.0	.0	-11.9	-43.8	37.5	18.6
Farm	2.1	2.1	2.7	-2.4	.8	.3	.2	.1	.1	.0	16.8	-1.5	1.4	.4
Net exports	-1.9	37.7	11.0	.2	1.9	-.9	-1.1	.2	-.2	1.0	27.8	39.1	12.2	-.1
Exports	10.4	16.7	-.7	5.8	9.7	12.8	12.2	12.3	12.1	13.8	56.3	35.6	27.6	50.3
Imports	12.3	-21.0	-11.7	5.6	7.8	13.7	13.2	12.1	12.3	12.8	28.4	-3.4	15.4	50.4
Government purchases	2.5	9.6	-4.8	7.2	-3.9	-3.2	-2.3	-1.9	-1.5	-1.6	2.3	30.1	-4.8	-7.3
Federal	.1	3.9	-3.1	7.9	-3.8	-4.3	-3.6	-3.7	-3.5	-3.8	-9.6	17.2	-3.4	-14.6
Defense	1.7	7.5	-.5	1.1	-5.5	-5.2	-4.5	-4.6	-4.5	-4.7	-5.6	10.2	-10.1	-18.3
Nondefense	-1.6	-3.6	-2.6	6.8	1.7	.9	.9	.9	1.0	.9	-4.0	7.0	6.7	3.7
State and local	2.4	5.7	-1.7	-.7	-.1	1.1	1.3	1.8	2.0	2.2	12.0	12.9	-1.4	7.3

FEDERAL SECTOR ACCOUNTS[1]
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990a	1991	1992	Ia	IIa	IIIa	IVa	Ia	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts[2]	991	1031	1080	1164	229	319	254	249	233	324	273	261	263	349	291	278
Budget outlays[2]	1144	1252	1344	1467	310	331	311	336	299	353	357	374	366	367	359	380
Surplus/deficit(-)[2]	-153	-220	-264	-303	-80	-12	-58	-86	-65	-29	-83	-114	-104	-18	-68	-102
(On-budget)	-206	-277	-326	-374	-94	-41	-65	-96	-80	-57	-92	-127	-116	-53	-78	-115
(Off-budget)	53	57	62	71	14	29	7	10	15	29	9	14	13	35	9	13
Surplus excluding deposit insurance[3]	-131	-162	-189	-196	-74	17	-41	-72	-63	-1	-52	-86	-76	10	-45	-84
Means of financing:																
Borrowing	140	263	294	286	90	41	69	99	56	42	97	99	81	37	69	102
Cash decrease	3	1	-9	9	8	-16	-6	8	0	-6	-11	19	10	-15	-5	10
Other[4]	10	-44	-21	8	-18	-13	-6	-20	9	-7	-3	-4	13	-4	4	-10
Cash operating balance, end of period	41	40	49	40	18	35	40	32	32	38	49	30	20	35	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1038	1092	1155	1251	1081	1106	1126	1127	1148	1159	1186	1213	1245	1265	1281	1300
Expenditures	1174	1249	1307	1411	1249	1272	1272	1311	1246	1324	1349	1363	1420	1427	1435	1456
Purchases	400	415	445	445	411	422	426	438	442	452	448	445	448	445	442	439
Defense	301	307	329	317	307	310	313	325	330	333	326	321	320	316	311	306
Nondefense	99	107	117	128	103	112	113	113	112	120	122	124	128	130	132	134
Other expend.	774	835	862	967	838	850	846	873	804	871	900	919	973	982	992	1017
Surplus/deficit	-136	-158	-152	-161	-168	-166	-146	-184	-97	-165	-163	-151	-175	-163	-154	-156
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-149	-150	-88	-98	-166	-154	-127	-147	-31	-85	-88	-82	-111	-102	-96	-100
Change in HEB, percent of potential GNP	0	0	-1.1	.2	.3	-.2	-.5	.4	-2.1	.9	0	-.1	.5	-.1	-.1	.1
Fiscal impetus measure (FI), percent	-3.5 *	-3.3 *	-3.3 *	-4.9 *	-2.3	1.2	-.8	1.8	-4.7	1.3	-1.2	-1.3	-2.4	-.9	-.9	-.9

a--actual *--calendar year

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

1. Staff projections. CBO's March deficit estimates are $309 billion in FY1991 and $294 billion in FY1992. OMB's February deficit estimates are $318 billion in FY1991 and $281 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 March deficit estimates, excluding deposit insurance spending, are $205 billion in FY1991 and $196 billion in FY1992. OMB's February deficit estimates, excluding deposit insurance spending, are $207 billion in FY1991 and $193 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

A growing sense that the economic recovery was not taking shape as soon as anticipated in the post-Gulf War euphoria was reflected in a softening in market interest rates during April. Even so, confidence that the delay would not be lengthy was evident in the continued narrowing of quality spreads, the strength of the stock market, and the relatively small decline in long-term rates.

On April 30, citing a weak economy and abating inflation pressures, the Board approved a 1/2 percentage point cut in the discount rate, and half of this decline was transmitted to the federal funds rate. After this policy move, short-term rates dropped somewhat further, and commercial banks cut the prime rate 1/2 percentage point. Bond yields also edged down after the System's action, but the unexpected drop in the unemployment rate reported last Friday erased that improvement. On balance over the past six weeks, money market rates are down 1/4 to 1/2 percentage point, and long-term yields are off roughly 10 basis points.

After growing robustly in the preceding two months, the monetary aggregates weakened considerably in April. Demands from abroad for U.S. currency seemed to ebb in the aftermath of the Gulf War, and tax-related flows may have depressed M2 growth last month. Reports of strong inflows to bond and stock mutual funds also suggest that households have been shifting their balances away from M2-type assets in an effort to maintain yields. M2 increased at only a 3 percent annual rate in April, leaving it at the midpoint of its target range.

Growth of M3 dropped to a 1 percent rate last month, but the aggregate remained in the upper half of its annual target cone. The contraction in the funding needs of thrift institutions appears to have diminished in April, as RTC resolution activity all but ceased; however, bank credit expansion dropped from around a 6-1/2 percent rate in February and March to less than zero in April, consistent with a deceleration in overall M3. Commercial banks continued to add government securities to their balance sheets last month, but not rapidly enough to outweigh the drop in other securities and in loans.

Within the bank loan total, C&I loans showed the most weakness, declining at a 9 percent rate, according to the preliminary estimate. Such sharp declines have been rare, but they have occurred in prior recessions; the last monthly drop of about this magnitude took place toward the end of the 1980 contraction. Credit supply factors likely played only a secondary role in the recent weakening of business loans. In the latest survey of bank lending practices, a much smaller share of banks reported that they had tightened terms and standards for approving C&I loans than in earlier surveys taken during the past year.

While bank lending to nonfinancial businesses has been weak lately, the growth of commercial paper outstanding turned decidedly positive in April, and a large volume of bonds were issued. Even below-investment grade firms were moved to sell bonds, partly in response to the buoyant equity market, which enabled some to issue convertible bonds. In addition, lower yields boosted offerings; the rate spread between junk bonds and Treasuries narrowed another 150 basis points to dip slightly below its 1990 range. Stock issuance also was quite heavy, as firms took advantage of investor optimism that lifted most major stock price indexes to record highs in mid-April.

Issuers of tax-exempt bonds did not similarly step up their offerings in April; in fact, long-term debt issuance by state and local governments declined a bit last month. Meanwhile, the federal government paid down some debt, as the Treasury received almost $5 billion in Desert Shield/Storm payments from foreign governments and RTC spending was constrained by delays in legislative approval of new financing authority.

In the household sector, information is sketchy, but it suggests little reason to think that aggregate borrowing picked up substantially in April. Car sales were weak and likely depressed auto loans, which have been falling rapidly of late. While anecdotal and survey reports point to a strengthening in mortgage activity, the data in hand suggest that many of these loans have not yet gone to closing. Real estate loans at banks grew at just a 3 percent rate last month, and available data on their holdings of mortgage-backed securities point to a slowing in net acquisitions of these mortgage assets as well. One contributor to the slack in real estate lending has been the sharp drop in the growth rate of revolving home equity loans, from more than 20 percent in January to zero in April.

Outlook

The staff's projection for the economy and the flow of funds is based on the assumption that the federal funds rate will stay close to its current level of 5-3/4 percent throughout the forecast period, slightly below the 6 percent level assumed in the last Greenbook. The path of other market interest rates also has been revised downward a bit, with short-term rates expected to hold near current levels through 1992 and long-term rates firming just a little as the economic recovery commences, and then drifting down next year as growth moderates and the appreciable slowing in underlying inflation becomes increasingly evident. Credit supply conditions should ease somewhat over the next year and a half, but with yield spreads already fairly narrow for high-grade borrowers, the major beneficiaries among nonfinancial borrowers will tend to be smaller businesses and others reliant on loans from intermediaries.

Overall, debt of the domestic nonfinancial sectors is projected to rise somewhat faster than nominal GNP, with the overage reflecting an artificial boost from RTC-related intermediation by the federal government. In the current quarter, the growth rate of the debt aggregate is expected to remain relatively low at about 5 percent, but it is projected to rise noticeably in the second half of the year. The acceleration in debt later this year owes primarily to a surge in federal borrowing rather than to a rebound in private sector financing needs related to increased spending and investment. Federal debt growth is expected to balloon to around a 14 percent rate in the second half of this year, as RTC resolution activity resumes and foreign contributions to the Defense Cooperation Account drop off. In 1992, U.S. government debt growth should slacken as RTC net outlays slow and the strengthening economy buoys tax receipts.

Outside the federal sector, borrowing is expected to increase modestly over the forecast horizon. Nonfederal debt growth is likely to be below that of nominal GNP in 1991 and the first half of 1992 and thereafter to about keep pace with it. For households, the restrained borrowing pattern reflects the projected sluggish improvement of the housing market as well as the unusually slow recovery of spending on consumer durables expected in this business cycle. Consumer credit is projected to decline somewhat further in the current quarter and to pick up gradually to grow at only about a 3 percent pace by the end of next year.

The needs of nonfinancial corporations for funds are expected to be rather moderate in the current quarter, associated with a slackening of net equity retirements and a narrowing of the financing gap as capital outlays fall further. With enhanced concerns about balance sheet structure and with lenders exhibiting substantial reluctance to fund highly leveraged transactions, more and more firms have been deleveraging, and new mergers and acquisitions are increasingly tailored as stock-for-stock deals. Looking ahead to 1992, borrowing is likely to pick up some as spending on inventories and fixed capital rises faster than internal cash flows and lenders respond to the improving economy and reduced credit risk by providing funds somewhat more freely. However, the willingness of commercial banks to lend is likely to be more restrained than usual in the recovery phase of a business cycle, as banks continue to adjust to new capital requirements, position themselves to take advantage of possible new legislative initiatives, and remain afflicted by an overhang of bad loans, especially in the commercial real estate area. Insurance companies and other intermediaries also are likely to exhibit a continuing, though lessened, degree of restraint throughout the projection period.

The state and local sector is projected to remain a light net borrower through 1992. This reflects our anticipation of some hesitancy to incur new indebtedness for capital projects until budgetary pressures have eased and of a sizable volume of debt retirements associated with earlier advance refundings.

GROWTH RATES [illegible]BT BY SECTOR[1]
(Period-end to period-end)

	Domestic Nonfinancial Sectors								Memo	
				Households						
	Total[2]	U.S. govt.[2]	Non-federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets[3]	Nominal GNP[4]
				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	6.7	12.0	5.1	7.2	9.2	1.7	3.5	2.3	4.8	4.5
1991	6.0	11.5	4.2	5.6	7.5	-0.3	3.2	1.5	4.5	5.1
1992	6.7	10.1	5.5	6.6	7.8	3.0	5.0	1.9	4.0	5.9
				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	8.0	10.9	7.2	9.6	11.7	1.9	5.8	1.4	7.9	6.7
Q2	6.0	9.7	4.9	7.4	9.2	1.3	2.8	2.8	4.5	5.1
Q3	6.7	11.8	5.1	6.6	7.1	3.3	3.6	4.5	4.6	5.3
Q4	5.2	13.2	2.7	4.3	6.8	0.3	1.5	0.5	1.8	0.9
1991 -- Q1	4.4	8.1	3.3	4.3	6.8	-3.5	2.6	0.8	3.3	2.5
Q2	5.1	9.0	3.8	5.6	7.4	-0.6	2.3	1.7	4.3	3.0
Q3	7.1	15.0	4.5	6.0	7.5	1.1	3.3	2.0	5.6	7.5
Q4	6.7	11.9	4.9	6.1	7.5	1.7	4.2	1.5	4.5	7.4
1992 -- Q1	6.6	10.4	5.2	6.2	7.3	2.6	4.8	1.7	4.6	7.2
Q2	5.9	7.6	5.3	6.3	7.5	2.8	4.9	1.7	3.2	6.0
Q3	6.6	9.7	5.5	6.5	7.6	3.2	4.9	2.1	3.8	5.4
Q4	7.1	11.2	5.6	6.7	7.9	3.2	5.0	2.0	4.4	5.1

1. Published data through 1990:4; projections for other periods
2. RTC activity adds roughly .6 and .7 percentage points to total debt growth in 1991 and 1992, respectively; it adds about 2.6 percentage points to federal debt growth in each year.
3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.
4. 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				1992	
		1989	1990	1991	1992	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
	Net funds raised by domestic												
1	nonfinancial sectors	554.0	595.5	606.2	714.5	613.2	485.4	451.4	536.1	735.4	701.9	669.3	759.8
2	Net equity issuance	-124.2	-63.0	-24.5	-35.0	-74.0	-61.0	-17.0	-11.0	-35.0	-35.0	-35.0	-35.0
3	Net debt issuance	678.2	658.5	630.7	749.5	687.2	546.4	468.4	547.1	770.4	736.9	704.3	794.8
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	33.9	34.5	24.9	53.8	52.7	38.9	24.9	14.6	23.6	36.6	48.4	59.2
5	Net equity issuance	-124.2	-63.0	-24.5	-35.0	-74.0	-61.0	-17.0	-11.0	-35.0	-35.0	-35.0	-35.0
6	Credit market borrowing	211.9	117.6	111.4	182.1	125.6	51.3	90.1	82.9	119.6	153.0	177.7	186.5
	Households												
7	Net borrowing, of which:	285.0	253.7	215.3	265.9	246.8	163.5	165.5	216.4	236.6	242.7	255.0	276.8
8	Home mortgages	221.6	215.4	198.0	221.5	179.8	177.4	180.8	197.5	204.4	209.2	212.6	230.4
9	Consumer credit	39.1	13.6	-2.7	23.8	26.6	2.5	-28.4	-5.0	8.7	13.8	21.8	25.8
10	Debt/DPI (percent)[3]	89.8	92.9	96.1	96.1	95.4	95.6	96.3	96.5	96.7	96.7	95.9	96.3
	State and local governments												
11	Net borrowing	29.6	14.6	9.8	12.5	28.7	3.1	5.5	11.2	12.9	9.7	11.3	13.8
12	Current surplus[4]	-25.7	-42.8	-26.1	0.6	-41.7	-55.4	-37.3	-32.8	-21.7	-12.7	-3.5	4.8
	U.S.government												
13	Net borrowing from public	151.6	272.5	294.2	289.0	286.1	328.4	207.4	236.6	401.3	331.6	260.3	317.8
14	Net borrowing from public[5]	151.6	272.5	294.2	289.0	68.4	98.7	56.5	41.7	97.1	99.0	117.8	171.2
15	Unified budget deficit[5]	155.0	236.1	291.3	291.7	57.8	86.3	65.3	29.0	83.4	113.6	121.6	170.0
	Funds supplied by												
16	depository institutions	92.8	-17.5	-58.4	-21.1	-57.4	-77.5	-28.1	-103.4	-60.3	-41.8	-30.3	-12.0
	Memoranda: As percent of GNP:												
17	Dom. nonfinancial debt[3]	181.7	186.5	192.1	192.0	189.3	191.3	192.2	193.3	193.2	193.0	191.2	192.3
18	Dom. nonfinancial borrowing	13.0	12.0	11.1	12.4	12.5	9.9	8.4	9.8	13.5	12.7	11.8	13.0
19	U.S. government[6]	2.9	5.0	5.2	4.8	5.2	5.9	3.7	4.2	7.0	5.7	4.4	5.2
20	Private	10.1	7.1	5.9	7.6	7.3	3.9	4.7	5.5	6.5	7.0	7.5	7.8

1. Published data through 1990:4; 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. Excludes gov't-insured mortgage pool securities.

2.6.4 FOF

Recent developments

The foreign exchange value of the dollar, in terms of the other G-10 currencies, has fluctuated over a wide range during the intermeeting period. After depreciating moderately initially, the dollar rose strongly in the latter half of April against the mark and other European currencies, apparently in response to political developments in Germany and escalating turmoil in the Soviet Union. Much of that appreciation was reversed late in the period around the time of the cut in the Federal Reserve's discount rate. The dollar rallied temporarily when labor market data for April came in better than expected. On balance, since the March FOMC meeting, the dollar has risen 1-1/2 percent against the mark, fallen 1/2 percent against the yen, and risen more than 1 percent against the trade-weighted average of G-10 currencies.

Foreign interest rates remained little changed in the face of the cut in U.S. rates. Earlier in the period the Bank of England had lowered its money market intervention rate by another 1/2 percentage point, to just below 12 percent.

. The Desk did not intervene.

Real growth in six major foreign industrial countries on average appears to have remained sluggish in the first quarter. Most recent indicators in Japan have pointed to further slowing of activity while signals in Germany have been more mixed. Industrial production in western Germany was up strongly on average in the first quarter, and the rate of unemployment continued to decline through March. However, new orders for manufactured goods rose only slightly in March, following a sharp decline in February. Activity in eastern Germany appears to have been stagnant, with unemployment rising further. The recessions in the United Kingdom and Canada continued in the first quarter, while growth in France and Italy appears to have been modest but still positive.

Measured inflation in the foreign industrial countries (weighted by shares in U.S. imports) edged up slightly in the first quarter despite the decline in oil prices. Special factors contributed to the greater price increases in some cases, including the new Goods and Services Tax in Canada, and increases in administered prices in Italy.

The U.S. merchandise trade deficit in January-February narrowed considerably from the rate in the fourth quarter, reflecting a significantly lower price of oil imports, a decline in the quantity of non-oil imports, and a further expansion in the quantity of exports. Non-oil import prices rose about 3 percent at an annual rate in the first quarter, noticeably less than in the fourth quarter.

Outlook

Relative to the March Greenbook, the current forecast incorporates a higher level of the dollar and weaker near-term growth both at home and abroad. As a result, real net exports of goods and services are projected to show little change through the end of next year, as compared with the forecast in March of a moderate improvement. The outlook for the nominal external balance has changed less, as a lower trajectory for non-oil import prices offsets much of the deterioriation in the projected growth of real net exports. The current account deficit is still expected to narrow to less than $10 billion this year as a result of foreign government transfers to the United States associated with the Gulf War, and then to widen to a rate of more than $40 billion next year.

The Dollar. The foreign exchange value of the dollar against the other G-10 currencies is expected to decline somewhat from its current level over the forecast period. This path of the dollar represents an upward revision of about 6 percent on average above that in the March Greenbook, reflecting the sustained weakening of the mark and other European currencies over the past few months. However, the upward revision is less in the longer term than in the near term, because some of the recent economic and political factors that have been depressing the mark are assumed to diminish over time. Against the currencies of eight developing countries, the dollar is still expected to show a small depreciation in real terms this year and next.

Foreign Industrial Countries. The near-term outlook for growth in the major foreign industrial countries has been revised down somewhat because data have continued to show both weakness in current activity and the absence of clear leading indicators of an upturn. Average growth in the G-6 countries (weighted by their shares in U.S. exports) is now projected to be a little over 1 percent over the four quarters of 1991 -- down about 1/4 percentage point from the previous staff forecast. Growth is still expected to improve to the range of 2-1/2 to 3 percent by the fourth quarter of this year and next year, however, as consumption and investment revive following the decline in oil prices and monetary easing, particularly in those countries currently in recession. Japan is again forecast to show the strongest growth next year (at 3-3/4 percent), while German growth is expected to be around 3 percent, about the same as this year. The United Kingdom and Canada are both expected to register significant positive swings in 1992 and to contribute importantly to the overall trend toward recovery abroad.

The outlook for average inflation in the foreign industrial countries in 1991 and 1992 has been lowered slightly, partly in view of the weaker forecast for foreign growth. Increases in expected inflation in Germany and Japan in 1991 have been more than offset by projections of lower inflation rates in France, the United Kingdom, and Canada than those predicted in March. Average inflation over the four quarters of 1991 is now forecast to be about 4 percent, more than 3/4 percentage point below the 1990 figure, and to slow an additional 1/2 percentage point next year.

The outlook for interest rates in the major foreign industrial countries is consistent with a cautious easing of monetary policy in a context of slowing inflation and weak, but recovering, real demand. On average, short-term interest rates are expected to move down gradually about 1/2 percentage point by the end of the forecast period. While the Bundesbank is assumed to raise its rates slightly in the near term, German short-term interest rates are expected to show little net change over the rest of the forecast period. Japanese short-term interest rates are assumed to edge down this year as aggregate demand slows, and the recessions and monetary easing in Canada and the United Kingdom are expected to result in further declines in short-term rates in those countries. Long-term rates abroad, on average, are expected to decline somewhat less than short rates.

Developing Countries. Growth in key developing-country trading partners is projected to increase slightly in 1991 to nearly 5 percent and to rise further to about 5-1/4 percent in 1992. All countries in this group are expected to be affected negatively by the decline in growth in industrial countries in 1991. However, government policy is sufficiently expansionary in several key developing countries to offset expected slower growth in external demand, and the somewhat lower average level of oil prices expected for this year will be a net positive factor. The average projected growth of this group of countries has been revised up slightly since the March Greenbook as a result of both improved investor confidence (particularly in Taiwan) following the end of the Gulf War and an outlook for more expansionary government policies in key countries.

U.S. Real Net Exports of Goods and Services. Real net exports of goods and services are expected to remain little changed through next year, after having improved dramatically over the past two quarters. As anticipated in the March Greenbook, the level of net investment income receipts in GNP net exports for the fourth quarter of 1990 was revised up by $10 billion (annual rate). Absent this revision, which has been carried through the forecast, the current outlook for the path of net exports is somewhat weaker than the previous forecast.

TRADE QUANTITIES*
(Percent change from end of preceding comparable period, annual rate)

		------ Projection -----			
	1990	1991			1992
		Q1	Q2	H2	
Nonagricultural exports	8.6	11.5	8.4	9.6	9.9
Agricultural exports	-6.1	12.0	-0.4	-1.0	2.0
Non-oil imports	1.4	-0.6	-0.7	9.4	8.9
Oil imports	-12.3	4.4	47.5	8.1	6.5

* GNP basis, 1982 dollars.

Real nonagricultural exports of goods are projected to advance at an average annual rate of about 9-1/2 percent over the next seven quarters. This growth rate is nearly 2 percentage points below the previous forecast because of the stronger dollar and slightly weaker outlook for growth abroad. Nonetheless, exports are still expected to derive significant support from the net decline in the dollar over the past two years, from the projected pick up in foreign growth, and from continued rapid growth in real exports of computers. Agricultural exports are projected to show little further expansion from the high rate reached in the first quarter.

The quantity of non-oil imports of goods, after having declined in the first quarter, is projected to remain about unchanged in the second quarter and then to expand at an average annual rate of 9 percent over the next six quarters. Constant-dollar imports of computers are expected to expand more rapidly, and, as in the case of nonagricultural exports, to add several percentage points to the growth rate for total non-oil imports. Beyond the near term, the projected growth of imports is somewhat above the previous forecast, reflecting the effects of the higher assumed path of the dollar. Oil imports are expected to jump in the current quarter as stocks are rebuilt, and to expand steadily thereafter in line with growing domestic consumption and gradually receding domestic production.

Oil Prices. Oil prices have firmed somewhat since the March forecast, and import prices are now expected to average about $19 per barrel through the summer. Early indications are that OPEC countries are holding to the production levels agreed to in the accord of early March. In particular, Saudi Arabian production appears to have been reduced significantly in April, about in line with expectations. Prospects for significant exports from Iraq and Kuwait this year have diminished somewhat. However, increases in Saudi Arabian production are expected to make up for any shortfall, and import prices are assumed to return to a flat $18 per barrel path by the end of the year, a level consistent with a spot price of $19.50 per barrel for West Texas intermediate crude.

Prices of Exports and Non-oil Imports. The fixed weight price index for U.S. nonagricultural exports is projected to decline further in the second quarter, and to rise only moderately over the next year and a half.

These prices are expected to be depressed by recent declines in domestic producer prices (particularly among industrial supplies and materials), and to some extent by the rise in the dollar. Non-oil import prices are also expected to decline in the current quarter, and to rise only moderately in the second half of this year, before picking up to a 3 percent rate of increase next year. The projected path of non-oil import prices is significantly below that in the March Greenbook as a result of the stronger dollar and lower inflation abroad.

SELECTED PRICE INDICATORS
(Percent change from the end of preceding comparable period, annual rate)

	1990	Projection 1991 Q1	Q2	H2	1992
PPI (export-share wts.)	4.8	-2.0	-1.8	1.6	2.1
Nonagric exports (Fx-Wt)	4.0	-0.5	-0.9	0.5	2.0
Non-oil imports (Fx-Wt)	2.9	3.1	-1.0	1.6	3.1
Oil imports ($/barrel)	20.52	20.37	18.85	18.75	18.00

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to narrow further in the second quarter, to less than $70 billion (annual rate), primarily because of the expected near-term weakness of import demand. Thereafter, the deficit is projected to widen gradually, returning to a rate of about $75 billion next year. Excluding the effects of transfer payments associated with the Gulf War, the current account deficit this year is projected to be nearly $50 billion, or roughly $20 billion less than the trade deficit. Next year, continuing improvements in the non-trade portions of the current account (other than transfers) are expected to more than offset the worsening of the trade deficit, leaving the current account deficit in the neighborhood of $45 billion.

Within the non-trade portions of the current account, net service receipts are expected to continue to expand steadily in the near term; this growth will be depressed somewhat over time by the effects of the recent appreciation of the dollar as well as slower economic growth abroad. Net investment income receipts are expected to make a small positive contribution to the current account, as they did in 1990; that contribution is expected to increase somewhat over the next few quarters as recent declines in dollar interest rates show through to lower payments on U.S. debt to foreigners.

With respect to transfer payments, total cash grants from foreign governments to support Operation Desert Storm are expected to amount to $43 billion. The expected timing of these payments has been revised since the last Greenbook. Payments received in the first quarter this year totaled $23 billion, somewhat more than had been anticipated. An additional $10 billion is expected in the second quarter, and $5 billion more in each of the third and fourth quarters. As a result, the current account is expected to show a substantial surplus in the first quarter and deficits on the order of $10 to 25 billion (annual rate) in each of the remaining quarters of this year.

May 8, 1991

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REAL GNP AND THE CONSUMER PRICE INDEX, SELECTED COUNTRIES, 1988-92
(Percent change from fourth quarter to fourth quarter)

				Projection	
Measure and country	1988	1989	1990	1991	1992
REAL GNP					
Canada	3.1	2.9	-1.0	0.0	2.6
France	3.6	3.6	2.2	2.0	2.6
Western Germany	3.4	3.2	4.8	2.9	2.9
Italy	3.7	3.0	1.5	2.1	2.7
Japan	5.6	4.8	4.7	3.2	3.7
United Kingdom	3.3	1.3	-1.4	0.2	1.8
Average, weighted by 1987-89 GNP	4.1	3.5	2.5	2.1	2.9
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	4.0	3.7	2.0	2.2	3.3
G-6	3.7	3.2	1.0	1.2	2.8
LDC	5.2	5.0	4.6	5.1	5.2
CONSUMER PRICES					
Canada	4.1	5.2	4.9	5.6	3.4
France	3.0	3.6	3.6	2.4	2.9
Western Germany	1.6	3.1	3.0	3.8	2.8
Italy	5.1	6.6	6.3	6.0	5.1
Japan	1.5	2.9	3.5	3.3	3.0
United Kingdom	6.5	7.6	10.0	5.3	4.5
Average, weighted by 1987-89 GNP	3.2	4.4	4.9	4.1	3.5
Average, weighted by share of U.S. non-oil imports	3.0	4.2	4.5	4.3	3.3

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

(Billions of dollars, seasonally adjusted annual rates)

	ANNUAL			1990				1991				1992
	1990	1991-P	1992-P	Q1	Q2	Q3	Q4	Q1	Q2-P	Q3-P	Q4-P	Q4-P
1. GNP Real Net Exports (82$)	-33.8	3.1	2.6	-35.4	-44.6	-46.5	-8.8	2.2	2.4	4.3	3.4	3.3
a. Exports of G+S	631.5	658.9	705.6	628.1	620.1	630.5	647.2	646.5	652.3	662.0	674.8	725.0
Merchandise	423.9	459.0	500.8	422.4	418.4	421.0	433.8	445.8	454.0	462.6	473.4	517.3
Services	207.6	199.9	204.8	205.7	201.7	209.5	213.4	200.7	198.3	199.4	201.4	207.7
b. Imports of G+S	665.3	655.8	703.0	663.5	664.7	677.0	656.0	644.3	649.9	657.7	671.4	721.8
Merchandise	517.0	522.8	569.2	517.8	515.2	526.5	508.4	508.7	516.5	526.3	539.6	585.4
Oil	95.5	92.1	100.5	100.8	96.9	100.9	83.3	84.2	92.8	95.0	96.5	102.8
Non-oil	421.5	430.7	468.7	417.1	418.3	425.5	425.1	424.5	423.7	431.3	443.1	482.6
Services	148.3	133.0	133.8	145.6	149.4	150.5	147.6	135.6	133.4	131.4	131.8	136.4
Memo:												
Percent Changes (AR) 1/												
Exports G+S	5.8	4.3	7.4	11.2	-5.0	6.9	11.0	-0.4	3.6	6.1	7.9	8.0
of which: Merchandise	7.1	9.1	9.3	18.1	-3.7	2.5	12.7	11.5	7.6	7.7	9.7	9.5
Imports G+S	-0.5	2.3	7.5	2.5	0.7	7.6	-11.8	-6.9	3.5	4.9	8.6	7.4
of which: Non-oil Merch.	1.4	4.2	8.9	-2.1	1.2	7.1	-0.4	-0.6	-0.7	7.3	11.4	7.8
2. U.S. Current Account Balance	-99.3	-6.2	-43.7	-89.3	-90.9	-105.9	-111.0	32.3	-8.6	-24.0	-24.5	-48.4
a. Merchandise Trade, net	-108.7	-69.7	-73.2	-107.2	-92.9	-119.1	-115.4	-74.4	-66.0	-68.5	-69.8	-74.6
Exports	389.3	422.4	462.9	384.4	386.3	384.6	401.8	409.7	418.1	425.8	435.8	479.4
Agricultural	40.4	40.4	43.2	43.8	41.3	38.9	37.5	40.0	40.3	40.4	40.8	44.7
Nonagricultural	348.9	382.0	419.7	340.6	345.1	345.7	364.3	369.7	377.8	385.4	394.9	434.7
Imports	498.0	492.0	536.1	491.6	479.2	503.8	517.3	484.2	484.2	494.3	505.5	554.0
Oil	62.1	55.9	58.0	62.4	48.7	62.6	74.8	52.5	56.0	58.3	56.8	59.3
Non-oil	435.9	436.1	478.1	429.2	430.6	441.2	442.4	431.7	428.1	436.0	448.7	494.7
b. Other Current Account	9.4	63.5	29.5	18.0	2.0	13.2	4.4	106.7	57.5	44.5	45.3	26.2
Investment Income, net	7.5	5.2	7.5	8.0	-4.0	9.0	17.1	4.7	3.4	5.7	6.9	6.5
Direct, net	49.4	44.7	43.8	48.2	41.7	52.6	55.0	46.8	44.5	43.9	43.8	43.0
Portfolio, net	-41.8	-39.6	-36.3	-40.2	-45.7	-43.6	-37.9	-42.0	-41.1	-38.3	-36.9	-36.5
of which: Gov't Payments	37.5	36.0	35.3	36.7	37.8	37.3	38.0	37.6	36.6	35.2	34.6	36.1
Military Transactions, net	-6.4	-7.1	-4.0	-5.1	-5.5	-6.8	-8.2	-9.2	-9.2	-6.0	-4.0	-4.0
Other Services, net	29.3	37.5	41.0	28.8	29.1	27.4	32.0	34.4	37.2	38.8	39.4	41.7
Unilateral Transfers, net	-21.1	27.9	-15.0	-13.8	-17.7	-16.4	-36.4	76.8	26.0	6.0	3.0	-18.0

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