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Strictly Confidential (FR) Class II FOMC

August 13, 1992

SUMMARY AND OUTLOOK

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

Overview

Data received after the last FOMC meeting revealed that the economy entered the summer with even less forward momentum than the staff had thought. But taking account of the further easing of money market conditions in early July, the substantial rally in the bond markets, and the further depreciation of the dollar, we have shaved just a bit off our prior forecast of near-term output growth. Real GDP is now projected to increase at about a 1-3/4 percent annual rate in the current quarter--a half percentage point less than in the June Greenbook and little different from the average pace thus far in the recovery. Output growth still is expected to pick up moderately in subsequent quarters. We continue to think that the drags exerted for some time now by unusual financial constraints and sectoral imbalances will abate gradually, contributing, along with the monetary policy steps already taken, to the step-up in aggregate demand.

The projected rate of expansion is sufficient to reduce the unemployment rate only slowly; we expect the unemployment rate still to be around 7-1/2 percent at the end of this year and to be 7 percent late next year. Given the higher level of slack, along with the surprisingly low reading on increases in labor costs in the second quarter, our projection of wage and price inflation has been revised down. In 1993, core inflation--proxied by the CPI excluding food and energy--is projected to be 3 percent, almost 1 percentage point less than in the first half of this year.

Key Assumptions

Reflecting the System's easing action in July, the federal funds rate, at 3-1/4 percent, is 1/2 percentage point lower than at the time of the previous Greenbook. We assume that the current lower level of the funds rate will be maintained through 1993. Long-term interest rates have also moved down since the June projection--indeed, more than we had anticipated--and we expect that they will decline further over coming quarters, given underlying softness in aggregate demand and favorable inflation trends. The assumed constant nominal federal funds rate is consistent with a small rise in the real rate, but any resulting restraint on activity should be offset by the attenuation of other growth-retarding financial forces, such as the urge to restructure balance sheets and constraints on credit supplies.

M2 and M3 fell in June and July, and sluggish growth is expected for the rest of 1992 despite a temporary boost from the current resurgence in mortgage refinancing. A steep yield curve and slack demand by depositories for loanable funds is likely to continue to foster a flow of savings toward mutual funds and capital market instruments. Velocity is projected to rise further, and the monetary aggregates could well finish the year below their annual growth ranges. In 1993, money growth is projected to remain slow and velocity to rise appreciably, as a resumption of RTC activity and various restrictions imposed by FDICIA damp the effects on depository asset growth of a small pickup in the growth of nominal GDP.

The fiscal projection has changed little. Policy is expected to be moderately restrictive in large part because of falling defense spending. Although the unified budget deficit is expected to rise from $309 billion in FY1992 to $351 billion in FY1993, the resumption next fiscal year of RTC resolutions accounts for the increase. Excluding deposit insurance outlays, the deficit is projected to be about $300 billion in both fiscal years. We have not incorporated any of the tax proposals currently being considered by the House and the Senate; the outcome of this legislation will not be determined until September and, at present, remains subject to considerable political uncertainty. Most of the items under consideration would have little effect on our projection of aggregate activity, though temporary subsidies, such as the tax credit for first-time homebuyers, could shift the timing of spending.

The trade-weighted value of the dollar has fallen since the June Greenbook, largely in response to the recent decline in U.S. interest rates and some increase in European rates; the projected flat path of the dollar through next year is about 5 percent lower than that in the June Greenbook. However, in the near term, much of the added stimulus to export demand from the lower dollar is likely to be offset by a lower level of economic activity among our trading partners; growth abroad still is expected to pick up in 1993, boosting the volume of exports. With regard to oil prices, the posted price of West Texas intermediate crude oil is assumed to peak in the current quarter at $20.30 per barrel--about $1 less than our previous projection--before falling back to $19.50 by early 1993 and remaining flat thereafter.

Recent Developments and the Current-Quarter Projection

As noted earlier, we now expect that real GDP will increase at around a 1-3/4 percent annual rate this quarter. As has been the case throughout this recovery, most of the projected increase in output reflects gains in labor productivity; in the nonfarm business sector, output per hour is projected to rise another 1-1/2 percent at an annual rate, after even larger increases over the past three quarters. Although private payroll employment rebounded in July, it changed little on net over the past two months. Over the same period, the average workweek edged off, and aggregate hours declined; the level of production worker hours in July stood slightly below the second-quarter average. We expect only modest increases in private employment and hours worked over the remaining months of the third quarter.

CURRENT-QUARTER PROJECTIONS
(Percent change from preceding quarter; annual rate)

	1992		
	Q1	Q2	Q3
	----actual----		
Real GDP	2.9	1.4	1.7
(previous)	2.4	2.0	2.3
Real PCE	5.1	-0.3	1.9
(previous)	5.4	1.0	2.3
Real BFI	3.0	13.5	2.2
(previous)	1.7	6.4	6.0
Industrial production	-2.9	5.2	3.2
(previous)	-2.8	5.8	4.2
Unemployment rate (level)	7.2	7.5	7.6
(previous)	7.2	7.3	7.3

We expect the unemployment rate to edge lower over the next several months; however, its level in July was considerably higher than we had anticipated at the time of the June Greenbook, and the third-quarter average now is projected to be 7.6 percent. The upward revision of 1/4 percentage point to the forecast is attributable both to surprisingly strong increases in labor force participation and to slower-than-expected employment growth in recent months.

Output in the industrial sector appears to be heading upward, but at a pace less robust than that projected in June. Total industrial production in July just reversed its decline in June; the rebound was largely attributable to the mining and utility sectors, which had held down growth in earlier months. In the manufacturing sector, output is estimated to have edged lower in the June-July period. The recently announced reductions in scheduled motor vehicle production for the third-quarter had largely been anticipated in our June projection. Even making allowance for some further shortfalls from schedules, production of motor vehicles is expected to provide a small boost to IP in August; for real GDP in the current quarter, the pickup in output of motor vehicles contributes about 1/3 percentage point to growth. More broadly, orders for durable goods have risen sharply, on balance, in recent months, and with few signs that any inventory imbalances have emerged, manufacturing activity outside of motor vehicles is projected to register modest growth over the rest of this quarter.

The slow pace of hiring and the generally weak growth of disposable income appear to be restraining consumer spending: Retail sales excluding auto dealers and building supply stores were up considerably in July, but unit sales of motor vehicles fell back from June's higher level. Real PCE in the third quarter is projected to grow at about a 2 percent annual rate, slightly less than projected in the June Greenbook.

By contrast, housing markets are showing some signs of revival. Sales of new single-family houses increased 8 percent in June, and reports indicate that the recent decline in interest rates has stimulated a sharp rise in mortgage applications for new home purchases. However, in the absence of other, more direct evidence, we have been cautious in raising our near-term projection for construction. We anticipate single-family starts to rebound to 1.05 million units in the third quarter from 0.99 million units last quarter. The multifamily sector is expected to show only very gradual improvement.

In the business sector, new orders for nondefense capital goods have advanced in recent months. Although computers remain the principal area of strength, outlays for industrial equipment have also been moving up. Nevertheless, we are looking for growth of real PDE to slow to about a 4 percent annual rate in the third quarter, compared with a 21 percent rate of growth in the second quarter; aircraft deliveries are anticipated to fall back from an unsustainably high level, and motor vehicle purchases are expected to drop because of the shift to June from July of some automobile purchases by rental car companies. Nonresidential construction activity is expected to move lower as continued declines in office building offset small increases in construction of institutional and public utility structures.

Incoming data on both prices and wages have been favorable. On the price front, the CPI excluding food and energy increased 0.2 percent in both June and July; food price inflation has remained low; and the smaller-than-expected runup in crude oil prices has limited the anticipated surge in consumer energy prices. We now expect the CPI to increase 2-3/4 percent in the current quarter--nearly 1-1/2 percentage points less than in the previous projection. With respect to compensation, the employment cost index increased at just a 2-1/2 percent annual rate over the three months ended in June, as both wage and benefit costs slowed appreciably compared with earlier quarters. The second-quarter data on labor costs likely understate underlying trends--especially for benefits, where part of the second-quarter slowing reflected a probably transitory decline in pension fund contributions; however, we read the figures as suggesting that these trends are lower than we had previously thought, and we have reduced our compensation projection by about 1/4 percentage point in the third quarter.

The Outlook for the Economy through 1993

We expect real GDP to increase at a 2-1/2 percent annual rate in the fourth quarter and then to increase at a 3 percent rate next year. Although recent indicators have been disappointing and some structural imbalances remain, the medium-term prospects for some pickup in real growth still seem positive. Interest rates have come down substantially, and credit supply conditions are expected to ease a bit. Households have made progress in improving their financial postures and should be in a better position to raise spending in line with gains in real disposable income. In the business sector, measures of profits and cash flow look strong, providing direct support for investment in plant and equipment and enhancing access to external sources of finance. Net exports should pick up a bit because of the lower dollar and an eventual acceleration of growth abroad.

PROJECTIONS OF REAL GDP
(Percent change; annual rate)

	1992		1993	
	Q3	Q4	H1	H2
Real GDP	1.7	2.5	2.9	3.2
Final sales	1.9	2.1	2.6	3.1

Consumer spending. Real personal consumption expenditures are expected to grow at an annual rate of 2-1/2 percent in the fourth quarter and about 3 percent next year. The projected parallel movement of consumption and income, compared with the rise in the saving rate so far in the recovery, is an important element lifting economic growth to a higher level. As time passes, sustained job growth and declining debt-servicing burdens should make consumers more willing to spend.

Among the components of PCE, purchases of durables are expected to outstrip other categories. Spending on cars and light trucks, while remaining well below its rapid pace of the mid-1980s, is expected to rise considerably, boosted in part by some pent-up demand. Growth in the other components of personal consumption expenditures is projected to remain modest: Real outlays for nondurable goods rise at less than a 2 percent annual rate, whereas consumption of services advances at about a 2-1/2 percent annual rate.

It may be noted that the recent revision of the national income accounts indicated that the personal saving rate has been trending upward since 1990, rather than exhibiting a generally sideways movement. These latest estimates obviously should not be taken as gospel, but they do accord with the long-prevailing sense that consumer caution has been a retarding force in the upturn. Recognizing the difficulty in gauging the balance sheet ratios that may make households comfortable, and the possibility that anxiety about job security may persist in an environment of still high unemployment, a downside risk to the GDP forecast is that the uptrend in saving will continue for a while longer.

Residential investment. The combination of declining mortgage interest rates and some pickup in the growth of real disposable income should boost single-family housing construction. Starts in this market segment are projected to reach a 1.1 million unit annual rate in late 1992 and a 1.2 million unit annual rate toward the end of 1993; by contrast, single-family starts averaged only 0.8 million units in 1991. In the multifamily market, high vacancy rates are likely to restrain activity. Multifamily construction is anticipated to show only very gradual improvement, with starts expected to average 210,000 units in 1993, the same pace as that projected in the June Greenbook.

Business fixed investment. After a pause in the current quarter, growth of real BFI is projected to exceed 6 percent at an annual rate over the next five quarters. With long-term interest rates falling and improved corporate profits and cash flow, the fundamental elements are in place to support the 9 percent growth rate expected for producers' durable equipment. While it is likely that outlays for computers will slow from the extraordinary pace of the first half of this year, equipment spending in other categories is expected to accelerate as the recovery gains momentum and sales expectations improve. The only major exception is aircraft, where shipments are expected to decline gradually because of excess capacity among domestic carriers.

Nonresidential construction appears to be near its trough. Although real outlays were about flat in the first half of this year, we expect spending to fall a bit more over the next several quarters before bottoming out in mid-1993. The institutional and public utility components have been growing for several quarters, and investment in industrial structures is projected to begin advancing around the turn of the year. By contrast, office construction and oil and gas drilling remain significantly depressed, and outlays in these categories are expected to decline through 1993.

Business inventories. No signs of any significant imbalances in inventories are apparent at present. Looking forward, we expect that businesses will continue to improve the efficiency with which they manage inventories; consequently, our projection assumes that the desired ratio of inventories to sales will decline gradually. Nonetheless, as final demand picks up, some increase in stocks should be required, and inventory investment is expected to make a slight contribution to real GDP growth next year.

Government purchases. The outlook for federal purchases of goods and services is not materially changed from that in the June Greenbook. Real defense purchases are expected to fall about 5 percent in 1992--the same amount as in 1991--and to decline slightly more rapidly in 1993. Growth of nondefense purchases is expected to slow to 1-3/4 percent in 1993 from the 5-1/2 percent pace of 1991 and 1992, as the caps on discretionary spending established by the Budget Enforcement Act begin to bite.

The fiscal positions of state and local governments are worse than we had thought at the time of the previous Greenbook. According to the annual NIPA revision, the sector's aggregate deficit, excluding social insurance funds, has remained near $40 billion since late 1990; the earlier data had shown a fairly steady improvement over the past year to about a $25 billion deficit.[1] We project real state and local purchases to decline at a 3/4 percent annual rate in the second half of this year and to inch up 1/2 percent next year. With continuing pressures for spending in the areas of education, health services (especially Medicaid), corrections, and infrastructure, higher taxes now seem unavoidable, especially in 1993, and larger tax increases have been built into the projection. Despite these projected actions, the sector's deficit is anticipated to improve only to about $20 billion by the end of 1993.

Net exports. The external sector is expected to provide a small stimulus to domestic production in 1993. The depreciation of the dollar that has occurred to date and a gradual acceleration

1. Comprehensive and consistent data for these myriad governments are available mainly from the annual Census of Governments. Preliminary tabulations for 1991, which form the primary basis of the NIPA revisions, were completed only recently.

of activity abroad over coming quarters is expected to boost growth in exports of goods and services to nearly 8 percent in 1993, compared with 2-1/2 percent this year. As the U.S. economy improves in 1993, imports are also expected to pick up, but somewhat less than exports. A detailed discussion of these projections is contained in the International Developments section.

Labor markets and prices. Only small gains in employment are expected through the end of 1992, given our projections of modest output growth and productivity gains that continue to be somewhat faster than trend as firms remain intent on containing labor costs. The unemployment rate is projected to edge down to about 7-1/2 percent by the end of this year and to 7 percent toward the end of 1993.

Compared with the June Greenbook, the unemployment rate averages about 1/4 percentage point higher in the second half of this year and in 1993. Although part of this upward revision results from slower growth of output in the near term, some of it is also attributable to the surprisingly strong increase in labor force participation in recent months. The participation rate historically tends to vary with the business cycle, but the behavior of the labor supply over the current cycle has been exaggerated for reasons that we do not fully understand. Participation was considerably weaker than we had expected in 1990 and 1991, but the recent sharp rebound in participation has more than offset the earlier shortfall. We are now forecasting a gradual rise in participation in line with the moderate increase in employment.

The dominant influence in the inflation projection--for both wages and prices--remains the degree of slack in resource utilization; energy and food prices are expected to be roughly neutral for overall inflation. As a result of a greater margin of underutilized resources in this forecast, the deceleration of wages and prices is a little more substantial than projected in the June Greenbook. Moreover, the starting point is a bit lower given recent wage and price news. ECI compensation, which increased 3.7 percent over the twelve months ending in June, rises at a 3-1/2 percent rate in the second half of this year and at slightly less than a 3-1/4 percent rate in the second half of 1993. Core inflation--proxied by the CPI excluding food and energy--falls from about 4 percent in the first half of this year to 3 percent in the second half of 1993. However, higher projected import prices--owing to the lower value of the dollar--and hikes in state and local indirect business taxes, which together add about 1/4 percentage point to CPI inflation in 1993, partly offset the effects on the CPI of our downward adjustments to labor costs.

STAFF INFLATION PROJECTION
(Percent change; annual rate)

	1992		1993	
	H1	H2	H1	H2
		------projected------		
Consumer price index	3.2	3.1	3.1	3.0
(previous)	3.3	3.8	3.1	3.1
Excluding food and energy	3.9	3.3	3.1	3.0
(previous)	4.0	3.5	3.3	3.1
Employment cost index (compensation)	3.3	3.5	3.3	3.2
(previous)	3.9	3.7	3.6	3.5
Memo:				
Unemployment rate (end of period)	7.5	7.4	7.3	7.0
(previous)	7.3	7.2	6.9	6.7
Nonoil import price index	3.6	4.2	3.5	3.2
(previous)	3.9	3.3	2.4	2.4

A Preliminary Note on 1994

For the first time, the Greenbook projection has been extended through 1994. The scenario depicted is essentially an extension of the trends visible in the 1993 numbers: Output growth is fast enough to push the jobless rate gradually lower but not so fast as to halt the disinflation process. We believe that, with financial stresses and sectoral imbalances diminishing, some rise in short-term interest rates may be needed by 1994 to produce such an outcome.

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

August 13, 1992

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	6/24/92	8/13/92	6/24/92	8/13/92	6/24/92	8/13/92	6/24/92	8/13/92	6/24/92	8/13/92
ANNUAL										
1990[2]	5.1	5.2	1.0	.8	4.3	4.5	5.4	5.4	5.5	5.5
1991[2]	2.9	2.8	-.7	-1.2	4.0	4.1	4.2	4.2	6.7	6.7
1992	4.4	4.4	1.8	1.7	2.9	2.7	3.3	3.1	7.2	7.4
1993	5.6	5.2	2.8	2.6	2.9	2.6	3.3	3.1	6.9	7.2
1994	n.a.	5.4	n.a.	3.1	n.a.	2.4	n.a.	2.7	n.a.	6.7
QUARTERLY										
1991 Q1[2]	2.3	1.8	-2.5	-3.0	5.4	4.7	3.3	3.3	6.5	6.5
Q2[2]	4.6	5.2	1.4	1.7	3.3	3.5	2.4	2.4	6.7	6.7
Q3[2]	4.1	4.0	1.8	1.2	2.6	3.0	2.7	2.7	6.8	6.8
Q4[2]	2.2	2.8	.4	.6	2.1	2.4	3.6	3.6	6.9	6.9
1992 Q1[2]	5.5	6.2	2.4	2.9	3.4	3.6	2.9	2.9	7.2	7.2
Q2[2]	4.8	3.7	2.0	1.4	2.7	1.6	3.6	3.5	7.3	7.5
Q3	4.9	3.4	2.3	1.7	2.8	1.9	4.1	2.7	7.3	7.6
Q4	5.6	5.5	2.7	2.5	2.9	3.0	3.4	3.4	7.2	7.4
1993 Q1	6.1	5.8	2.8	2.8	3.4	3.2	3.0	3.1	7.1	7.4
Q2	5.6	5.4	2.9	3.0	2.7	2.6	3.1	3.1	6.9	7.3
Q3	5.7	5.5	3.1	3.2	2.7	2.5	3.1	3.1	6.8	7.2
Q4	5.7	5.4	3.2	3.2	2.6	2.4	3.1	2.9	6.7	7.0
1994 Q1	n.a.	5.9	n.a.	3.2	n.a.	2.9	n.a.	2.7	n.a.	6.9
Q2	n.a.	5.1	n.a.	3.0	n.a.	2.2	n.a.	2.5	n.a.	6.7
Q3	n.a.	4.9	n.a.	3.0	n.a.	2.1	n.a.	2.4	n.a.	6.6
Q4	n.a.	4.9	n.a.	3.0	n.a.	2.1	n.a.	2.4	n.a.	6.4
TWO-QUARTER[3]										
1991 Q2[2]	3.5	3.5	-.6	-.7	4.4	4.2	2.9	2.9	.7	.7
Q4[2]	3.1	3.4	1.1	.9	2.4	2.7	3.1	3.1	.2	.2
1992 Q2[2]	5.2	4.9	2.2	2.2	3.1	2.7	3.2	3.1	.4	.6
Q4	5.2	4.4	2.5	2.1	2.9	2.5	3.7	3.1	-.1	-.1
1993 Q2	5.8	5.6	2.9	2.9	3.0	2.9	3.1	3.1	-.3	-.1
Q4	5.7	5.4	3.2	3.2	2.7	2.4	3.1	3.0	-.2	-.3
1994 Q2	n.a.	5.5	n.a.	3.1	n.a.	2.5	n.a.	2.6	n.a.	-.3
Q4	n.a.	4.9	n.a.	3.0	n.a.	2.1	n.a.	2.4	n.a.	-.3
FOUR-QUARTER[4]										
1990 Q4[2]	4.1	4.1	-.1	-.5	4.4	4.7	6.3	6.3	.6	.6
1991 Q4[2]	3.3	3.5	.3	.1	3.4	3.5	3.0	3.0	.9	.9
1992 Q4	5.2	4.7	2.4	2.1	3.0	2.6	3.5	3.1	.3	.5
1993 Q4	5.8	5.5	3.0	3.0	2.8	2.6	3.1	3.0	-.5	-.4
1994 Q4	n.a.	5.2	n.a.	3.0	n.a.	2.3	n.a.	2.5	n.a.	-.6

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

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

August 13, 1992

Item	Unit[1]	1986	1987	1988	1989	1990	1991	Projected 1992	Projected 1993	Projected 1994
EXPENDITURES										
Nominal GDP	Bill. $	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5924.6	6229.9	6565.8
Real GDP	Bill. 87$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4904.4	5033.4	5190.7
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	2.1	3.0	3.0
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	2.4	2.8	2.9
Final sales		3.3	2.7	4.2	1.5	.6	-.6	2.2	2.9	3.0
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	3.2	3.6	3.5
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	2.2	2.9	2.9
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	5.6	6.6	5.1
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	1.5	2.0	2.3
Services		2.5	3.7	3.7	1.7	1.3	1.6	1.9	2.5	2.7
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	6.1	6.6	6.2
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	9.2	9.1	7.2
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-1.2	.0	3.4
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	12.3	6.9	5.8
Exports		9.9	12.6	13.5	11.3	7.2	7.4	2.4	7.7	7.9
Imports		6.7	4.7	3.6	2.6	.1	4.8	4.9	5.8	6.2
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	-.3	-1.3	-.4
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-2.0	-4.2	-3.3
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-5.0	-6.8	-5.5
State and local		4.4	2.9	2.9	4.0	2.7	.7	.9	.6	1.4
Change in bus. invent.	Bill. 87$	8.6	26.3	19.9	29.8	6.2	-9.3	-2.2	10.8	17.0
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	-1.4	11.9	18.4
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-32.2	-29.9	-20.3
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	4.7	5.5	5.2
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.6	110.1	112.3
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	7.2	6.7
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	2.3	4.4	4.1
Capacity util. rate-mfg.	%	79.0	81.4	83.9	83.9	82.3	78.2	77.8	78.7	79.4
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.22	1.36	1.48
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.48	9.16	9.74
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.33	6.93	7.40
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.15	2.24	2.34
INCOME AND SAVING										
Nominal GNP	Bill. $	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5945.2	6253.6	6590.5
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	4.8	5.5	5.2
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	4.7	6.3	5.7
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.0	2.9	2.9
Personal saving rate	%	6.0	4.3	4.4	4.0	4.3	4.7	5.0	5.0	5.1
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	20.9	6.6	4.8
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.8	7.0	7.1
Federal surpl./def.	Bill. $	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-289.2	-264.5	-244.0
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	16.3	28.2	44.2
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-41.8	-29.4	-13.1
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.4	2.1
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	2.6	2.6	2.3
Gross domestic purchases fixed-wt. price index		2.3	3.9	4.1	4.3	5.3	2.8	2.9	2.7	2.4
CPI		1.3	4.5	4.3	4.6	6.3	3.0	3.1	3.0	2.5
Ex. food and energy		3.9	4.3	4.5	4.4	5.3	4.5	3.6	3.0	2.5
ECI, hourly compensation[2]		3.2	3.3	4.8	4.8	4.6	4.4	3.4	3.2	3.0
Nonfarm business sector										
Output per hour		1.2	1.8	.5	-1.4	.0	1.0	2.3	1.6	1.2
Compensation per hour		4.6	3.8	3.8	3.1	6.1	3.8	3.2	3.3	3.2
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.7	1.0	1.7	1.9

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

Strictly Confidential (FR)
Class II FOMC

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

August 13, 1992

Item	Unit	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2
EXPENDITURES											
Nominal GDP	Bill. $	5445.2	5522.6	5559.6	5561.3	5585.8	5657.6	5713.1	5753.3	5840.2	5893.6
Real GDP	Bill. 87$	4890.8	4902.7	4882.6	4833.8	4796.7	4817.1	4831.8	4838.5	4873.7	4890.5
Real GDP	% change	2.8	1.0	-1.6	-3.9	-3.0	1.7	1.2	.6	2.9	1.4
Gross domestic purchases		2.1	.9	-1.4	-6.0	-4.2	1.7	2.4	-.4	3.0	2.6
Final sales		4.3	-1.1	.1	-.9	-3.2	1.3	-.5	.0	4.7	.3
Private dom. final purch.		2.9	-1.7	.8	-5.0	-6.0	1.5	1.4	-.4	5.5	1.7
Personal cons. expend.		2.2	.1	1.7	-3.1	-3.0	2.0	1.5	-.3	5.1	-.3
Durables		16.2	-12.0	-1.4	-9.8	-13.0	-.7	8.1	-3.1	16.5	-2.7
Nondurables		-.2	-.5	.8	-2.8	-3.2	1.3	-.6	-3.5	5.5	-1.6
Services		.3	3.7	3.1	-1.6	-.3	3.0	1.2	2.3	2.2	1.0
Business fixed invest.		6.2	-6.6	5.6	-9.6	-15.8	-3.1	-3.4	-5.2	3.0	13.5
Producers' dur. equip.		6.8	-7.8	7.2	-6.1	-16.7	.7	6.0	-2.4	3.2	20.7
Nonres. structures		5.0	-4.1	2.5	-16.5	-14.0	-10.6	-20.8	-11.5	2.7	-2.1
Res. structures		5.3	-15.9	-22.9	-22.4	-26.9	7.0	14.4	11.3	20.1	8.7
Exports		10.7	7.0	-.2	11.6	-5.0	16.6	6.2	13.3	2.9	-3.8
Imports		2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	6.3
Government purchases		6.4	1.1	-2.0	6.1	2.8	.2	-2.3	-3.0	1.7	.3
Federal		8.0	2.1	-7.2	9.9	7.2	-.3	-6.5	-9.0	-3.0	.3
Defense		4.9	.3	-10.5	12.8	8.7	-5.6	-9.4	-13.0	-7.7	-1.6
State and local		5.2	.4	1.9	3.5	-.1	.6	.9	1.4	5.1	.1
Change in bus. invent.	Bill. 87$	7.5	32.8	11.2	-26.8	-25.1	-20.4	.6	7.5	-12.6	1.0
Nonfarm		5.9	27.9	6.6	-25.6	-24.7	-24.5	-1.0	11.8	-10.7	.2
Net exports		-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-35.9
Nominal GDP	% change	7.7	5.8	2.7	.1	1.8	5.2	4.0	2.8	6.2	3.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.8	110.2	109.9	109.3	108.6	108.2	108.3	108.2	108.1	108.4
Unemployment rate[1]	%	5.2	5.3	5.6	6.0	6.5	6.7	6.8	6.9	7.2	7.5
Industrial prod. index	% change	.6	4.2	3.9	-7.0	-9.7	2.6	6.6	-.7	-2.9	5.2
Capacity util. rate-mfg.[1]	%	82.7	82.8	82.9	80.8	78.0	77.9	78.7	78.2	77.3	77.9
Housing starts	Millions	1.46	1.20	1.13	1.03	.92	1.00	1.04	1.10	1.26	1.15
Auto sales in U.S.		9.95	9.52	9.56	9.02	8.36	8.43	8.56	8.21	8.31	8.50
North American produced		7.16	6.80	7.05	6.61	6.13	6.10	6.28	6.06	6.07	6.32
Other		2.79	2.71	2.51	2.41	2.23	2.33	2.28	2.15	2.24	2.19
INCOME AND SAVING											
Nominal GNP	Bill. $	5464.1	5537.0	5577.8	5592.7	5614.9	5674.3	5726.4	5764.1	5859.8	5914.4
Nominal GNP	% change	7.6	5.4	3.0	1.1	1.6	4.3	3.7	2.7	6.8	3.8
Nominal personal income		9.5	6.2	4.6	5.2	.1	4.6	3.3	5.1	6.1	3.3
Real disposable income		4.2	.8	-1.2	-.2	-2.6	1.9	.7	2.2	4.0	.7
Personal saving rate[1]	%	4.4	4.6	3.9	4.6	4.7	4.7	4.5	5.1	4.9	5.2
Corp. profits, IVA&CCAdj	% change	15.6	19.1	-29.9	-8.2	6.7	-2.6	-6.8	7.1	49.8	21.3
Profit share of GNP[1]	%	6.7	6.9	6.3	6.2	6.2	6.1	6.0	6.0	6.6	6.8
Federal govt. surpl./def.	Bill. $	-167.8	-156.9	-145.6	-194.6	-149.9	-212.2	-221.0	-258.7	-289.2	-295.4
State/local surpl./def.		36.1	33.8	30.3	20.2	14.6	16.5	15.4	22.0	16.6	15.9
Ex. social ins. funds		-27.3	-29.4	-32.5	-42.2	-46.6	-44.1	-44.5	-37.3	-41.8	-42.2
PRICES AND COSTS											
GDP implicit deflator	% change	4.4	4.8	4.7	3.9	5.3	3.5	2.4	2.4	3.1	2.4
GDP fixed-wt. price index		5.4	4.6	4.7	4.1	4.7	3.5	3.0	2.4	3.6	1.6
Gross domestic purchases fixed-wt. price index		5.9	3.7	5.6	5.8	3.1	2.5	2.9	2.5	3.1	2.8
CPI		7.2	4.1	7.0	6.9	3.3	2.4	2.7	3.6	2.9	3.5
Ex. food and energy		5.6	5.5	5.8	4.2	6.5	3.8	4.0	3.7	3.9	3.9
ECI, hourly compensation[2]		5.6	4.7	4.7	3.8	4.9	4.5	4.1	4.0	4.0	2.5
Nonfarm business sector											
Output per hour		-.4	2.5	-1.9	-.3	-1.3	1.3	1.7	2.5	3.8	2.3
Compensation per hour		5.2	7.7	6.1	5.4	3.1	5.3	3.7	3.1	3.9	2.7
Unit labor cost		5.6	5.1	8.2	5.7	4.5	3.9	2.0	.6	.1	.3

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

Strictly Confidential (FR)
Class II FOMC

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

August 13, 1992

		Projected									
		1992		1993				1994			
Item	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	5942.5	6022.0	6107.0	6187.8	6270.9	6354.0	6445.8	6526.8	6605.5	6685.1
Real GDP	Bill. 87$	4911.4	4942.0	4975.9	5012.9	5052.1	5092.6	5133.3	5171.7	5209.7	5247.9
Real GDP	% change	1.7	2.5	2.8	3.0	3.2	3.2	3.2	3.0	3.0	3.0
Gross domestic purchases		1.7	2.4	2.6	2.7	3.0	3.0	2.9	2.9	2.8	2.8
Final sales		1.9	2.1	2.6	2.7	2.8	3.3	3.1	2.8	2.9	3.0
Private dom. final purch.		2.3	3.3	3.5	3.4	3.5	3.9	3.5	3.5	3.5	3.5
Personal cons. expend.		1.9	2.5	2.9	2.8	2.8	3.0	2.9	2.9	2.9	2.9
Durables		3.9	5.8	7.8	6.1	5.8	6.5	5.3	4.8	5.3	4.9
Nondurables		.9	1.1	1.8	2.0	2.1	2.2	2.3	2.3	2.3	2.3
Services		1.9	2.4	2.4	2.5	2.5	2.6	2.7	2.7	2.7	2.7
Business fixed invest.		2.2	6.0	5.9	6.4	6.6	7.5	6.6	6.3	6.1	5.9
Producers' dur. equip.		4.3	9.5	9.0	9.2	8.9	9.6	8.1	7.4	6.9	6.5
Nonres. structures		-2.9	-2.4	-1.7	-.6	.8	1.7	2.4	3.1	3.7	4.2
Res. structures		10.3	10.6	7.0	4.6	7.5	8.7	5.7	5.7	5.0	6.7
Exports		6.1	4.6	6.9	7.8	8.1	8.3	8.3	8.1	7.8	7.2
Imports		5.9	3.7	5.4	5.3	6.8	5.7	5.6	7.3	6.4	5.7
Government purchases		.1	-3.1	-2.1	-1.4	-1.2	-.5	-.5	-.4	-.4	-.4
Federal		.2	-5.5	-5.3	-4.5	-3.9	-3.2	-3.2	-3.3	-3.3	-3.3
Defense		-2.0	-8.5	-8.3	-7.3	-6.5	-5.3	-5.4	-5.5	-5.5	-5.6
State and local		.0	-1.4	.0	.6	.6	1.2	1.3	1.4	1.4	1.4
Change in bus. invent.	Bill. 87$	-.8	3.7	6.2	9.6	14.1	13.1	14.7	17.2	18.0	18.0
Nonfarm		1.5	3.4	6.7	10.6	15.4	14.9	16.3	18.7	19.3	19.1
Net exports		-36.1	-35.2	-33.7	-30.7	-29.3	-25.9	-22.3	-21.4	-19.7	-17.6
Nominal GDP	% change	3.4	5.5	5.8	5.4	5.5	5.4	5.9	5.1	4.9	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.7	108.9	109.4	109.9	110.3	110.9	111.4	112.0	112.5	113.1
Unemployment rate[1]	%	7.6	7.4	7.4	7.3	7.2	7.0	6.9	6.7	6.6	6.4
Industrial prod. index	% change	3.2	4.0	4.2	4.3	4.4	4.6	4.5	4.3	3.9	3.8
Capacity util. rate-mfg[1]	%	77.8	78.1	78.4	78.6	78.8	79.0	79.2	79.4	79.5	79.6
Housing starts	Millions	1.23	1.28	1.31	1.34	1.38	1.41	1.44	1.47	1.49	1.52
Auto sales in U.S.		8.44	8.67	8.90	9.07	9.25	9.43	9.55	9.62	9.80	9.97
North American produced		6.39	6.55	6.70	6.85	7.00	7.15	7.25	7.30	7.45	7.60
Other		2.04	2.12	2.20	2.22	2.25	2.28	2.30	2.32	2.35	2.37
INCOME AND SAVING											
Nominal GNP	Bill. $	5965.9	6040.6	6128.6	6212.3	6297.8	6375.8	6469.3	6552.6	6633.4	6706.6
Nominal GNP	% change	3.5	5.1	6.0	5.6	5.6	5.0	6.0	5.3	5.0	4.5
Nominal personal income		3.7	5.9	7.1	6.1	6.0	5.9	6.8	5.3	5.1	5.6
Real disposable income		1.1	2.1	3.1	2.9	2.6	3.0	3.7	2.7	2.4	3.0
Personal saving rate[1]	%	5.0	5.0	5.0	5.0	5.0	5.0	5.2	5.1	5.0	5.0
Corp. profits, IVA&CCAdj	% change	1.3	16.2	6.7	9.6	1.9	8.4	9.6	9.8	-1.3	1.7
Profit share of GNP[1]	%	6.8	6.9	7.0	7.0	7.0	7.0	7.1	7.1	7.0	7.0
Federal govt. surpl./def.	Bill. $	-290.0	-282.3	-278.6	-269.4	-256.8	-253.3	-257.1	-248.8	-235.9	-234.2
State/local surpl./def.		15.7	16.8	20.2	22.8	32.9	37.0	41.9	42.1	46.2	46.6
Ex. social ins. funds		-42.3	-41.1	-37.6	-34.9	-24.7	-20.5	-15.5	-15.2	-11.1	-10.8
PRICES AND COSTS											
GDP implicit deflator	% change	1.6	2.9	2.9	2.3	2.3	2.1	2.6	2.0	1.9	1.9
GDP fixed-wt. price index		1.9	3.0	3.2	2.6	2.5	2.4	2.9	2.2	2.1	2.1
Gross domestic purchases fixed-wt. price index		1.4	3.0	3.2	2.6	2.5	2.4	2.9	2.3	2.2	2.2
CPI		2.7	3.4	3.1	3.1	3.1	2.9	2.7	2.5	2.4	2.4
Ex. food and energy		2.9	3.7	3.1	3.0	3.1	2.9	2.7	2.5	2.4	2.4
ECI, hourly compensation[2]		3.5	3.4	3.3	3.2	3.2	3.1	3.1	3.0	3.0	2.9
Nonfarm business sector											
Output per hour		1.6	1.5	1.4	1.6	1.8	1.6	1.5	1.3	1.1	1.0
Compensation per hour		3.0	3.4	3.6	3.3	3.3	3.2	3.4	3.2	3.1	3.0
Unit labor cost		1.4	1.9	2.2	1.7	1.5	1.6	1.9	1.9	2.0	2.0

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

Strictly Confidential (FR)
Class II FOMC

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

August 13, 1992

Item	1990				1991				1992					Proj.
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991	1992
Real GDP	34.1	11.9	-20.1	-48.8	-37.1	20.4	14.7	6.7	35.2	16.8	77.0	-22.9	4.7	103.5
Gross domestic purchases	25.1	10.4	-17.7	-75.4	-51.9	19.9	28.9	-4.4	36.2	31.2	41.7	-57.6	-7.5	118.2
Final sales	51.5	-13.3	1.4	-10.8	-38.8	15.6	-6.2	-.3	55.4	3.2	73.1	28.8	-29.7	107.4
Private dom. final purch.	28.3	-17.4	8.4	-51.1	-60.2	14.6	13.4	-4.3	52.5	17.0	19.7	-31.8	-36.5	124.7
Personal cons. expend.	17.5	.6	13.8	-25.9	-24.5	15.8	11.9	-2.2	40.3	-2.7	39.1	6.0	1.0	72.9
Durables	16.7	-14.3	-1.5	-11.1	-14.6	-.7	8.1	-3.3	16.2	-3.0	-2.4	-10.2	-10.5	23.5
Nondurables	-.6	-1.2	2.0	-7.5	-8.6	3.3	-1.5	-9.2	14.0	-4.2	12.1	-7.3	-16.0	15.1
Services	1.4	16.0	13.4	-7.3	-1.3	13.3	5.2	10.4	9.9	4.7	29.4	23.5	27.6	34.2
Business fixed invest.	8.1	-9.2	7.3	-13.6	-22.3	-4.0	-4.3	-6.6	3.7	15.9	-2.1	-7.4	-37.2	29.8
Producers' dur. equip.	5.9	-7.3	6.2	-5.6	-15.9	.6	5.0	-2.1	2.7	16.7	-6.2	-.8	-12.4	31.6
Nonres. structures	2.2	-1.9	1.1	-8.0	-6.4	-4.6	-9.2	-4.6	1.0	-.8	4.1	-6.6	-24.8	-1.8
Res. structures	2.7	-8.9	-12.7	-11.6	-13.4	2.8	5.7	4.7	8.3	3.9	-17.3	-30.5	-.2	21.9
Change in bus. invent.	-17.4	25.3	-21.6	-38.0	1.7	4.7	21.0	6.9	-20.1	13.6	4.0	-51.7	34.3	-3.8
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	10.9	.7	-56.8	37.4	-8.4
Farm	7.9	3.2	-.2	-5.8	.8	4.5	-2.5	-5.8	2.3	2.6	3.3	5.1	-3.0	4.5
Net exports	9.0	1.5	-2.4	26.6	14.8	.5	-14.2	11.1	-1.0	-14.4	35.3	34.7	12.2	-14.7
Exports	12.5	8.5	-.3	14.2	-6.7	20.2	8.1	17.2	4.0	-5.4	49.5	34.9	38.8	13.5
Imports	3.6	7.0	2.1	-12.4	-21.5	19.7	22.3	6.0	5.0	9.1	14.1	.3	26.5	28.2
Government purchases	14.2	2.6	-4.6	13.7	6.6	.5	-5.4	-7.1	3.9	.6	18.1	25.9	-5.4	-2.6
Federal	7.3	2.0	-7.1	9.0	6.8	-.3	-6.6	-9.0	-2.9	.3	-2.3	11.2	-9.1	-7.7
Defense	3.4	.2	-7.8	8.5	6.0	-4.2	-7.0	-9.6	-5.4	-1.1	-4.2	4.3	-14.8	-13.6
Nondefense	3.8	1.8	.7	.5	.7	4.0	.4	.6	2.5	1.4	2.0	6.8	5.7	5.9
State and local	6.9	.6	2.5	4.7	-.2	.8	1.2	1.9	6.9	.2	20.4	14.7	3.7	5.1

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

August 13, 1992

Item	Projected											Projected		
	1992		1993				1994							
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993	1994
Real GDP	20.9	30.6	33.9	37.0	39.2	40.5	40.7	38.4	37.9	38.2	4.7	103.5	150.6	155.3
Gross domestic purchases	21.1	29.7	32.4	34.0	37.8	37.2	37.1	37.5	36.2	36.0	-7.5	118.2	141.3	146.9
Final sales	22.7	26.1	31.4	33.6	34.7	41.5	39.1	35.9	37.1	38.2	-29.7	107.4	141.2	150.4
Private dom. final purch.	22.7	32.5	34.9	33.9	36.0	39.4	36.6	36.0	36.3	36.9	-36.5	124.7	144.1	145.9
Personal cons. expend.	15.2	20.1	23.9	23.4	23.5	25.1	24.7	24.3	25.1	24.9	1.0	72.9	95.9	99.1
Durables	4.1	6.2	8.4	6.7	6.5	7.3	6.0	5.6	6.2	5.9	-10.5	23.5	28.8	23.7
Nondurables	2.3	2.9	4.7	5.2	5.5	5.8	6.1	6.1	6.2	6.2	-16.0	15.1	21.3	24.7
Services	8.7	11.0	10.9	11.4	11.5	12.0	12.5	12.6	12.7	12.8	27.6	34.2	45.8	50.7
Business fixed invest.	2.7	7.5	7.5	8.3	8.7	9.9	8.9	8.7	8.5	8.4	-37.2	29.8	34.4	34.5
Producers' dur. equip.	3.8	8.4	8.1	8.5	8.4	9.3	8.1	7.5	7.2	6.9	-12.4	31.6	34.3	29.6
Nonres. structures	-1.1	-.9	-.6	-.2	.3	.6	.9	1.1	1.4	1.6	-24.8	-1.8	.0	4.9
Res. structures	4.7	5.0	3.4	2.3	3.7	4.4	3.0	3.0	2.7	3.6	-.2	21.9	13.8	12.3
Change in bus. invent.	-1.8	4.5	2.5	3.4	4.5	-1.0	1.6	2.5	.8	.0	34.3	-3.8	9.4	4.9
Nonfarm	1.3	1.9	3.3	3.9	4.8	-.5	1.4	2.4	.6	-.2	37.4	-8.4	11.5	4.2
Farm	-3.0	2.6	-.8	-.5	-.3	-.5	.2	.1	.2	.2	-3.0	4.5	-2.1	.7
Net exports	-.2	.9	1.5	3.0	1.4	3.3	3.6	.9	1.7	2.1	12.2	-14.7	9.3	8.3
Exports	8.4	6.5	9.6	11.0	11.7	12.2	12.5	12.5	12.2	11.5	38.8	13.5	44.5	48.6
Imports	8.6	5.6	8.1	8.0	10.3	8.8	8.8	11.6	10.5	9.4	26.5	28.2	35.2	40.3
Government purchases	.2	-7.3	-5.0	-3.3	-2.7	-1.2	-1.1	-1.0	-.9	-.9	-5.4	-2.6	-12.2	-3.9
Federal	.2	-5.3	-5.0	-4.2	-3.6	-2.9	-2.9	-2.9	-2.9	-2.9	-9.1	-7.7	-15.7	-11.6
Defense	-1.3	-5.8	-5.5	-4.7	-4.1	-3.3	-3.3	-3.3	-3.3	-3.3	-14.8	-13.6	-17.6	-13.2
Nondefense	1.5	.5	.5	.5	.5	.4	.4	.4	.4	.4	5.7	5.9	1.9	1.6
State and local	.0	-2.0	.0	.9	.9	1.7	1.8	1.9	2.0	2.0	3.7	5.1	3.5	7.7

1. Annual changes are from Q4 to Q4.

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

August 13, 1992

Item	Fiscal year				1992				1993				1994			
	1991[a]	1992	1993	1994	Q1[a]	Q2[a]	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1054	1085	1148	1209	239	322	269	258	252	347	291	267	270	372	299	281
Outlays[1]	1324	1394	1498	1538	355	350	351	376	372	375	375	388	384	387	379	386
Surplus/deficit[1]	-269	-309	-351	-329	-116	-28	-82	-118	-120	-28	-85	-121	-113	-14	-80	-106
On-budget	-322	-361	-406	-391	-121	-60	-82	-127	-128	-61	-90	-131	-123	-52	-85	-121
Off-budget	52	51	55	62	6	31	0	9	8	33	6	10	10	37	5	16
Surplus excluding deposit insurance[2]	-203	-300	-297	-292	-105	-25	-82	-107	-106	-12	-71	-106	-104	-5	-77	-105
Means of financing																
Borrowing	293	311	338	330	83	62	77	95	109	55	79	115	100	42	74	91
Cash decrease	-1	-3	4	0	29	-27	3	16	8	-20	0	10	10	-20	0	10
Other[3]	-23	2	8	-1	4	-7	2	7	3	-7	6	-3	3	-8	6	5
Cash operating balance, end of period	41	44	40	40	20	47	44	28	20	40	40	30	20	40	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1118	1145	1214	1299	1143	1151	1158	1176	1210	1227	1243	1263	1294	1312	1327	1344
Expenditures	1313	1429	1486	1548	1433	1446	1448	1458	1489	1497	1500	1516	1551	1560	1562	1579
Purchases	447	445	445	443	445	447	449	445	448	445	442	440	445	443	441	439
Defense	326	314	304	294	314	313	313	307	307	302	299	296	297	294	291	288
Nondefense	121	132	141	148	131	134	136	138	141	142	144	145	148	149	151	152
Other expenditures	866	983	1041	1105	988	999	999	1013	1041	1052	1058	1076	1106	1117	1121	1139
Surplus/deficit	-194	-283	-272	-249	-289	-295	-290	-282	-279	-269	-257	-253	-257	-249	-236	-234
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-158	-222	-212	-211	-230	-232	-223	-218	-216	-211	-203	-206	-216	-214	-207	-211
Change in HEB, percent of potential GDP	-.4	1.1	-.2	0	.5	0	-.1	-.1	0	-.1	-.1	0	.2	0	-.1	.1
Fiscal impetus (FI), percent, cal. year	-3.8	-4.3	-3.9	-2.8	-2.5	.1	.1	-1.3	-2	-1	-.8	-.7	-.4	-.7	-.7	-.7

1. OMB's July deficit estimates are $334 billion in FY92, $341 billion in FY93 and $274 billion in FY94. CBO's August deficit estimates are $314 billion in FY92, $331 billion in FY93 and $268 billion in FY94. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's July deficit estimates, excluding deposit insurance spending, are $323 billion in FY92, $282 billion in FY93 and $253 billion in FY94. CBO's March deficit estimates, excluding deposit insurance spending, are $301 billion in FY92, $282 billion in FY93 and $251 billion in FY94.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.1 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in 1987 dollars), scaled by real federal purchases. For change in HEB and FI, negative values indicate restraint.

a--Actual.

Recent Developments

On July 2, after the weak employment report for June and the cut in the discount rate, interest rates moved sharply lower. Money market rates initially fell about 30 basis points, and most banks cut their prime lending rate 1/2 percentage point to 6 percent. Over the remainder of the intermeeting period, short-term market rates moved down another 10 to 30 basis points. Rate declines in intermediate- and long-term markets have been as large, with some of the declines coming late in the period as information was seen as confirming further tepid expansion and lower inflation. In equity markets, most broad indexes have risen slightly.

The broad monetary aggregates contracted again in July, dragging both M2 and M3 farther below their annual ranges. Increases in compensating balances may have boosted demand deposits; however, the increases were offset in M2 by continued sharp runoffs in small time deposits and, additionally, in M3 by a faster decline in large time deposits. The slashing of rates paid on M2 balances by depositories has apparently prompted some holders to use these funds to pay down high-cost debt or to reach for yield on capital market instruments. Indeed, stock and bond funds experienced near-record inflows again in June, and flows were reported to be strong again in July, aided by the marketing of such funds by banks seeking to boost fee income.

The lowering of retail deposit rates and the runoff of large time deposits at banks also reflect slack funding needs. In July, bank credit was at a standstill; a further increase in security holdings was more than offset by decreases in each of the major categories of loans. The drop in real estate loans over June and July likely owed in part to still-large commercial real estate loan charge-offs around quarter end. Business loans contracted for the ninth consecutive month, albeit more slowly than the average rate recorded over the first half of the year. The August Senior Loan Officer Survey again suggested that weak loan demand by businesses and consumers as the major factor restraining growth in bank credit. Respondents also noted that, in contrast to the tightening reported in previous surveys, price and non-price terms were unchanged. Moreover, although credit standards remain relatively stringent, a few respondents noted an easing.

Overall, net borrowing by the nonfinancial business sector continued to be weak through July. In addition to the decline in bank loans, commercial paper contracted. The relatively attractive interest rates on bonds induced a record pace of public offerings in July; most of those funds, however, continued to be earmarked for repaying higher-rate issues of an earlier vintage or for paying down short-term debt. Conditions for debt restructuring appear to have been particularly attractive to lower-rated issuers; strong demand for high-yielding, speculative-grade investments kept issuance of junk bonds at the elevated pace of June. In contrast, investors in equity markets appeared more cautious, especially toward higher-risk issues. Equity issuance of nonfinancial firms fell sharply in July partly because of a slowing in the pace of IPOs, including reverse LBOs.

Few signs of a pickup in household borrowing have appeared to date. Consumer credit contracted further in June; the drop in installment credit for the second quarter as a whole was the largest since the credit controls in early 1980. At commercial banks, consumer loans (adjusted for securitization) rose slightly in July, as they did in June. Mortgage debt expansion was also sluggish in the second quarter, and data on real estate loans at banks suggest languid borrowing in July. However, the drop in mortgage interest rates led to a surge in applications for refinancing and home purchase loans at mortgage bankers, foreshadowing some pickup in home mortgage borrowing in the months ahead.

In the state and local sector, gross bond issuance was substantial in July and early August, buoyed in large part by continued refunding issues. Net issuance of debt, however, was held down by heavy retirements. Strong demand by investors and weak net supply have reduced yields in this market by more than yields on taxable instruments.

Federal borrowing is expected to be sizable in the third quarter, even though RTC activity has been put on hold for lack of congressional appropriations. The Treasury's mid-quarter financing announcement indicated that the composition of auctions would remain unchanged from previous refundings, following speculation that the Treasury might favor shorter maturities.

The Outlook

As noted in the outlook for nonfinancial developments, the staff projection is predicated on short-term interest rates holding at current levels through 1993 and long-term rates falling further in coming months. This pattern still appears at odds with the expectations of rising rates embedded in many financial market quotes. However, subdued economic growth and more favorable news on the wage and price front is anticipated to at least delay the usual cyclical increase of interest rates. As before, credit availability is expected to improve gradually with the rise in business and household earnings and more comfortable bank capital positions. In 1994, as the economy approaches higher levels of resource utilization, short-term rates could come under some upward pressure, although we expect long-term interest rates to edge down further in tandem with inflationary expectations. Over the forecast period, mortgage interest rates are expected to decline by as much as bond rates, as prepayment risk premiums stabilize.

In line with the forecast of slightly less rapid economic expansion, the staff has trimmed the projected growth of domestic nonfinancial debt in the near term. Debt growth is expected to run below a 5 percent pace in the second half of this year but then to strengthen to a 6 percent rate in 1993. In both years, the increase in debt is about in line with that projected for nominal GDP. Continued outsized budget deficits keep federal debt rising in the double-digit range, and the increase in overall debt growth reflects firming in private-sector borrowing.

In the nonfinancial business sector, the staff expects debt to remain essentially flat over the rest of the year and then to climb gradually in 1993. To date, capital spending by corporations has been met largely through internal funds, and, even as investment increases, the financing gap is expected to widen only slowly from the revised lower levels.[1] At the same time, firms have been actively lowering capital costs and debt servicing burdens by refinancing high-cost debt, primarily through public bond markets. Until recently, these efforts frequently involved equity offerings as well. Lately, equity issuance has been less of a component of such financial restructurings, as the credit markets appear to be less insistent on an equity component, and we expect a diminished role for equity finance over the forecast period. Borrowing in the bond market should continue to dominate other forms of credit extension, given the lower long-term interest rates embedded in the forecast. Loans to businesses from banks are expected to begin

1. The upward revision to corporate profits in the National Income and Product Accounts implied a substantially lower financing gap for nonfinancial corporations over the 1989-91 period.

increasing in early 1993 with some relaxation of stringent lending policies and as demand for short-term financing grows with inventory investment. Nonetheless, bank credit is projected to remain a relatively minor source for business financing over most of the forecast period.

The growth of household debt is expected to pick up moderately in the second half of 1992, largely because of slow improvement in housing activity. The recent declines in interest rates should tend to boost mortgage debt as some homeowners elect to "cash out" equity when refinancing. However, given the continued reluctance of households to take on debt, this effect is likely to be small as many homeowners use the opportunity afforded by lower rates to reduce their servicing burden or to shorten debt maturity. Moreover, the forecast assumes that the present aversion of households to installment debt will linger for some time. Consumer credit is expected to grow more slowly than disposable personal income over the next year and a half, and, along with further declines in mortgage and consumer loan rates, debt-service ratios are likely to come down to levels of a decade ago.

State and local government debt is expected to grow slowly. Although budgetary pressures are likely to force some additional borrowing, spending for new capital projects will be restrained by only moderate increases in revenues from income growth and by resistance to additional taxes on the part of voters. Also, redemptions of pre-refunded debt should remain hefty.

To cover projected deficits, the federal government's debt is expected to continue rising at above an 11 percent rate over the forecast period. Appropriations for RTC activities are assumed to be approved in time to boost spending early next year. Borrowing for depository insurance activities raises total debt growth roughly 1/2 percentage point in 1993, compared with 1/4 percentage point in 1992.

Confidential FR Class II
August 13, 1992

GROWTH RATES OF DEBT BY SECTOR[1]
(Percent, 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 GDP[4]
1983	11.7	18.9	9.8	11.0	10.4	12.6	8.7	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.9	11.6	18.7	15.6	9.1	12.9	9.1
1985	14.9	16.5	14.5	14.0	11.8	15.9	11.6	31.4	12.5	7.0
1986	12.7	13.6	12.5	13.2	15.9	9.6	12.2	10.6	9.0	4.7
1987	9.3	8.0	9.7	11.7	14.0	5.1	7.1	13.4	8.6	8.0
1988	9.0	8.0	9.4	11.0	12.2	7.3	8.4	7.0	8.5	7.7
1989	7.7	7.0	8.0	9.0	10.3	5.8	6.8	8.4	6.9	6.0
1990	6.4	11.0	5.1	7.4	9.3	1.8	2.8	5.2	4.1	4.1
1991	4.2	11.1	2.1	4.0	5.1	-1.5	-0.3	2.9	0.5	3.5
1992	5.1	11.4	3.0	5.2	6.6	-0.5	0.5	2.7	1.3	4.7
1993	6.0	11.6	4.1	6.1	7.4	2.1	1.8	2.9	2.7	5.5
1994	6.5	11.1	4.7	6.7	7.9	4.1	2.5	2.9	3.9	5.2
				Seasonally adjusted, annual rates						
1991 -- Q1	4.1	8.0	2.9	4.6	5.5	-1.3	1.0	3.0	4.0	1.8
Q2	4.7	10.6	2.9	4.5	5.8	-2.0	1.1	3.2	0.7	5.2
Q3	4.2	14.0	1.2	2.9	3.8	-2.4	-1.1	2.3	-1.5	4.0
Q4	3.5	10.3	1.3	4.0	5.0	-0.3	-2.2	2.8	-1.3	2.8
1992 -- Q1	5.2	11.4	3.2	4.8	5.9	0.2	1.4	2.7	2.1	6.2
Q2	5.0	12.3	2.6	4.6	6.5	-2.5	-0.1	3.7	0.3	3.7
Q3	4.8	10.6	2.8	5.3	6.6	-0.4	0.3	1.6	0.8	3.4
Q4	4.9	9.6	3.3	5.8	6.9	0.5	0.5	2.8	1.8	5.5
1993 -- Q1	6.3	13.5	3.7	5.8	7.0	1.1	1.2	2.8	2.4	5.8
Q2	5.5	10.0	3.8	5.8	7.1	1.8	1.7	3.0	3.1	5.4
Q3	5.6	9.8	4.1	6.1	7.3	2.4	2.0	2.7	2.4	5.5
Q4	6.2	11.0	4.4	6.4	7.5	3.0	2.3	2.9	2.7	5.4

1. Published data through 1992 Q1.
2. Deposit insurance activity raises total debt growth .4, .2, and .4 percentage points in 1991, 1992, and 1993 respectively; the corresponding figures for federal debt growth are 1.6, .4, and 1.3 percentage points.
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					1992				1993			
		1990	1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Net funds raised by domestic nonfinancial sectors:													
1	Total	580.8	467.8	602.1	719.3	810.8	638.0	607.8	573.4	589.0	748.8	668.3	692.2	767.9
2	Net equity issuance	-63.0	17.5	29.8	10.0	5.0	51.0	36.0	17.0	15.0	13.0	11.0	9.0	7.0
3	Net debt issuance	643.8	450.3	572.3	709.3	805.8	587.0	571.8	556.4	574.0	735.8	657.3	683.2	760.9
	Borrowing sectors:													
	Nonfinancial business													
4	Financing gap[2]	42.0	-0.1	-12.4	13.7	41.8	-39.5	-6.0	-2.1	-1.9	2.3	8.9	17.5	26.1
5	Net equity issuance	-63.0	17.5	29.8	10.0	5.0	51.0	36.0	17.0	15.0	13.0	11.0	9.0	7.0
6	Credit market borrowing	96.7	-9.7	18.6	63.5	90.0	49.8	-1.8	9.8	16.4	43.2	59.2	69.4	82.0
	Households													
7	Net borrowing, of which:	257.7	157.3	212.2	262.3	303.8	196.5	190.9	219.0	242.4	248.3	249.8	267.1	284.1
8	Home mortgages	218.8	138.6	189.7	225.5	256.9	167.9	189.0	195.0	207.0	211.5	220.5	229.8	240.0
9	Consumer credit	14.2	-12.1	-4.3	16.5	33.1	1.7	-20.0	-3.0	4.0	9.0	14.0	19.0	24.0
10	Debt/DPI (percent)[3]	91.5	94.5	94.0	94.2	94.9	94.2	94.3	94.7	94.7	94.7	94.7	94.8	95.0
	State and local governments													
11	Net borrowing	42.6	24.5	24.2	26.1	27.5	24.2	32.7	14.5	25.4	25.4	27.0	25.3	26.6
12	Current surplus[4]	-35.8	-39.6	-38.0	-33.7	-22.2	-35.4	-37.3	-37.7	-41.7	-38.7	-35.4	-33.0	-27.9
	U.S. government													
13	Net borrowing	246.9	278.2	317.4	357.5	384.6	316.5	350.0	313.1	289.8	418.9	321.3	321.4	368.2
14	Net borrowing; quarterly, nsa	246.9	278.2	317.4	357.5	384.6	83.4	62.4	76.6	94.9	109.0	55.3	78.7	114.5
15	Unified deficit; quarterly, nsa	236.4	266.8	343.8	353.7	313.2	115.5	28.4	81.6	118.3	119.7	28.0	84.6	121.4
	Funds supplied by													
16	depository institutions	-29.6	-61.4	47.6	62.3	112.0	10.6	33.8	76.8	69.4	60.2	14.6	72.1	102.1
	Memoranda: As percent of GDP:													
17	Dom. nonfinancial debt[3]	187.9	193.4	193.8	194.5	196.1	194.2	194.8	195.6	195.4	195.6	195.8	195.9	196.3
18	Dom. nonfinancial borrowing	11.7	7.9	9.7	11.4	12.3	10.1	9.7	9.4	9.5	12.0	10.6	10.9	12.0
19	U.S. government[5]	4.5	4.9	5.4	5.7	5.9	5.4	5.9	5.3	4.8	6.9	5.2	5.1	5.8
20	Private	7.2	3.0	4.3	5.6	6.4	4.6	3.8	4.1	4.7	5.2	5.4	5.8	6.2

1. Published data through 1992 Q1.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

Recent Developments

The weighted-average foreign-exchange value of the dollar, in terms of other G-10 currencies, has declined about 2-1/2 percent on balance since the June 30-July 1 FOMC meeting. The dollar depreciated with declines in U.S. interest rates relative to interest rates abroad and further evidence of weakness in the U.S. economic recovery. The depreciation has been concentrated against European currencies--including a decline of 4 percent against the mark--reflecting, in part, the rise in European interest rates in the wake of the 3/4 percent increase in the Bundesbank's discount rate. The dollar has fallen 1/2 percent against the Canadian dollar and has risen about 1 percent against the yen, as interest rates in Canada and Japan have declined during the intermeeting period.

. The Desk purchased a total of $770 million on July 20, August 7, and August 11; operations on the last two days were concerted. The Bank of Japan sold $475 million, net, over the period.

Economic activity in the major foreign industrial countries has been weaker in recent months than we anticipated in June. Our estimate of average real GDP growth in the foreign G-7 countries (weighted by GDP shares) during the first half of 1992 has been revised down 1/4 percentage point at an annual rate, to about 1-1/2 percent; the downward revision has been concentrated in Japan, Canada, and the United Kingdom. In Japan, industrial production declined in the second quarter, and retail sales have moved down in recent months as reduced salary bonuses and overtime pay appear to have slowed consumer demand. In response to the further signs of economic stagnation, the Bank of Japan lowered its official discount rate 1/2 percentage point to 3-1/4 percent on July 27, and the overnight call money rate came down a similar amount. In Canada, activity has continued to move ahead slowly, although according to recent monthly data, GNP and retail sales have been sluggish. Better-than-expected price performance in Canada has given the Bank of Canada more scope to ease, and Canadian interest rates have declined significantly over the intermeeting period. In the United Kingdom, the recovery in GDP foreseen for the second quarter appears not to have materialized. U.K. industrial production declined in the second quarter, retail sales weakened in June, and, according to recent surveys, consumer confidence has deteriorated.

Economic growth in continental Europe has slowed somewhat, but about in line with previous expectations. In western Germany, real GDP is estimated to have declined about 3 percent at an annual rate in the second quarter, in part because of statistical and seasonal factors that boosted recorded growth in the first quarter. Even allowing for these factors, most indicators, including new orders and sales, indicate a slow pace of economic activity, and German unemployment has crept up. Nevertheless, short-term interest rates in Germany have risen by a few basis points over the intermeeting period. The increase in the German discount rate has led authorities in most other EMS countries to raise their interest rates even in the face of relatively slow real domestic growth. Economic indicators in France and Italy have been mixed, but these countries appear to have maintained slow to moderate growth rates.

Consumer-price inflation has continued to wane in the major foreign industrial countries. In many cases, decelerating wages indicate that underlying inflationary pressures have lessened. In some instances, lower measured inflation is also attributable to special factors. (For example, in Germany a substantial drop in year-over-year inflation in July was associated with the removal of the effects of increases in indirect taxes introduced in 1991.)

Although several countries recorded larger current account deficits in June, major countries in deficit narrowed their external imbalances during the first half of the year, largely because of relatively sluggish domestic demand. In Japan, however, slower domestic growth during the first half helped widen the current account surplus to an annual rate near $115 billion.

The preliminary U.S. merchandise trade deficit widened slightly in May and for April-May combined it was substantially larger than for the first quarter. Exports fell 3 percent in April-May from their rate in the first quarter; lower shipments of aircraft accounted for the bulk of the decline. By region, exports to Europe and Japan fell, while those to most other areas were flat; Mexico was a notable exception, as exports to that country continued to grow. U.S. imports were 4 percent above their first-quarter rate, as oil imports rebounded from first-quarter lows and a wide range of non-oil imports increased. The price of oil imports was up in the second quarter, but prices of non-oil imports fell nearly 3 percent at an annual rate, in lagged response to the appreciation of the dollar earlier this year.

Outlook

The staff projects growth of real GDP in foreign economies on average to remain sluggish during the second half of 1992, and then to turn up during 1993. The projected rate of expansion in the near term is noticeably lower than in the previous forecast. This outlook for slower foreign growth, along with the lower than expected level of U.S. net exports during the second quarter, has led us to revise down significantly the projected level of net exports through 1993. At the same time, the projected level of the dollar has been revised down, and the lower dollar produces a more positive tilt to the path of net exports over the forecast period. We now project that, after declining slightly further in the third quarter, real net exports of goods and services will increase moderately through 1993.

The Dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to remain at around current levels through the end of 1993. This path for the dollar is about 5 percent lower than that projected in the June Greenbook. There may be a downside risk to this forecast for the dollar, in the near term at least, as the market responds to mixed data on the U.S. economy and continued tight monetary conditions in Europe. On the other hand, the pickup in U.S. economic activity poses an upside risk over the forecast period. Against the currencies of key developing countries, the CPI-adjusted value of the dollar is expected to show a moderate depreciation on average through 1993.

Foreign Industrial Countries. The apparent further weakening of real growth abroad during the second quarter and the disappointing performance of various leading indicators, have prompted us to reduce our projection for average GDP growth in the major foreign industrial countries. This downward revision has amounted to a little over 1/2 percentage point at an annual rate during the second half of 1992 and about 1/4 percentage point during 1993. We anticipate continued growth abroad at only about a 1-1/2 percent annual rate (on a GDP-weighted-average basis) over the next two quarters, followed by a more noticeable upturn to 2-1/2 percent during 1993. Our expectation of a pickup in growth abroad is reinforced by the recent additional monetary easing in Canada and

Japan, an expected fiscal expansion in Japan, and the cumulative effect of improving household and business balance sheets in several countries (particularly the United Kingdom).

Among individual countries, in Japan growth of real output is projected to be positive, but to remain below 2 percent until mid-1993 and below its potential rate through the rest of 1993. In Germany, investment demand should support economic expansion, although German monetary and fiscal policies have become somewhat more restrictive and prospects for consumer demand have weakened a bit. In the United Kingdom, after eight quarters of decline, GDP is expected to show weak positive growth in the third and fourth quarters and to pick up somewhat more in 1993. In Canada, the timing of increases in GDP growth is likely to be similar to that in the United States.

We project consumer-price inflation in the major foreign industrial countries to average 3-1/4 percent over the four quarters of 1992 and about 2-3/4 percent over 1993, a little less than in the June forecast. German inflation is expected to remain at about 3-1/4 percent over the forecast period, and inflation rates in most other major EMS countries are expected to converge to a narrow range near that figure. Inflation in Japan and Canada is projected to be less, in the 2 percent to 2-1/2 percent range.

We expect short-term interest rates in major foreign industrial countries on average to decline about 50 basis points from current levels by the end of 1993. This trajectory is roughly the same as that in the previous forecast, as changes for individual countries have largely offset one another. The projected paths of interest rates in Japan and Canada over the next few quarters have been lowered about 50 basis points reflecting the recent greater-than-expected declines in official and market rates in those countries.

Offsetting those declines have been small increases in short-term interest rates in most major European countries. The outlook for German short-term interest rates has been moved up about 20 basis points over much of the forecast period, reflecting the effect of recent changes in official rates; German interest rates are not expected to move down until early next year as money growth slows and the threat of inflation wanes. Projected interest rates in most other EMS countries have also been adjusted upward to varying degrees, with the greatest increases in Italy, where interest rates have been raised, on balance, in recent months to blunt downward pressure on the lira. Interest rates in the EMS countries, particularly Italy, reflect uncertainty attached to ratification of the Maastricht Treaty.

The expected path for average foreign long-term interest rates shows a small decline over the forecast period. This path has been adjusted downward from that in the previous Greenbook by about 15 to 20 basis points, mainly reflecting recent declines in long-term rates in Canada and Japan.

Developing Countries. The outlook for output growth in the developing countries that are major U.S. trading partners is slightly lower than that in the last Greenbook. Real GDP growth in these countries is projected to be 5-1/4 percent in 1992, the same as in 1991, and a bit higher in 1993. This pattern holds for Mexico and the newly industrializing Asian economies. The forecast assumes passage of the North American Free Trade Agreement that was announced on August 12. Over the forecast period, the economic effects of the NAFTA are expected to be positive and significant for Mexico, but negligible for the United States. Growth in Latin American countries other than Mexico is expected to slow slightly this year, on average, and to pick up again in 1993. Growth in the

People's Republic of China is projected to rise to about 10 percent this year, from 7 percent in 1991, and to fall off somewhat in 1993.

U.S. Real Net Exports of Goods and Services. We expect that real net exports of goods and services will be about unchanged in the third quarter after dropping substantially in the second quarter. Exports are projected to recover somewhat from their second-quarter decline, and imports are projected to continue expanding. Beyond the third quarter, we project the volume of trade to accelerate slowly, with goods exports growing somewhat faster than imports. Net service exports are also expected to expand.

In light of the unexpected weakness of both merchandise exports and foreign economic activity during the second quarter, we have substantially revised down the projected level of real nonagricultural exports in the near term. However, our outlook for the rate of increase in these exports during the second half of 1992 from their depressed level in the second quarter remains about the same as that in the June forecast. In our judgment, the negative effects on export growth of weaker projected real GNP growth abroad in the near term are about offset by the positive effects of the significantly lower projected path of the dollar. In 1993, the lower dollar fosters somewhat higher growth of nonagricultural exports than that projected previously. Prospects for exports of agricultural commodities (particularly soybeans) have improved somewhat in the near term, but we expect agricultural exports to remain little changed in 1993.

After having been fairly strong during the first half of 1992, the growth of non-oil imports is projected to slow during the third quarter, as domestic activity remains sluggish, and to pick up over the rest of the forecast period. The increase in these imports is somewhat below that in the previous forecast, in the near term because of lower U.S. growth and in the longer term because of the lower dollar.

TRADE QUANTITIES*
(Percent change from preceding period shown, except as noted, A.R.)

	1990:Q4 to 1991:Q4	------ Projection ------ 1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q4
Nonag. exports	8.8	0.2	-3.5	5.1	7.4	9.2
Agric. exports	11.3	6.4	-11.8	11.0	-10.3	0.9
Non-oil imports	5.1	5.2	6.7	3.7	5.5	6.1
Oil imports	6.5	1.7	25.2	37.9	-7.9	8.8

* GDP basis, 1987 dollars.

The quantity of oil imports is projected to increase substantially further in the current quarter before easing in the fourth quarter. Early indications in the third quarter point to strong growth of consumption, while in the fourth quarter, stocks are likely to be drawn down more than enough to offset further increases in consumption. We expect oil imports to increase in 1993 as the U.S. economy recovers and domestic oil production continues its secular decline.

Oil Prices. Current trends in the spot and futures markets for crude oil are consistent with an average U.S. oil import unit value of $18.25 per barrel in the fourth quarter of 1992, roughly $1.00 per barrel below the level projected for the fourth quarter in the June Greenbook. The unwinding of tensions associated with Iraqi compliance with U.N. sanctions combined with fairly robust production by members of OPEC in July has left spot and futures prices below the levels recorded at the time of the last Greenbook. Spot WTI prices are currently slightly above $21.00 per barrel, and we assume they will settle at $20.50 per barrel by the first quarter of 1993.

Our longer-term assumption of an import unit value of $18.00 per barrel is consistent with the spot price of $20.50 per barrel and requires significant increases in OPEC production in 1993. Most of these increases are expected to come from Kuwait (where reconstruction continues rapidly) and Iraq. An absence of Iraq from the world oil market in 1993 would likely put upward pressure on oil prices, which most likely could only be partially offset by an expansion of Saudi Arabian output.

SELECTED PRICE INDICATORS
(Percent change from preceding period shown, except as noted, A.R.)

	1990:Q4 to 1991:Q4	------ Projection ------ 1992 Q1	Q2	Q3	Q4	1993 Q4
PPI (exp. wts.)	-0.8	-0.3	3.7	2.4	1.6	1.8
Nonag. exports*	0.5	0.1	1.9	2.5	2.5	2.0
Non-oil imports*	0.5	2.1	5.8	4.8	4.5	3.6
Oil imports ($/bl)	18.04	15.27	17.37	18.95	18.25	18.00

* Excluding computers.

<u>Prices of Exports and Non-oil Imports.</u> The fixed-weight price index for U.S. nonagricultural exports is projected to increase at a moderate pace over the period ahead, roughly in line with U.S. producer prices. The prices of non-oil imports (excluding computers) are expected to increase at a 4-1/4 percent annual rate in the second half of 1992 and somewhat less in 1993. The rate of increase over the next forecast period is about 1 percentage point greater than in the June forecast as a result of the lower dollar.

<u>Nominal Trade and Current Account Balances</u>. The staff projects the merchandise trade deficit to widen about $10 billion at an annual rate in the second half of 1992 from an estimated level of nearly $100 billion in the second quarter and to remain little changed during 1993. This projected level of the deficit over the next several quarters through mid-1993 is about $10 billion greater than that in the previous forecast. Most of the revision to the

level of the projected trade deficit in the near term can be attributed to lower exports, as reflected in recent monthly trade data and the weaker near-term outlook for growth abroad. By the end of 1993, as the lower dollar boosts exports and damps imports, the change in the deficit is minimal. We project the current account deficit to widen from an estimated $45 billion in the second quarter to about $60 billion by the end of this year and then to narrow somewhat during 1993. Net services are expected to make a growing positive contribution to the current account and to real net exports over the next year and a half.

Outlook for 1994. In extending the forecast beyond 1993 for the first time, we have projected the growth of real GDP abroad to pick up a bit more during 1994 to near growth rates of potential output on average. The dollar is projected to appreciate somewhat during 1994 assuming some firming of U.S. short-term interest rates. Real net exports continue to increase moderately in response to the lagged effects of the lower dollar and the slight increase in growth abroad, and the current account deficit recedes to about $35 billion for the year 1994.

August 13, 1992

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REAL GNP AND CONSUMER PRICES, SELECTED COUNTRIES, 1989-93
(Percent change from fourth quarter to fourth quarter)

Measure and country	1989	1990	1991	1992 (Projection)	1993 (Projection)
REAL GNP					
Canada	1.5	-2.0	-0.0	1.9	3.4
France	3.4	1.5	1.7	2.6	2.8
Western Germany	2.8	5.2	1.8	2.5	2.4
Italy	3.0	1.6	1.8	1.6	2.0
Japan	4.8	4.7	3.2	1.3	2.5
United Kingdom	1.6	-0.7	-1.7	0.2	2.5
Average, weighted by 1987-89 GNP	3.3	2.5	1.6	1.6	2.6
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	3.3	1.8	1.7	2.5	3.5
G-6	2.5	0.5	0.8	1.7	3.0
Developing countries	5.2	4.9	5.2	5.2	5.7
CONSUMER PRICES					
Canada	5.2	4.9	4.1	2.5	2.6
France	3.6	3.6	2.9	2.8	2.8
Western Germany	3.0	3.0	3.9	3.2	3.3
Italy	6.6	6.3	6.1	4.9	3.5
Japan	2.9	3.2	3.2	2.5	1.9
United Kingdom	7.6	10.0	4.2	3.9	3.5
Average, weighted by 1987-89 GNP	4.4	4.8	3.9	3.2	2.7
Average, weighted by share of U.S. non-oil imports	4.2	4.4	3.8	2.8	2.5

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

(Billions of dollars, seasonally adjusted annual rates)

	1992		1993				1994				ANNUAL		
	Projection										Projection		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994
GDP Net Exports of Goods and Services (87$)	-36.1	-35.2	-33.7	-30.7	-29.3	-25.9	-22.3	-21.4	-19.7	-17.6	-32.2	-29.9	-20.3
Exports of G+S	568.4	574.9	584.5	595.5	607.2	619.4	631.8	644.3	656.5	668.0	567.2	601.6	650.1
Merchandise	409.8	414.7	422.4	431.0	440.3	449.9	459.8	469.6	479.1	488.1	409.1	435.9	474.2
Services	158.5	160.1	162.1	164.5	166.9	169.4	172.0	174.7	177.4	179.9	158.1	165.7	176.0
Imports of G+S	604.5	610.0	618.1	626.1	636.4	645.3	654.1	665.7	676.2	685.6	599.3	631.5	670.4
Merchandise	506.0	511.1	518.5	526.0	535.6	543.8	551.6	562.1	571.4	579.6	500.7	530.9	566.2
Oil	53.5	52.5	53.4	53.9	56.4	57.2	57.5	60.4	62.1	62.9	50.5	55.2	60.7
Non-oil	452.6	458.7	465.2	472.2	479.3	486.7	494.2	501.8	509.4	516.8	450.3	475.8	505.6
Services	98.5	98.9	99.6	100.2	100.9	101.5	102.5	103.6	104.8	106.0	98.6	100.5	104.2
Memo: (Percent changes 1/)													
Exports of G+S	6.1	4.6	6.9	7.8	8.1	8.3	8.3	8.1	7.8	7.2	2.4	7.7	7.9
of which: Goods	6.3	4.9	7.6	8.4	8.9	9.0	9.1	8.8	8.3	7.7	1.8	8.5	8.5
Imports of G+S	5.9	3.7	5.4	5.3	6.8	5.7	5.6	7.3	6.4	5.7	4.9	5.8	6.2
of which: Non-oil Goods	3.7	5.5	5.8	6.1	6.2	6.3	6.4	6.3	6.2	6.0	5.3	6.1	6.2
Current Account Balance	-53.2	-60.0	-52.4	-46.3	-41.5	-46.6	-37.4	-33.6	-29.5	-36.4	-44.7	-46.7	-34.2
Merchandise Trade, net	-109.4	-110.3	-110.6	-110.5	-111.7	-111.5	-109.5	-111.1	-113.0	-113.2	-97.0	-111.0	-111.7
Exports	430.8	436.1	445.6	456.4	467.9	479.2	491.9	503.6	513.4	523.4	430.5	462.3	508.1
Agricultural	42.8	40.4	41.0	41.8	42.7	43.2	44.9	45.8	45.2	45.5	42.1	42.2	45.3
Nonagricultural	388.0	395.7	404.7	414.6	425.2	436.0	447.0	457.8	468.2	477.9	388.4	420.1	462.7
Imports	540.3	546.4	556.2	566.9	579.6	590.7	601.4	614.7	626.3	636.6	527.5	573.3	619.8
Oil	59.7	56.4	56.6	57.2	59.8	60.6	60.9	64.0	65.8	66.6	51.9	58.6	64.3
Non-oil	480.6	490.0	499.6	509.7	519.8	530.1	540.5	550.7	560.6	570.1	475.6	514.8	555.5
Other Current Account	33.6	32.5	37.4	40.4	44.1	43.9	49.4	52.5	56.3	56.1	32.4	41.5	53.6
Invest. Income, net	22.7	17.8	20.8	23.7	26.1	21.0	22.7	25.0	27.2	20.7	19.9	22.9	23.9
Direct, net	54.3	51.8	51.1	55.7	56.0	54.4	52.7	57.3	57.7	55.2	54.0	54.3	55.7
Portfolio, net	-31.6	-34.1	-30.3	-31.9	-29.9	-33.4	-30.0	-32.3	-30.5	-34.5	-34.1	-31.4	-31.8
Military, net	0.2	0.4	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	-0.2	1.0	1.0
Other Services, net	61.4	63.3	65.4	68.2	71.1	74.1	77.2	80.3	83.3	86.3	60.5	69.7	81.8
Transfers, net	-28.0	-31.2	-28.8	-28.8	-28.0	-31.2	-28.8	-28.8	-28.0	-31.2	-27.9	-29.2	-29.2

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

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U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1990				1991				1992		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
GDP Net Exports of Goods and Services (87$)	-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-35.9	-73.7	-51.8	-21.8
Exports of G+S	500.2	508.7	508.4	522.6	515.9	536.1	544.2	561.4	565.4	560.0	471.8	510.0	539.4
Merchandise	363.5	368.7	366.7	375.3	377.4	390.1	395.2	407.3	408.1	403.6	343.8	368.5	392.5
Services	136.7	140.0	141.7	147.3	138.5	146.1	149.0	154.0	157.3	156.4	127.9	141.4	146.9
Imports of G+S	558.6	565.6	567.7	555.3	533.8	553.5	575.8	581.8	586.8	595.9	545.4	561.8	561.2
Merchandise	458.3	464.5	465.7	452.7	438.9	454.9	477.9	482.2	488.0	497.8	450.4	460.3	463.5
Oil	55.9	55.6	53.3	43.5	44.2	51.5	52.4	46.5	46.7	49.4	51.3	52.1	48.6
Non-oil	402.4	408.9	412.4	409.1	394.7	403.4	425.5	435.7	441.3	448.5	399.0	408.2	414.8
Services	100.3	101.2	102.0	102.6	94.9	98.5	97.9	99.6	98.8	98.1	95.0	101.5	97.7
Memo:(Percent changes 1/)													
Exports of G+S	10.7	7.0	-0.2	11.6	-5.0	16.6	6.2	13.3	2.9	-3.8	11.3	7.2	7.4
of which: Goods	10.2	5.8	-2.2	9.7	2.3	14.2	5.3	12.8	0.8	-4.3	10.2	5.8	8.5
Imports of G+S	2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	6.3	2.6	0.1	4.8
of which: Non-oil Goods	-4.4	6.6	3.5	-3.2	-13.4	9.1	23.8	9.9	5.2	6.7	3.1	0.5	6.5
Current Account Balance	-89.5	-85.3	-95.9	-91.0	48.8	9.7	-44.3	-28.9	-21.2	-44.5	-101.1	-90.4	-3.7
Merchandise Trade, net	-109.5	-99.2	-115.6	-111.1	-73.3	-65.6	-80.7	-74.2	-69.9	-98.4	-115.7	-108.9	-73.4
Exports	379.9	386.6	386.2	402.1	402.5	413.3	416.6	431.4	431.3	423.9	361.7	388.7	416.0
Agricultural	43.0	40.5	39.4	37.9	39.2	37.5	40.7	43.2	43.2	41.9	42.2	40.2	40.1
Nonagricultural	337.0	346.1	346.8	364.2	363.3	375.8	375.9	388.2	388.1	382.0	319.5	348.5	375.8
Imports	489.4	485.8	501.7	513.2	475.8	478.9	497.3	505.6	501.2	522.3	477.4	497.6	489.4
Oil	63.2	51.3	61.8	72.9	51.7	51.7	52.5	48.8	41.4	50.1	50.9	62.3	51.2
Non-oil	426.3	434.5	439.9	440.3	424.2	427.1	444.8	456.8	459.8	472.2	426.4	435.3	438.2
Other Current Account	2.7	1.1	2.8	-10.0	94.2	59.6	24.0	35.5	29.8	33.6	0.2	-0.9	53.3
Invest. Income, net	17.3	12.8	16.9	30.1	27.9	15.7	12.3	9.8	18.8	20.4	14.4	19.3	16.4
Direct, net	52.1	51.5	54.0	59.7	61.7	53.0	48.3	48.5	54.9	54.9	47.8	54.3	52.9
Portfolio, net	-34.8	-38.7	-37.1	-29.6	-33.9	-37.3	-36.0	-38.7	-36.0	-34.6	-33.5	-35.1	-36.5
Military, net	-7.5	-6.5	-6.8	-10.5	-10.3	-5.7	-4.0	-2.2	-0.9	-0.3	-6.8	-7.8	-5.5
Other Services, net	36.3	37.2	38.3	47.6	47.7	48.8	52.1	54.7	57.7	59.5	32.6	39.9	50.8
Transfers, net	-26.2	-29.6	-28.8	-47.1	56.8	16.5	-24.0	-17.1	-27.0	-25.6	-25.6	-32.9	8.0

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