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[1] In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

[2] A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.

September 30, 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

The statistical information received since the last meeting of the FOMC has been a mixed bag, and it has scarcely reduced the uncertainty attending our assessment of near-term activity. Fundamentally, however, the economy continues to sputter, and a breakout from the pattern of sluggish performance still appears to be some months off.

We are now projecting that real GDP growth in the fourth quarter will be around 1 percent at an annual rate, more than a percentage point below the pace forecast in the last Greenbook. In the main, the markdown reflects incoming data on industrial activity, which has declined noticeably in recent months, and negative reports on employment.

Despite this near-term weakness, we believe that the general tendency over the coming year will be for economic activity to accelerate. Underpinning this view is the notion that the "head winds" associated with the financial stresses and sectoral imbalances that have retarded the recovery will diminish over time. Moreover, we anticipate a significant further downward adjustment of intermediate- and long-term interest rates in the months ahead. Thus, while we recognize the risks posed currently by the gloom at home and by the economic and financial problems abroad, we forecast that real GDP growth will rise to around 3 percent by the latter half of 1993. The lower output path, in combination with a projection of relatively strong productivity gains, implies that unemployment will at least approach 8 percent in the near term and that it will remain above 7 percent well into 1994.

The incoming price data have continued to be quite favorable, and the prospect of persistent slack in labor and product markets leads us to expect further progress toward price stability. Indeed, by late 1994, consumer price inflation is projected to be running around 2 percent.

Key Assumptions

The sluggishness of aggregate demand projected for the near term suggests that market forces will continue to push interest rates lower--although fiscal uncertainties may work to sustain liquidity premiums for a while. Even on the assumption of little or no further decline in the federal funds rate, we expect that the combination of cautious household spending behavior and limited business requirements for external financing will create credit market conditions conducive to a substantial easing of longer-term yields by mid-1993. Any pressures toward a cyclical upswing in rates thereafter are likely to be mitigated by diminishing inflation expectations.

Expansion in M2 and M3 resumed in August and September, and modest growth is expected for the rest of 1992, quite possibly leaving these aggregates below their annual growth ranges. A steep yield curve and slack demand by depositories for loanable funds are likely to continue to foster a flow of savings toward mutual funds and capital market instruments. 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.

We have made no major changes to our fiscal policy assumptions. The odds that a more stimulative budget will be adopted next year are nonnegligible--especially if economic activity remains sluggish.

But at this point, any specific allowance for such initiatives would be highly conjectural; more important, we think it reasonable to assume that concerns about the size of the budget deficit will limit the overall magnitude of any package enacted. Under our present policy assumptions, the deficit is projected to rise from about $300 billion in FY1992 to about $350 billion in FY1993 and FY1994, mainly because of a resumption of RTC resolution activities; excluding outlays for deposit insurance, the deficit is projected to be about $300 billion in all three fiscal years.[1]

After the large swings of recent weeks, the trade-weighted foreign exchange value of the U.S. dollar is little changed from the level at the time of the August FOMC meeting. In light of the recent easing of monetary conditions in Germany and several other European countries, the dollar is expected to follow a somewhat higher path through 1993 than had been projected previously. Meanwhile, the recent data suggest that economic activity abroad has been weaker than we had anticipated, and as a result, we have trimmed the forecast for foreign GDP growth this year to 2 percent, 1/2 percentage point less than in the last Greenbook. Nonetheless, we continue to project a noticeable pickup in growth abroad in 1993. With regard to oil prices, the posted price of West Texas Intermediate crude, which averaged $20.65 per barrel in the third quarter, is expected to fluctuate near that level through 1993--about $1 per barrel higher than assumed in the last Greenbook.

1. Our FY1992 deficit estimate includes $1 billion of spending for hurricane relief, with another $5 billion slated to be spent in FY1993. The recently enacted legislation provides grants to state and local governments and transfers, loans, and loan guarantees to individuals and businesses. Although the cost of the legislation is frequently cited as $11 billion, that figure includes the full face value of the loans; consistent with the credit reforms adopted in 1990, the unified budget will record only the subsidy values of the loans and loan guarantees.

Recent Developments and the 1992:Q3 Projection

Sorting through the crosscurrents in the incoming data, our guess is that real GDP grew at just under a 2 percent annual rate in the third quarter--in line with our previous forecast. On balance, the available indicators for domestic spending--particularly those for non-auto consumer expenditures--have been more robust than we had expected. However, net exports are likely to have declined in the quarter just ended, and we have built in a negative swing in nonfarm inventories that subtracts more than 1/2 percentage point from real GDP growth. In part, this inventory pattern is motivated by the need to reconcile the stronger final sales with the apparent weakness in employment and industrial production. Disruptions from Hurricane Andrew probably shaved a bit from current-quarter GDP growth.

We interpret recent labor market developments as being far from robust overall. To be sure, aggregate hours rose an impressive 3/4 percent in August. However, an implausibly large--and probably unsustainable--jump in the workweek more than accounted for the increase. Private payroll employment fell sharply; although that reading, too, may have been exaggerated, the anecdotal evidence as we move into the fourth quarter suggests a generally weak demand for labor, and the incoming figures on initial claims for unemployment insurance show some backup in recent weeks. Assuming a significant drop in hours in September and a continued improvement in productivity, we expect only a moderate gain in nonfarm business output for the quarter.

The apparent brisk rise in domestic final sales this quarter was led by a sizable increase in real consumer spending. To be sure, sales of cars and light trucks have sagged in the past few months, the decline contributing to the manufacturers' caution with respect to motor vehicle production. However, real outlays for other goods and services rose sharply around midyear and in August stood 1 percent (not at an annual rate) above the second-quarter level. Meanwhile, real disposable income--which was buffeted in August by the reported surge in hours and by the effects of Hurricane Andrew--is expected to be flat in the current quarter, and the measured saving rate to fall to about 4-1/2 percent,[2] compared with 5-1/4 percent in the second quarter.

Business fixed investment appears to have increased somewhat further on the heels of a large second-quarter advance. The incoming data point to another huge gain in real outlays for office and computing equipment; judging from a brief spurt in shipments around midyear, spending on industrial equipment likely rose as well. But purchases of motor vehicles and aircraft--both of which posted sharp increases in the second quarter--probably dropped back. Indicators of nonresidential construction have maintained a generally sideways pattern.

Government purchases also are likely to be up this quarter. Recent Monthly Treasury Statements show an uptick in defense spending; given the steep downtrend in appropriations, the increase in defense purchases is surely transitory and probably has been accompanied by at least some reduction in inventories at defense producers. State and local purchases may also have risen this quarter as a result of the temporary federally funded summer jobs.

In contrast, housing activity has been weaker, on balance, than we had anticipated, as the effects of lower mortgage rates on the demand for homes apparently have been muted to a degree by

2. Based on BEA's assessment that Hurricane Andrew lowered personal income $60 billion in August, we estimate that the hurricane subtracted about 1-3/4 percentage points (AR) from the growth in real disposable income in the third quarter and lowered the saving rate by about 1/2 percentage point; all else equal, these effects should be largely reversed in the fourth quarter.

insecurity about employment and income. Starts rose sharply in August, but permits (a more reliable indicator) declined, and sales of single-family homes generally have been lackluster. Expenditures on residential construction are likely to be little changed in the third quarter, after rising appreciably over the first half of the year.

We have made only minor adjustments to the inflation forecast for the third quarter; the CPI now is expected to rise at about a 3 percent annual rate. The largest adjustment is to food prices, which jumped in August after several months of little net change; consumer energy prices also are a bit higher than in the previous forecast. Prices for items other than food and energy increased just 0.2 percent in August for the fourth straight month, and the twelve-month change in this series dropped to 3.5 percent. Average hourly earnings soared 0.7 percent in August, but the twelve-month change still was only 2.6 percent.

The Outlook for the Economy through 1993

The growth in real GDP projected for the next few quarters is noticeably lower in this Greenbook than had been indicated in the last projection. We now expect an increase in real GDP of just over 1 percent at an annual rate for the fourth quarter despite a small boost to activity from post-hurricane rebuilding, and growth in the first half of next year--at a 2-1/4 percent annual rate, on

PROJECTIONS OF REAL GDP
(Percent change; annual rate)

	1992		1993			
	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP	1.9	1.2	2.0	2.5	2.9	3.3
Previous	1.7	2.5	2.8	3.0	3.2	3.2
Unemployment rate (level)	7.6	7.8	7.8	7.8	7.7	7.5
Previous	7.6	7.4	7.4	7.3	7.2	7.0

average--is more than 1/2 percentage point slower than previously forecast. Much of the downward revision is to consumer spending and housing and largely reflects the weaker near-term income and employment picture and the negative tone to the recent readings on household sentiment.

Nonetheless, as noted earlier, the projected pattern for next year is still one of a gradual acceleration of activity, and we expect that real GDP will be expanding at a rate of 3 percent or more by late 1993. The past and prospective declines in interest rates, along with some easing of credit restraints and progress in balance sheet restructuring, should bolster domestic demand. And as foreign economic activity improves, net exports should firm slightly.

With actual growth running only somewhat above potential, on average, next year, the unemployment rate is expected to fall just to 7-1/2 percent by year-end. Moreover, manufacturing capacity utilization will stay well below 80 percent. With so much slack, inflation pressures will be subdued, and the core and total CPIs are projected to rise about 2-3/4 percent over the four quarters of 1993.

Consumer spending. As noted above, we have lowered the consumption forecast for the next few quarters. Basically, our expectation is that, with hiring weak and income prospects uncertain, households will remain hesitant to spend. Indeed, we anticipate that they will continue to shore up balance sheets and that growth in spending will fall short of the rise in real disposable income through mid-1993, reversing the recent drop in the saving rate.

By the latter part of 1993, however, we expect to see consumption growing at more than a 3 percent annual rate, on average, and the saving rate leveling out. The resumption of hiring as the year progresses should help to reassure households that employment and income are on more solid growth paths. And, with debt service burdens having been reduced considerably further, consumers should be better positioned--and more willing--to spend. Outlays for motor vehicles, in particular, are expected to rise appreciably over the projection period, bolstered by a combination of deferred demand and consumers' better income prospects and improved capacity to take on new debt. Much the same could be said for household furnishings and a variety of other big-ticket items for which expenditures have been quite low for some time.

Housing. Although some of the recent data have been disappointing, some pickup in homebuilding should be in the offing. Demand for new single-family homes is expected to be boosted initially by further declines in mortgage interest rates and subsequently by greater increases in employment and household income. Single-family starts, which have averaged only about 1 million units so far this year, are projected to move up to about 1.15 million units by late 1993. Multifamily starts are likely to rise a little but to remain at a low level; apartment vacancy rates should decline only slightly, in part because of the relatively slow growth in the population of young adults.

Business fixed investment. Real BFI is projected to rise at a 5 to 7 percent annual rate through the end of 1993, with considerable divergence among its major components. Gains in real outlays on office and computing machines are expected to remain rapid--albeit not at the 40 percent (annual) rate of the past few quarters--as firms continue the transition to the more powerful and cost-effective equipment that is now available. Incoming data on orders have yet to signal a sustained improvement in spending for other types of equipment, but we expect these outlays to accelerate next year as the economy strengthens and capacity utilization tilts up. Purchases of commercial aircraft, however, will be damped by the excess capacity among domestic airlines.

As for nonresidential structures, office construction undoubtedly will fall further, given the high vacancy rates, sluggish demand for space, and soft property prices. But spending on office construction now accounts for less than 15 percent of the total, and we expect gains for public utilities and other sectors to be large enough to hold total nonresidential construction at about current levels through next year.

Business inventories. Although there are no signs of significant imbalances in inventories at present, we expect that stocks will be little changed in the near term as businesses await signs of stronger sales prospects. Inventory investment is projected to resume in the latter part of 1993, but it is likely to contribute only about 1/4 percentage point to real GDP growth for the year. Inventory accumulation will continue to be damped by firms' continued efforts to reduce the volume of stocks needed to support a given level of sales, and the aggregate inventory-sales ratio is expected to drift lower.

Government purchases. After the current quarter, federal government purchases should turn down again. In particular, real defense purchases are expected to fall at about a 7-1/2 percent annual rate over the next five quarters. Real nondefense purchases, which account for less than one-third of the total, are projected to rise at only about a 1 percent annual rate, consistent with the caps on discretionary spending established in the Budget Enforcement Act of 1990.

In the state and local sector, budgetary pressures will remain intense for some time. We expect purchases of goods and services to show essentially no real growth through the end of 1993, despite continued strong demands to increase public services and to improve the infrastructure. Tax hikes will probably be unavoidable, and we continue to expect another round of increases next year. Even so, state and local deficits--as measured in the NIPA operating and capital accounts (excluding social insurance)--are expected to remain sizable through next year.

Net exports. Because this forecast assumes a weaker outlook for foreign economic activity as well as a somewhat higher dollar, we have lowered the projection for net exports of goods and services. They are now expected to be only a slightly positive influence on domestic production in 1993--but that is a significant improvement after the negative contribution of more than 1/2 percentage point they are now forecast to have made to real GDP growth over the four quarters of 1992. In 1993, a gradual acceleration of activity abroad is expected to boost growth in exports to about 7 percent, compared with about 2-3/4 percent this year, while the anticipated strengthening of the U.S. economy is likely to pull in additional imports. A detailed discussion of these projections is contained in the International Developments section.

Wages and prices. The current Greenbook shows higher unemployment rates throughout the projection period. In part, the revision reflects the weaker outlook for economic activity. In addition, though, we have concluded that the risks in the employment outlook are better balanced if we assume that productivity will rise more strongly than we had previously anticipated over the next several quarters--given the strenuous efforts to streamline operations under way across the economy.

We now expect private employment to edge down in the fourth quarter of 1992. Surveys suggest that firms' hiring plans are conservative, and their cost-cutting efforts are likely to yield productivity gains sufficient to cover output increases. The unemployment rate may bounce around over the next few months because of the usual end-of-summer seasonal adjustment difficulties and the expiration of federally funded summer jobs. But for the fourth quarter as a whole, we now expect it to average 7.8 percent, two-tenths higher than in the third quarter.

Employment gains are projected to resume early in 1993; but in light of the projected above-trend productivity performance, job growth remains modest through most of the year. The labor force participation rate also is likely to rise over the course of the year, when individuals see job opportunities opening up, thus limiting the decline in unemployment. These labor market conditions are expected to restrain the rise in hourly compensation, and we now expect the twelve-month change in ECI compensation to slow from 3-3/4 percent over the year ended this June to about 3 percent by the end of 1993.

The slowing trend in unit labor costs will exert substantial downward pressure on price inflation over the projection period. However, energy prices are expected to be boosted over the near term by the somewhat higher crude oil prices in the current forecast, the tightening of supplies of natural gas in the wake of the hurricane, and the costs of environmental regulations. In contrast, food prices are likely to provide little impetus to overall inflation, given the prospect of a good harvest this fall and a continued expansion of livestock supplies. CPI inflation for items other than food and energy is likely to pick up some in the fourth quarter after the unsustainably low readings of the past few months. But the underlying trend is clearly down, and the forecast shows core inflation moving below 3 percent next year.

STAFF INFLATION PROJECTION
(Percent change; annual rate)

	1992			1993			
	H1	Q3	Q4	Q1	Q2	Q3	Q4
		------------projected------------					
Consumer price index	3.2	2.9	3.6	3.1	2.8	2.7	2.6
Excluding food and energy	3.9	2.7	3.5	2.9	2.7	2.7	2.6
Employment cost index (Private compensation)	3.3	3.5	3.4	3.2	3.1	3.0	2.9

A Note on 1994

The projection for 1994 is in most respects an extension of the patterns visible in the projection for late 1993: Output is expected to grow rapidly enough to achieve a gradual reduction in unemployment, but not so fast as to halt the disinflation process. The forecast is predicated on the assumption of continued restraint from fiscal policy. Even so, a firming of short-term interest rates may be needed by 1994 to temper the growth of aggregate demand as the forces of cyclical expansion gather momentum.

STAFF PROJECTIONS

	1992	1993	1994
	---Percent change, Q4 to Q4---		
Real GDP	1.9	2.7	3.3
Consumer price index	3.2	2.8	2.2
	--Fourth-quarter level, percent--		
Unemployment rate	7.8	7.5	6.8

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

September 30, 1992

Interval	Nominal GDP 8/13/92	Nominal GDP 9/30/92	Real GDP 8/13/92	Real GDP 9/30/92	GDP fixed-weight price index 8/13/92	GDP fixed-weight price index 9/30/92	Consumer price index[1] 8/13/92	Consumer price index[1] 9/30/92	Unemployment rate (level except as noted) 8/13/92	Unemployment rate (level except as noted) 9/30/92
ANNUAL										
1990[2]	5.2	5.2	.8	.8	4.5	4.5	5.4	5.4	5.5	5.5
1991[2]	2.8	2.8	-1.2	-1.2	4.1	4.0	4.2	4.2	6.7	6.7
1992	4.4	4.4	1.7	1.7	2.7	3.0	3.1	3.1	7.4	7.5
1993	5.2	4.5	2.6	2.1	2.6	2.6	3.1	3.1	7.2	7.7
1994	5.4	5.1	3.1	3.2	2.4	2.2	2.7	2.4	6.7	7.1
QUARTERLY										
1991 Q1[2]	1.8	1.8	-3.0	-3.0	4.7	4.7	3.3	3.3	6.5	6.5
Q2[2]	5.2	5.2	1.7	1.7	3.5	3.5	2.4	2.4	6.7	6.7
Q3[2]	4.0	4.0	1.2	1.2	3.0	3.0	2.7	2.7	6.8	6.8
Q4[2]	2.8	2.8	.6	.6	2.4	2.4	3.6	3.6	6.9	6.9
1992 Q1[2]	6.2	6.2	2.9	2.9	3.6	3.6	2.9	2.9	7.2	7.2
Q2[2]	3.7	4.3	1.4	1.5	1.6	2.9	3.5	3.5	7.5	7.5
Q3	3.4	4.3	1.7	1.9	1.9	1.9	2.7	2.9	7.6	7.6
Q4	5.5	3.4	2.5	1.2	3.0	2.7	3.4	3.6	7.4	7.8
1993 Q1	5.8	4.8	2.8	2.0	3.2	3.0	3.1	3.1	7.4	7.8
Q2	5.4	4.7	3.0	2.5	2.6	2.4	3.1	2.8	7.3	7.8
Q3	5.5	5.0	3.2	2.9	2.5	2.2	3.1	2.7	7.2	7.7
Q4	5.4	5.1	3.2	3.3	2.4	2.1	2.9	2.6	7.0	7.5
.994 Q1	5.9	5.8	3.2	3.5	2.9	2.5	2.7	2.4	6.9	7.3
Q2	5.1	5.0	3.0	3.3	2.2	2.0	2.5	2.2	6.7	7.1
Q3	4.9	4.7	3.0	3.1	2.1	1.8	2.4	2.0	6.6	7.0
Q4	4.9	4.5	3.0	3.0	2.1	1.8	2.4	2.0	6.4	6.8
TWO-QUARTER[3]										
1991 Q2[2]	3.5	3.5	-.7	-.7	4.2	4.2	2.9	2.9	.7	.7
Q4[2]	3.4	3.4	.9	.9	2.7	2.7	3.1	3.1	.2	.2
1992 Q2[2]	4.9	5.2	2.2	2.2	2.7	3.4	3.1	3.1	.6	.6
Q4	4.4	3.8	2.1	1.5	2.5	2.3	3.1	3.2	-.1	.3
1993 Q2	5.6	4.8	2.9	2.3	2.9	2.7	3.1	3.0	-.1	.0
Q4	5.4	5.1	3.2	3.1	2.4	2.2	3.0	2.6	-.3	-.3
1994 Q2	5.5	5.4	3.1	3.4	2.5	2.3	2.6	2.3	-.3	-.4
Q4	4.9	4.6	3.0	3.1	2.1	1.8	2.4	2.0	-.3	-.3
FOUR-QUARTER[4]										
1990 Q4[2]	4.1	4.1	-.5	-.5	4.7	4.7	6.3	6.3	.6	.6
1991 Q4[2]	3.5	3.5	.1	.1	3.5	3.5	3.0	3.0	.9	.9
1992 Q4	4.7	4.5	2.1	1.9	2.6	2.9	3.1	3.2	.5	.9
1993 Q4	5.5	4.9	3.0	2.7	2.6	2.4	3.0	2.8	-.4	-.3
1994 Q4	5.2	5.0	3.0	3.3	2.3	2.0	2.5	2.2	-.6	-.7

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)

September 30, 1992

Item	Unit[1]	1986	1987	1988	1989	1990	1991	Projected 1992	1993	1994
EXPENDITURES										
Nominal GDP	Bill. $	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5930.1	6194.9	6513.8
Real GDP	Bill. 87$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4902.7	5006.1	5167.8
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	1.9	2.7	3.3
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	2.5	2.6	3.2
Final sales		3.3	2.7	4.2	1.5	.6	-.6	2.1	2.4	3.3
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	3.3	3.2	4.1
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	2.4	2.5	3.5
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	5.1	6.0	7.8
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	1.3	1.5	2.6
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.4	2.3	2.9
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	6.5	6.2	7.1
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	9.3	8.2	8.4
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	.0	.9	3.6
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	9.8	7.4	6.3
Exports		9.9	12.6	13.5	11.3	7.2	7.4	2.8	6.9	7.1
Imports		6.7	4.7	3.6	2.6	.1	4.8	7.5	5.7	6.3
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.3	-1.7	-.6
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-1.5	-4.8	-3.6
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-4.5	-7.3	-6.0
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.5	.4	1.3
Change in bus. invent.	Bill. 87$	8.6	26.3	19.9	29.8	6.2	-9.3	-3.0	9.9	10.7
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	-2.1	9.7	11.0
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-40.9	-46.7	-44.8
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	4.5	4.9	5.0
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.3	109.0	111.3
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.5	7.7	7.1
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	.2	4.1	4.2
Capacity util. rate-mfg.	%	79.0	81.4	83.9	83.9	82.3	78.2	77.3	77.2	78.3
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.32	1.44
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.31	8.70	9.66
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.21	6.55	7.38
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.15	2.29
INCOME AND SAVING										
Nominal GNP	Bill. $	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5942.3	6209.6	6531.0
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	4.5	5.0	5.0
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	4.8	5.9	5.6
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.0	2.8	3.2
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.7	4.9	5.1	5.0
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	15.5	5.2	5.7
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.5	6.7	6.7
Federal surpl./def.	Bill. $	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-300.0	-287.6	-264.3
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.8	22.6	41.9
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.2	-35.0	-15.5
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.6	2.2	1.7
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	2.9	2.4	2.0
Gross domestic purchases fixed-wt. price index		2.3	3.9	4.1	4.3	5.3	2.8	2.9	2.5	2.1
CPI		1.3	4.5	4.3	4.6	6.3	3.0	3.2	2.8	2.2
Ex. food and energy		3.9	4.3	4.5	4.4	5.3	4.5	3.5	2.7	2.1
ECI, hourly compensation[2]		3.2	3.3	4.8	4.8	4.6	4.4	3.4	3.0	2.7
Nonfarm business sector										
Output per hour		1.2	1.8	.5	-1.4	.0	1.0	2.5	1.7	1.4
Compensation per hour		4.6	3.8	3.8	3.1	6.1	3.8	3.2	3.1	2.9
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.7	.8	1.4	1.5

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)

September 30, 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	5902.2
Real GDP	Bill. 87$	4890.8	4902.7	4882.6	4833.8	4796.7	4817.1	4831.8	4838.5	4873.7	4892.4
Real GDP	% change	2.8	1.0	-1.6	-3.9	-3.0	1.7	1.2	.6	2.9	1.5
Gross domestic purchases		2.1	.9	-1.4	-6.0	-4.2	1.7	2.4	-.4	3.0	3.4
Final sales		4.3	-1.1	.1	-.9	-3.2	1.3	-.5	.0	4.7	-.1
Private dom. final purch.		2.9	-1.7	.8	-5.0	-6.0	1.5	1.4	-.4	5.5	2.4
Personal cons. expend.		2.2	.1	1.7	-3.1	-3.0	2.0	1.5	-.3	5.1	-.1
Durables		16.2	-12.0	-1.4	-9.8	-13.0	-.7	8.1	-3.1	16.5	-2.1
Nondurables		-.2	-.5	.8	-2.8	-3.2	1.3	-.6	-3.5	5.5	-1.5
Services		.3	3.7	3.1	-1.6	-.3	3.0	1.2	2.3	2.2	1.2
Business fixed invest.		6.2	-6.6	5.6	-9.6	-15.8	-3.1	-3.4	-5.2	3.0	16.1
Producers' dur. equip.		6.8	-7.8	7.2	-6.1	-16.7	.7	6.0	-2.4	3.2	24.1
Nonres. structures		5.0	-4.1	2.5	-16.5	-14.0	-10.6	-20.8	-11.5	2.7	-.8
Res. structures		5.3	-15.9	-22.9	-22.4	-26.9	7.0	14.4	11.3	20.1	12.6
Exports		10.7	7.0	-.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4
Imports		2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7
Government purchases		6.4	1.1	-2.0	6.1	2.8	.2	-2.3	-3.0	1.7	-1.2
Federal		8.0	2.1	-7.2	9.9	7.2	-.3	-6.5	-9.0	-3.0	-2.7
Defense		4.9	.3	-10.5	12.8	8.7	-5.6	-9.4	-13.0	-7.7	-5.2
State and local		5.2	.4	1.9	3.5	-.1	.6	.9	1.4	5.1	-.2
Change in bus. invent.	Bill. 87$	7.5	32.8	11.2	-26.8	-25.1	-20.4	.6	7.5	-12.6	7.8
Nonfarm		5.9	27.9	6.6	-25.6	-24.7	-24.5	-1.0	11.8	-10.7	6.0
Net exports		-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9
Nominal GDP	% change	7.7	5.8	2.7	.1	1.8	5.2	4.0	2.8	6.2	4.3
MPLOYMENT 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	5.3
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	1.14
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	5909.3
Nominal GNP	% change	7.6	5.4	3.0	1.1	1.6	4.3	3.7	2.7	6.8	3.4
Nominal personal income		9.5	6.2	4.6	5.2	.1	4.6	3.3	5.1	6.1	3.9
Real disposable income		4.2	.8	-1.2	-.2	-2.6	1.9	.7	2.2	4.0	1.2
Personal saving rate[1]	%	4.4	4.6	3.9	4.6	4.7	4.7	4.5	5.1	4.9	5.3
Corp. profits, IVA&CCAdj	% change	15.6	19.1	-29.9	-8.2	6.7	-2.6	-6.8	7.1	49.8	4.7
Profit share of GNP[1]	%	6.7	6.9	6.3	6.2	6.2	6.1	6.0	6.0	6.6	6.6
Federal govt. surpl./def.	Bill. $	-167.8	-156.9	-145.6	-194.6	-149.9	-212.2	-221.0	-258.7	-289.2	-302.9
State/local surpl./def.		36.1	33.8	30.3	20.2	14.6	16.5	15.4	22.0	16.6	17.7
Ex. social ins. funds		-27.3	-29.4	-32.5	-42.2	-46.6	-44.1	-44.5	-37.3	-41.8	-40.3
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	2.7
GDP fixed-wt. price index		5.4	4.6	4.7	4.1	4.7	3.5	3.0	2.4	3.6	2.9
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	3.2
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
CI, 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	2.0
Compensation per hour		5.2	7.7	6.1	5.4	3.1	5.3	3.7	3.1	3.9	2.6
Unit labor cost		5.6	5.1	8.2	5.7	4.5	3.9	2.0	.6	.1	.6

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)

September 30, 1992

Item	Units	Projected									
		1992		1993				1994			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	5964.2	6013.6	6084.1	6155.1	6230.9	6309.5	6398.9	6477.7	6552.8	6625.7
Real GDP	Bill. 87$	4915.0	4929.7	4954.5	4985.5	5021.7	5062.6	5107.0	5148.6	5188.4	5227.2
Real GDP	% change	1.9	1.2	2.0	2.5	2.9	3.3	3.5	3.3	3.1	3.0
Gross domestic purchases		2.3	1.1	1.7	2.7	3.0	3.0	3.4	3.5	3.2	2.6
Final sales		2.9	1.1	1.9	1.5	2.3	3.8	3.7	3.2	3.1	3.3
Private dom. final purch.		3.3	1.9	2.5	2.5	3.3	4.5	4.5	4.3	4.0	3.7
Personal cons. expend.		3.5	1.2	1.8	1.9	2.6	3.8	3.8	3.6	3.4	3.1
Durables		4.5	2.2	4.0	3.5	5.8	10.9	10.1	8.3	7.2	5.5
Nondurables		1.8	-.3	.7	1.0	1.7	2.5	2.7	2.7	2.5	2.5
Services		4.2	1.9	1.9	2.0	2.3	2.9	2.9	2.9	2.9	2.9
Business fixed invest.		2.7	4.7	5.6	5.9	6.4	6.8	7.4	7.7	7.1	6.2
Producers' dur. equip.		4.8	6.5	7.7	8.0	8.5	8.8	9.0	9.3	8.3	7.0
Nonres. structures		-2.2	.3	.4	.5	.9	1.7	3.1	3.4	3.7	4.1
Res. structures		1.5	5.9	7.1	5.0	8.4	9.3	7.6	6.3	5.4	6.0
Exports		4.7	5.0	6.0	6.7	7.3	7.5	7.1	7.0	7.1	7.1
Imports		8.2	4.2	3.3	7.7	7.3	4.5	5.7	8.2	7.3	4.0
Government purchases		3.4	-2.6	-2.3	-1.9	-1.8	-.8	-.6	-.5	-.5	-.5
Federal		5.6	-5.5	-5.5	-5.5	-4.6	-3.5	-3.4	-3.5	-3.6	-3.7
Defense		4.5	-9.2	-8.1	-8.3	-6.9	-5.8	-5.9	-6.0	-6.0	-6.1
State and local		1.9	-.6	-.1	.5	.1	.9	1.1	1.3	1.4	1.4
Change in bus. invent.	Bill. 87$	-4.3	-3.0	-1.4	10.8	18.3	11.9	10.5	11.7	12.2	8.4
Nonfarm		-1.1	-2.4	-3.0	10.7	18.5	12.6	11.0	12.1	12.4	8.4
Net exports		-49.4	-48.8	-45.5	-47.8	-48.7	-45.0	-43.5	-46.0	-47.2	-42.7
Nominal GDP	% change	4.3	3.4	4.8	4.7	5.0	5.1	5.8	5.0	4.7	4.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.5	108.3	108.4	108.7	109.2	109.8	110.4	111.0	111.6	112.2
Unemployment rate[1]	%	7.6	7.8	7.8	7.8	7.7	7.5	7.3	7.1	7.0	6.8
Industrial prod. index	% change	.6	-2.0	3.6	4.2	4.3	4.5	4.8	4.5	3.9	3.8
Capacity util. rate-mfg[1]	%	77.5	76.5	76.7	77.0	77.3	77.6	78.0	78.2	78.4	78.5
Housing starts	Millions	1.19	1.24	1.27	1.30	1.34	1.37	1.40	1.43	1.45	1.48
Auto sales in U.S.		8.16	8.28	8.40	8.52	8.75	9.13	9.40	9.57	9.75	9.92
North American produced		6.19	6.27	6.30	6.40	6.60	6.90	7.15	7.30	7.45	7.60
Other		1.97	2.02	2.10	2.12	2.15	2.23	2.25	2.27	2.30	2.32
INCOME AND SAVING											
Nominal GNP	Bill. $	5976.5	6023.5	6097.8	6168.6	6248.2	6323.9	6416.7	6494.2	6572.0	6641.2
Nominal GNP	% change	4.6	3.2	5.0	4.7	5.3	4.9	6.0	4.9	4.9	4.3
Nominal personal income		1.8	7.3	6.7	5.3	5.6	5.9	7.1	5.0	4.9	5.5
Real disposable income		-.2	3.0	2.8	2.4	2.5	3.4	4.3	2.7	2.6	3.2
Personal saving rate[1]	%	4.4	4.9	5.1	5.2	5.2	5.1	5.2	5.0	4.9	4.9
Corp. profits, IVA&CCAdj	% change	-8.0	23.5	2.4	11.1	-.8	8.4	5.6	11.7	2.2	3.5
Profit share of GNP[1]	%	6.4	6.7	6.6	6.7	6.6	6.7	6.7	6.8	6.7	6.7
Federal govt. surpl./def.	Bill. $	-305.7	-302.0	-298.9	-292.1	-278.9	-280.3	-278.1	-268.1	-253.6	-257.5
State/local surpl./def.		15.0	14.0	17.0	16.4	27.4	29.7	37.7	38.9	43.6	47.4
Ex. social ins. funds		-43.0	-43.9	-40.8	-41.3	-30.2	-27.8	-19.7	-18.4	-13.7	-10.0
PRICES AND COSTS											
GDP implicit deflator	% change	2.5	2.1	2.7	2.2	2.0	1.8	2.2	1.7	1.5	1.5
GDP fixed-wt. price index		1.9	2.7	3.0	2.4	2.2	2.1	2.5	2.0	1.8	1.8
Gross domestic purchases fixed-wt. price index		2.3	2.9	3.1	2.4	2.3	2.2	2.6	2.0	1.9	1.8
CPI		2.9	3.6	3.1	2.8	2.7	2.6	2.4	2.2	2.0	2.0
Ex. food and energy		2.7	3.5	2.9	2.7	2.7	2.6	2.4	2.2	2.0	2.0
ECI, hourly compensation[2]		3.5	3.4	3.2	3.1	3.0	2.9	2.8	2.7	2.7	2.6
Nonfarm business sector											
Output per hour		1.8	2.4	1.9	1.9	1.6	1.6	1.5	1.4	1.3	1.2
Compensation per hour		3.0	3.4	3.4	2.9	3.1	3.1	3.3	2.8	2.7	2.6
Unit labor cost		1.2	1.0	1.5	1.0	1.5	1.5	1.8	1.3	1.3	1.3

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)

September 30, 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	18.7	77.0	-22.9	4.7	91.2
Gross domestic purchases	25.1	10.4	-17.7	-75.4	-51.9	19.9	28.9	-4.4	36.2	41.1	41.7	-57.6	-7.5	119.5
Final sales	51.5	-13.3	1.4	-10.8	-38.8	15.6	-6.2	-.3	55.4	-1.7	73.1	28.8	-29.7	101.8
Private dom. final purch.	28.3	-17.4	8.4	-51.1	-60.2	14.6	13.4	-4.3	52.5	23.5	19.7	-31.8	-36.5	127.5
Personal cons. expend.	17.5	.6	13.8	-25.9	-24.5	15.8	11.9	-2.2	40.3	-.8	39.1	6.0	1.0	77.9
Durables	16.7	-14.3	-1.5	-11.1	-14.6	-.7	8.1	-3.3	16.2	-2.3	-2.4	-10.2	-10.5	21.1
Nondurables	-.6	-1.2	2.0	-7.5	-8.6	3.3	-1.5	-9.2	14.0	-4.0	12.1	-7.3	-16.0	13.9
Services	1.4	16.0	13.4	-7.3	-1.3	13.3	5.2	10.4	9.9	5.6	29.4	23.5	27.6	42.9
Business fixed invest.	8.1	-9.2	7.3	-13.6	-22.3	-4.0	-4.3	-6.6	3.7	18.9	-2.1	-7.4	-37.2	32.1
Producers' dur. equip.	5.9	-7.3	6.2	-5.6	-15.9	.6	5.0	-2.1	2.7	19.2	-6.2	-.8	-12.4	32.1
Nonres. structures	2.2	-1.9	1.1	-8.0	-6.4	-4.6	-9.2	-4.6	1.0	-.3	4.1	-6.6	-24.8	.0
Res. structures	2.7	-8.9	-12.7	-11.6	-13.4	2.8	5.7	4.7	8.3	5.6	-17.3	-30.5	-.2	17.4
Change in bus. invent.	-17.4	25.3	-21.6	-38.0	1.7	4.7	21.0	6.9	-20.1	20.4	4.0	-51.7	34.3	-10.5
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	16.7	.7	-56.8	37.4	-14.2
Farm	7.9	3.2	-.2	-5.8	.8	4.5	-2.5	-5.8	2.3	3.7	3.3	5.1	-3.0	3.6
Net exports	9.0	1.5	-2.4	26.6	14.8	.5	-14.2	11.1	-1.0	-22.4	35.3	34.7	12.2	-28.3
Exports	12.5	8.5	-.3	14.2	-6.7	20.2	8.1	17.2	4.0	-2.0	49.5	34.9	38.8	15.5
Imports	3.6	7.0	2.1	-12.4	-21.5	19.7	22.3	6.0	5.0	20.5	14.1	.3	26.5	43.9
Government purchases	14.2	2.6	-4.6	13.7	6.6	.5	-5.4	-7.1	3.9	-2.8	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	-2.6	-2.3	11.2	-9.1	-5.8
Defense	3.4	.2	-7.8	8.5	6.0	-4.2	-7.0	-9.6	-5.4	-3.5	-4.2	4.3	-14.8	-12.3
Nondefense	3.8	1.8	.7	.5	.7	4.0	.4	.6	2.5	.9	2.0	6.8	5.7	6.5
State and local	6.9	.6	2.5	4.7	-.2	.8	1.2	1.9	6.9	-.3	20.4	14.7	3.7	8.4

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

September 30, 1992

	Projected													
	1992		1993				1994					Projected		
Item	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993	1994
Real GDP	22.6	14.7	24.8	30.9	36.3	40.9	44.3	41.6	39.9	38.8	4.7	91.2	132.9	164.6
Gross domestic purchases	28.2	14.1	21.5	33.2	37.1	37.2	42.9	44.1	41.0	34.3	-7.5	119.5	129.0	162.3
Final sales	34.7	13.4	23.2	18.7	28.8	47.3	45.7	40.4	39.4	42.6	-29.7	101.8	118.0	168.1
Private dom. final purch.	32.5	19.0	25.2	25.5	33.8	45.5	45.8	44.2	41.7	39.3	-36.5	127.5	130.0	171.0
Personal cons. expend.	28.2	10.3	14.6	15.4	21.4	31.8	31.9	30.3	28.9	27.2	1.0	77.9	83.2	118.3
Durables	4.7	2.4	4.3	3.8	6.3	11.8	11.3	9.6	8.5	6.6	-10.5	21.1	26.2	36.0
Nondurables	4.7	-.8	1.8	2.6	4.5	6.6	7.1	7.2	6.7	6.7	-16.0	13.9	15.5	27.7
Services	18.7	8.6	8.5	9.0	10.6	13.4	13.5	13.6	13.7	13.8	27.6	42.9	41.5	54.6
Business fixed invest.	3.5	6.0	7.2	7.6	8.4	9.1	10.0	10.6	9.9	8.9	-37.2	32.1	32.3	39.5
Producers' dur. equip.	4.3	5.9	7.0	7.4	8.0	8.5	8.9	9.3	8.6	7.4	-12.4	32.1	31.0	34.2
Nonres. structures	-.8	.1	.2	.2	.3	.6	1.1	1.3	1.4	1.5	-24.8	.0	1.3	5.3
Res. structures	.7	2.8	3.4	2.4	4.1	4.6	3.9	3.3	2.9	3.2	-.2	17.4	14.5	13.2
Change in bus. invent.	-12.1	1.3	1.6	12.2	7.5	-6.4	-1.4	1.2	.5	-3.8	34.3	-10.5	14.9	-3.5
Nonfarm	-7.1	-1.3	-.6	13.7	7.8	-5.9	-1.6	1.1	.3	-4.0	37.4	-14.2	15.0	-4.2
Farm	-5.0	2.6	2.2	-1.5	-.3	-.5	.2	.1	.2	.2	-3.0	3.6	-.1	.7
Net exports	-5.5	.6	3.3	-2.3	-.9	3.7	1.4	-2.5	-1.1	4.5	12.2	-28.3	3.9	2.3
Exports	6.5	7.0	8.5	9.5	10.6	11.0	10.6	10.8	11.1	11.3	38.8	15.5	39.7	43.8
Imports	12.1	6.4	5.2	11.8	11.5	7.3	9.2	13.3	12.2	6.8	26.5	43.9	35.8	41.5
Government purchases	7.8	-6.3	-5.3	-4.5	-4.2	-1.9	-1.5	-1.3	-1.2	-1.2	-5.4	2.6	-15.8	-5.1
Federal	5.1	-5.4	-5.2	-5.2	-4.3	-3.2	-3.1	-3.2	-3.2	-3.2	-9.1	-5.8	-17.8	-12.6
Defense	2.9	-6.3	-5.4	-5.4	-4.4	-3.6	-3.6	-3.6	-3.6	-3.6	-14.8	-12.3	-18.8	-14.4
Nondefense	2.2	.9	.2	.2	.1	.4	.5	.4	.4	.4	5.7	6.5	1.0	1.8
State and local	2.7	-.9	-.1	.7	.1	1.3	1.6	1.9	2.0	2.0	3.7	8.4	2.0	7.5

1. Annual changes are from Q4 to Q4.

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

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	1088	1144	1202	239	322	272	257	253	345	289	264	270	371	297	277
Outlays[1]	1324	1386	1496	1550	355	350	343	370	364	384	378	390	383	391	386	401
Surplus/deficit[1]	-269	-298	-352	-347	-116	-28	-71	-113	-111	-39	-89	-126	-112	-20	-89	-123
On-budget	-322	-350	-405	-406	-121	-60	-71	-122	-118	-71	-94	-135	-121	-56	-93	-138
Off-budget	52	51	53	58	6	31	0	9	7	33	5	9	9	36	4	15
Surplus excluding deposit insurance[2]	-203	-296	-311	-299	-105	-25	-78	-111	-109	-17	-73	-113	-102	-7	-78	-111
Means of financing																
Borrowing	293	307	337	350	83	62	73	81	106	64	85	119	99	46	85	108
Cash decrease	-1	-17	18	0	29	-27	-11	36	2	-20	0	10	10	-20	0	10
Other[3]	-23	8	-3	-2	4	-7	8	-4	3	-6	4	-3	3	-6	4	5
Cash operating balance, end of period	41	58	40	40	20	47	58	22	20	40	40	30	20	40	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1118	1144	1205	1285	1143	1150	1154	1172	1201	1217	1230	1249	1279	1297	1313	1329
Expenditures	1313	1433	1498	1555	1433	1453	1460	1474	1500	1509	1509	1529	1557	1565	1566	1587
Purchases	447	446	447	443	445	445	452	448	451	446	443	441	445	443	441	438
Defense	326	314	306	295	314	312	316	310	309	304	300	297	298	294	291	287
Nondefense	121	132	141	148	131	133	137	138	141	142	143	144	148	149	150	151
Other expenditures	866	987	1051	1112	988	1007	1007	1026	1050	1062	1066	1088	1112	1122	1126	1148
Surplus/deficit	-194	-289	-293	-270	-289	-303	-306	-302	-299	-292	-279	-280	-278	-268	-254	-258
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-158	-228	-221	-218	-230	-240	-240	-231	-225	-219	-210	-217	-222	-220	-212	-223
Change in HEB, percent of potential GDP	-.4	1.2	-.1	-.1	.5	.2	0	-.1	-.1	-.1	-.1	.1	.1	0	-.1	.2
Fiscal impetus (FI), percent, cal. year	-3.8	-3.9	-3.9	-3.2	-2.5	-.1	1.3	-1.4	-2.1	-1.2	-1.1	-.8	-.5	-.8	-.8	-.8

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 the release of an unexpectedly weak August employment report on September 4, short-term market interest rates declined 25 to 30 basis points in anticipation of an easing by the System. That expectation was quickly validated when the System took action to lower the federal funds rate 1/4 percentage point to 3 percent. Intermediate- and longer-term rates, also responding to the labor market report, declined 10 to 15 basis points; however, these rates have backed up some, reportedly influenced by domestic fiscal policy concerns associated with the upcoming election and perhaps by exchange market turmoil. Equity markets rallied strongly in response to the declines in interest rates early in September, but are back down to levels 1 to 2 percent below those that prevailed in mid-August.

M2 exhibited renewed growth, at a 3 percent annual rate in both August and September. The declines in market rates produced substantial inflows to demand deposits and liquid retail deposits. Steep runoffs of small time deposits continued, however, and bond and stock mutual funds evidently were still attracting sizable balances from M2-type accounts. Bolstered by M2, M3 also resumed expansion in August and September, but depository institutions continued to pay down managed liabilities.

Bank credit has shown some signs of life recently, advancing at about a 5-1/2 percent annual rate in each of the past two months. While acquisitions of securities continued to account for all of the credit extended in August, partial data for September point to an increase in loans after declines in four straight months. Business loans are projected to increase in September for the first time since October 1991. Real estate loans are also expected to rebound

September, perhaps partly reflecting the temporary warehousing of securitizable mortgages applied for in July and August, when rate declines spurred a wave of refinancing.

On the whole, debt growth for private domestic nonfinancial sectors probably picked up a bit in the third quarter from the anemic second-quarter rate. In the nonfinancial business sector, debt growth appears to have edged up following a small decline in the previous quarter. Business loans contracted at a much slower pace in July and August and are expected to expand in September, and issuance of nonfinancial commercial paper accelerated in August and September. With yields on investment-grade corporate bonds the lowest since the early 1970s, public offerings of bonds remained heavy. Even though more than half of the proceeds are estimated to have been used to pay down outstanding higher-cost debt, net issuance was substantial. Issuance of junk bonds was also heavy in both August and September; gross issuance for the year to date has matched the pace of the late 1980s, although the stock of outstanding junk debt probably has changed little this year.

Bond refinancings, together with the repricing of bank loans and rollovers of maturing commercial paper, have continued to reduce debt service burdens in the nonfinancial business sector; the ratio of interest payments to cash flow has retraced nearly all of the runup that occurred during the 1980s leveraging boom. However, deleveraging activity, which had contributed importantly to reductions in the sector's debt burden during the first half of the year, slowed markedly in the third quarter. Although the S&P price-earnings ratio remains near a record level, poor performances of recent reverse leveraged buyouts and other initial public offerings have damped the market's appetite for such issues.

Household borrowing in the third quarter appears to have recovered from an unusually weak second quarter, but still to have remained sluggish. Consumer installment credit continued to decline in July at a rate about equal to that in the second quarter and appears likely to have declined again in August. Available data point to weak mortgage debt growth through August; nonetheless, this growth appears to have exceeded the very slow rate recorded for the second quarter, and may have firmed in September.

Although declining interest rates and large paydowns of installment debt have lightened household debt servicing burdens appreciably, the latest data on payment performance (for the second quarter) paint a mixed picture: Delinquencies on consumer loans at banks registered their fourth consecutive quarterly decline, but mortgage delinquencies partly reversed the downturn recorded in the previous two quarters.

In the state and local sector, gross issuance of long-term municipal bonds remained robust; but, as in the corporate bond markets, most of the proceeds were devoted to refunding outstanding higher-coupon debt. Sales of short-term, tax-exempt debt set a record in September, paced by a $5 billion issue by California. Increasing reliance on short-term debt has been a factor in several downgrades by the rating agencies, which view such reliance as symptomatic of fundamental budget imbalances.

Federal borrowing continued to be sizable in the third quarter, despite the hiatus in RTC's activity imposed by the lack of budgetary appropriations. Marketable borrowing was especially heavy because of redemptions of nonmarketable state and local government series (SLGS) issues.

Outlook

The staff projection assumes that short-term interest rates will decline little, if at all, from current levels over the next several quarters and that they will turn up gradually in 1994. By contrast, long-term rates are assumed to fall appreciably further, with a notable decline occurring in the period prior to mid-1993 before spending perks up noticeably. Credit availability is expected to improve as business and household balance sheets strengthen, intermediaries continue to rebuild their capital positions, and the shock of credit losses fades somewhat. The rise in short-term rates in 1994 is assumed necessary to prevent aggregate demand from gaining so much momentum that noninflationary levels of resource utilization are subsequently exceeded. In such circumstances, long-term rates are expected to edge down further as expectations of inflation continue to recede.

In this environment, debt growth is projected to average just 4-1/2 percent over the remainder of this year and then to pick up to 6 percent in 1993 and in 1994. At these rates, debt would grow slightly faster than nominal GDP. The pickup in total debt growth reflects a modest firming of private-sector borrowing; federal debt is expected to keep rising rapidly.

The staff expects debt growth in the nonfinancial business sector to increase moderately throughout the forecast period. The financing gap is projected to widen as business spending expands more rapidly than profits. We also expect the recent slower pace of equity financing to persist, partly because the penalties imposed by the credit markets for leverage appear to have diminished significantly. Borrowing in the bond markets should predominate, at least in coming months, but bank loans to businesses are expected to become an increasingly important source of credit next year, as bankers relax credit terms and as external financing needs become larger.

Household debt growth is expected to pick up moderately during the projection period. Mortgage borrowing should be boosted by a gradual improvement in housing activity. Use of installment debt is expected to be held down by relatively slow (by normal cyclical standards) expansion of spending on consumer durables and by further efforts to reduce household debt burdens. Nonetheless, the contraction of installment debt should cease by early next year and be followed by modest expansion.

Growth of state and local debt will likely be restrained as budgetary pressures force the postponement of some investment projects. In addition, bond retirements are expected to remain sizable as lower interest rates boost bond calls and as a significant volume of pre-refunded bonds reach redemption dates.

Federal debt growth is expected to strengthen early next year, when new appropriations for RTC activities are likely to be approved. In the absence of significant fiscal initiatives, the growth of the federal government's debt is expected to continue rising at or near a double digit rate throughout the projection period.

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	9.9	11.6	11.3	12.6	8.3	9.7	11.7	11.0
1984	14.5	16.9	13.8	13.2	12.0	18.7	15.4	9.1	13.0	9.1
1985	15.0	16.5	14.5	14.3	12.2	15.8	11.5	31.3	13.1	7.0
1986	12.9	13.6	12.7	14.1	17.3	9.6	11.9	10.5	9.1	4.7
1987	9.2	8.0	9.6	11.5	13.7	5.0	7.1	13.4	8.4	8.0
1988	9.1	8.0	9.4	11.1	12.5	7.2	8.3	7.0	8.4	7.7
1989	8.0	7.0	8.2	9.6	11.3	5.6	6.9	8.4	7.1	6.0
1990	6.6	11.0	5.3	7.2	9.0	2.2	3.3	5.9	4.5	4.1
1991	4.2	11.1	2.1	4.2	5.3	-1.6	-0.6	4.5	0.7	3.5
1992	4.9	10.9	3.0	4.8	6.1	-0.5	0.5	4.6	1.1	4.5
1993	6.0	12.3	3.8	5.5	6.4	1.9	2.0	3.9	1.8	4.9
1994	5.9	9.9	4.4	6.2	7.1	4.1	2.5	4.1	3.0	5.0
				Seasonally adjusted, annual rates						
1991 -- Q1	4.2	9.1	2.8	4.3	5.7	-1.3	0.9	4.2	4.6	1.8
Q2	5.0	10.9	3.2	5.0	5.8	-1.0	1.1	4.4	1.5	5.2
Q3	3.7	11.1	1.4	3.5	4.4	-3.1	-1.6	4.3	-2.4	4.0
Q4	3.7	11.9	1.0	3.8	4.8	-1.0	-2.8	4.7	-0.9	2.8
1992 -- Q1	5.8	13.3	3.3	5.3	7.2	0.4	0.8	4.6	4.9	6.2
Q2	4.7	12.3	2.2	3.9	4.7	-1.7	-0.9	6.4	-0.3	4.3
Q3	3.8	6.3	3.0	4.5	5.9	-0.6	1.3	3.1	-1.1	4.3
Q4	5.0	10.1	3.2	5.1	6.1	-0.1	0.9	3.9	1.0	3.4
1993 -- Q1	6.5	15.1	3.5	5.1	6.1	1.0	1.5	4.0	1.6	4.8
Q2	5.7	11.2	3.7	5.2	6.1	1.7	1.9	4.0	2.0	4.7
Q3	4.7	7.2	3.8	5.4	6.2	2.3	2.1	3.3	0.5	5.0
Q4	6.8	13.7	4.2	5.9	6.6	2.7	2.4	4.0	3.0	5.1

1. Published data through 1992 Q2.
2. Deposit insurance activity raised total debt growth roughly .5 percentage points in 1991 and is expected to increase 1993 growth by a similar amount. There is virtually no effect on debt growth in 1992.
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			
		1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Net funds raised by domestic nonfinancial sectors:												
1	Total	470.8	578.5	718.0	744.1	694.2	570.9	453.9	595.0	772.6	686.9	575.5	837.1
2	Net equity issuance	18.3	28.3	10.0	5.0	46.0	36.0	13.0	18.0	13.0	11.0	9.0	7.0
3	Net debt issuance	452.5	550.2	708.0	739.1	648.2	534.9	440.9	577.0	759.6	675.9	566.5	830.1
	Borrowing sectors:												
	Nonfinancial business												
4	Financing gap[2]	-4.4	-14.1	20.3	53.2	-43.1	-14.7	-1.4	2.8	4.5	17.1	29.7	29.8
5	Net equity issuance	18.3	28.3	10.0	5.0	46.0	36.0	13.0	18.0	13.0	11.0	9.0	7.0
6	Credit market borrowing	-22.3	19.7	71.4	94.1	29.4	-30.8	47.8	32.4	53.5	68.1	76.1	88.0
	Households												
7	Net borrowing, of which:	158.0	188.2	225.2	266.5	208.8	155.4	180.0	208.5	208.8	214.8	226.1	251.1
8	Home mortgages	137.1	166.4	186.1	219.9	196.0	129.5	167.0	173.1	177.0	180.5	186.8	200.0
9	Consumer credit	-12.6	-4.1	15.0	32.4	3.1	-13.5	-5.0	-1.0	8.0	13.0	18.0	21.0
10	Debt/DPI (percent)[3]	91.7	90.9	90.6	90.9	90.8	90.9	91.6	91.1	91.0	91.0	91.1	91.2
	State and local governments												
11	Net borrowing	38.5	41.1	36.5	39.6	41.1	58.4	28.5	36.4	37.4	38.2	31.7	38.6
12	Current surplus[4]	-39.6	-39.0	-39.3	-24.6	-39.4	-33.8	-38.4	-44.5	-41.9	-41.8	-38.5	-35.2
	U.S.government												
13	Net borrowing	278.2	301.3	374.9	338.9	368.9	351.9	184.6	299.7	459.9	354.8	232.6	452.4
14	Net borrowing;quarterly, nsa	278.2	301.3	374.9	338.9	83.4	63.6	73.3	81.0	106.1	64.3	85.3	119.2
15	Unified deficit;quarterly, nsa	266.8	327.9	364.3	344.9	115.5	28.4	70.6	113.3	110.7	38.6	88.9	126.0
	Funds supplied by												
16	depository institutions	-61.0	37.0	71.8	87.7	-4.2	1.8	78.8	71.4	84.2	55.6	33.1	114.1
	Memoranda: As percent of GDP:												
17	Dom. nonfinancial debt[3]	193.5	193.3	194.8	196.4	194.0	194.2	194.0	194.8	195.7	196.1	196.0	196.9
18	Dom. nonfinancial borrowing	8.0	9.3	11.4	11.3	11.1	9.1	7.4	9.6	12.5	11.0	9.1	13.2
19	U.S. government[5]	4.9	5.1	6.1	5.2	6.3	6.0	3.1	5.0	7.6	5.8	3.7	7.2
20	Private	3.1	4.2	5.4	6.1	4.8	3.1	4.3	4.6	4.9	5.2	5.4	6.0

1. Published data through 1992 Q2.
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 fluctuated widely over the intermeeting period, but has ended the period about in line with its level at the time of the August FOMC meeting. During the first three weeks of the period, the dollar fell nearly 4 percent on average--somewhat more against most major European currencies and somewhat less against the yen. The dollar declined on disappointing news about the U.S. economy accompanied by the Federal Reserve's easing on September 4, against a background of diminishing prospects for monetary easing in Germany, and a larger-than-expected fiscal stimulus package in Japan.

During the fourth and fifth weeks of the period, the dollar rose sharply against the European currencies and moderately against the Canadian dollar and the yen. The turning point against European currencies came as pressures began to mount within the EMS amid uncertainty ahead of the French referendum on the Maastricht treaty and as Sweden struggled to stay linked with EMS currencies after the devaluation of the Finnish markka on September 8. The rise in the dollar accelerated on September 14 when the Bundesbank eased somewhat in conjunction with a realignment of the lira. The dollar rose substantially further over the next several days as the pound and the lira were forced to leave the EMS and depreciated sharply, and as Spain, Portugal, and Ireland imposed capital controls.

In recent days, while exchange markets have calmed somewhat, the dollar has fallen broadly, backing off its highs against European currencies and reaching record lows against the yen. This recent weakening of the dollar has been associated with a growing market expectations of further easing by the Federal Reserve.

On balance, the dollar is down 3-1/2 percent against the mark and the franc from its level at the time of the August FOMC meeting, and up 8 percent against the pound and 11-1/2 percent against the lira. The dollar also has fallen 5-1/2 percent against the yen and risen 4-1/2 percent against the Canadian dollar. The net strengthening of the yen reflects relatively improved prospects for Japanese growth stemming from the shift in Japanese fiscal policy and a possible shift in demand toward Japanese assets during the period of turmoil in the EMS. The Canadian dollar has weakened in part because of the increasingly gloomy outlook for the vote on constitutional reforms in the referendum on October 26.

German three-month interest rates have come down 80 basis points on balance during the intermeeting period. U.K. rates have declined 125 basis points on balance, after having been pushed sharply higher briefly before the pound was cut loose from the EMS. French and Italian rates remain 275 basis points higher than they were at the time of the last meeting, though below the peak levels reached during the past two weeks. Long-term rates in Germany, France, and the United Kingdom have declined between 20 and 45 basis points, whereas those in Italy have risen. Both short-term and long-term rates in Japan changed little over the period. After declining earlier in the period, Canadian short-term rates have risen 250 basis points in the wake of downward pressure on the Canadian dollar, with half of this increase occurring on September 30 in response to heightened uncertainties about the constitutional referendum.

. Early in the period, the desk purchased $500 million against DM .

Economic indicators in the major foreign industrial countries have been somewhat weaker than expected over the intermeeting period, although they do point to continued low growth of real output on average. Japanese real GDP grew 0.7 percent (at an annual rate) in the second quarter, about in line with our expectations; indicators for the third quarter, including retail sales, industrial production, orders, and business confidence, remain sluggish. The announcement of a stronger-than-expected fiscal stimulus package brightened prospects for Japanese activity over the year ahead, however. In Germany, real GDP in the second quarter turned out to be a bit stronger than anticipated, but domestic demand was weak, and industrial production and new orders have declined in recent months. Real GDP in the United Kingdom declined further in the second quarter; U.K. manufacturing output remained flat through July and business confidence has turned down again in August. Indicators in France and Italy have been somewhat weaker than anticipated and point to continued lethargic growth. In Canada, despite a sharp drop in investment, real GDP showed slight positive growth in the second quarter; more recently, housing starts, retail sales, and factory orders have declined, but consumer and business confidence appears to have picked up a bit.

The sluggishness of output growth has helped push unemployment in many of the G-7 countries to relatively high levels. Unemployment rates of about 10 percent or more now prevail in the United Kingdom, France, Italy, and Canada, and labor-market slack has helped to moderate inflation in these countries (see the table below). In Japan, although the unemployment rate has remained fairly stable at a little over 2 percent, labor market slack has shown up in a declining offers-to-applicants ratio and a sharp drop in overtime hours; moreover, inflation has receded. In western Germany, although the unemployment rate has moved up after declining through early this year, the labor market has remained fairly tight, and inflation has remained near 3-1/2 percent.

UNEMPLOYMENT AND INFLATION RATES
(percent)

	Unemployment		12-month CPI Inflation	
	Latest month	Year earlier	Latest month	Year earlier
Japan	2.2	2.2	2.2	3.0
W. Germany	6.7	6.4	3.6	3.9
U.K.	9.9	8.6	3.6	4.7
France	10.3	9.5	2.8	3.0
Canada	11.6	10.5	1.2	5.8
Italy	11.3	11.3	5.4	6.7

The weakness of activity abroad has manifested itself in the U.S. external accounts. During the second quarter, real net exports of goods and services and the current account deteriorated substantially, largely reflecting a worsening of the merchandise trade deficit. Merchandise exports were little changed from their rates during the preceding two quarters, while imports of computers surged and imports of other goods grew strongly as well. In addition, net service receipts and net investment income declined substantially more than had been expected. The merchandise trade deficit widened further in July, as imports continued to rise and exports remained little changed from the second-quarter rate. Prices of non-oil imports during July-August were 4-1/4 percent (at an annual rate) above their level in the second quarter, in part because of the depreciation of the dollar earlier this spring and summer.

Outlook

We project that growth of real GDP in foreign economies will remain weak during the second half of 1992, and will recover to a little more than a 3 percent rate during 1993. This outlook is somewhat weaker than our previous forecast, reflecting the weight of recent economic indicators on the negative side in industrial and developing countries. The bad news about recent activity has been partly offset by the greater-than-expected fiscal stimulus in Japan, and easier monetary conditions in Europe after the recent turmoil in the EMS. By itself, the unexpected decline in interest rates in Germany and several other European countries has led us to raise the projected path of the dollar. The weaker foreign growth outlook and the somewhat stronger dollar, along with the recent negative surprise on U.S. international transactions in the second quarter, produce a less positive trajectory for real net exports over the forecast period than in the August Greenbook, especially in the near term.

The Dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to be somewhat higher through the end of 1993 than in the August Greenbook, reflecting developments over the intermeeting period, including the easing of monetary conditions by the Bundesbank. This path is somewhat above the level prevailing on September 30, a level that appears to incorporate some expected Federal

Reserve easing in the near term. Over the year ahead, this forecast incorporates some further decline in the dollar against the yen and an offsetting rise in the dollar against European currencies. The forecast also assumes that the lira will deviate little from current rates vis a vis the mark and other EMS currencies before rejoining the ERM by year-end, and that the pound will drift somewhat lower before rejoining the ERM after midyear 1993. Against the currencies of key developing countries, the CPI-adjusted value of the dollar is expected to show a moderate depreciation on average through the end of the forecast period.

Foreign Industrial Countries. Recent events in the EMS and the evidence of further weakening of real growth in several major countries has resulted in significant downward revisions to the projected paths of foreign short-term interest rates over the forecast period. On a weighted average basis, the expected level of three-month interest rates in other G-10 countries over the year ahead is about 80 basis points lower than in the August Greenbook. German short-term rates are projected to decline 100 basis points further, to a level of 8 percent by the end of 1993. Rates in France and the United Kingdom are projected to move roughly in line with German rates. Short-term rates in Japan, which are already substantially lower than European rates, are projected to decline somewhat more in the near term. Foreign long-term interest rates are projected to decline moderately on average over the forecast period.

GDP growth in the major foreign countries (weighted by shares in U.S. exports) is projected to average 2 percent at an annual rate over the six quarters through the end of 1993, 1/2 percentage point less than in the previous forecast. The outlook for growth in most European countries over this period has worsened by 1/4 to 1/2 percentage point. Canadian growth has been marked down by nearly 1 percentage point, whereas growth in Japan has been raised 1/4 percentage point. Downward revisions in all cases can be attributed primarily to worse-than-anticipated outcomes for both coincident and forward-looking economic indicators in recent months. In some cases, the negative implications of the bad news in recent data are, of course, mitigated by lower interest rates (most notably the United Kingdom and Germany) and currency depreciations (the United Kingdom and Italy). In Germany, the positive effects of lower interest rates are partly offset by the depressing effects on net exports of the effective appreciation of the mark. On balance, we expect German real GDP growth to remain in the vicinity of 2 percent over the year ahead. Recent weakness in the Canadian economy points to growth of no more than 1 percent during the second half of 1992, and a slow recovery, to 2-1/2 percent, in 1993. The improvement in the outlook for GDP growth in Japan, to a projected rate of 2-3/4 percent in 1993, is attributable entirely to the new Japanese fiscal package.

We project consumer-price inflation in the major foreign industrial countries (weighted by GDP shares) to average 3 percent at an annual rate over the next six quarters, slightly more than in the previous forecast. Higher inflation in Italy and the United Kingdom resulting from the recent sharp currency depreciations and monetary easing in those countries offsets small reductions in projected inflation rates elsewhere. Lower growth in Germany and net appreciation of the mark reduce German inflation a bit; nevertheless, we still expect German inflation to remain above 3 percent in 1993.

Developing Countries. Real GDP growth in the developing countries that are major U.S. trading partners is projected to decline from 5 percent in 1991 to 4-1/2 percent in 1992, and to recover to about 5 percent in 1993. This pattern holds for Mexico and most of the newly industrializing Asian economies. Growth in Latin American countries other than Mexico is expected to slow somewhat in 1992-93. This forecast for output growth in developing countries is somewhat lower than that in the last Greenbook, partly because of the weaker outlook for industrial countries. In addition, growth prospects in Mexico have diminished as the result of the effects of a more concerted effort by the Mexican government to quell inflationary pressures. We continue to assume that the North American Free Trade Agreement will be passed and that its implications for Mexico will be positive.

U.S. Real Net Exports of Goods and Services. We expect that real net exports of goods and services declined a bit further during the third quarter and will remain essentially unchanged in the fourth quarter. Exports are projected to have resumed expanding in the third quarter, albeit only moderately, but imports likely continued to grow faster than exports, though less rapidly than in the first half of the year. During 1993, we project net exports of goods and services to follow a slight positive trajectory, with continued growth in net service receipts partly offset by a slight further decline in net exports of goods. (In the previous forecast we had anticipated that modest growth in net exports of goods would augment the expansion of net services.)

In light of the weaker outlook for growth abroad and the somewhat higher dollar, we have revised down the projected growth of nonagricultural exports over the forecast period by about 1-1/2 percentage points at an annual rate. Nevertheless, growth of these exports is still projected to recover to an 8 percent rate during 1993, as growth abroad picks up and stimulus from the net decline in the dollar earlier this year shows through. The growth of agricultural exports is expected to reflect a bunching of shipments of soybeans to

Mexico and Japan in the near term; little change is expected for 1993, on average, from 1992 levels.

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

	1992				Projection 1993	1994
	Q1	Q2	Q3	Q4	Q4	Q4
Nonag. exports	0.2	1.1	3.5	6.2	8.0	8.4
Agric. exports	6.4	-10.9	25.7	-7.8	0.3	0.3
Non-oil imports	5.2	14.8	8.9	4.1	6.3	6.7
Oil imports	1.7	41.1	18.2	18.8	5.2	8.4

* GDP basis, 1987 dollars.

After having slowed in the third quarter from its high second-quarter rate, the growth of non-oil imports is projected to slow further during the fourth quarter, and to pick up moderately during 1993. Nonetheless, the projected increase in these imports in the third quarter is noticeably greater than in the previous forecast because of a continuing surge in domestic computer purchases. Import growth in the fourth quarter was lowered because of the weaker outlook for U.S. GDP growth. The pick-up in imports beyond the fourth quarter is slightly faster than previously projected because of the somewhat higher path of the dollar.

The quantity of oil imports is projected to increase further in the fourth quarter, as imports offset some of the domestic oil production lost to Hurricane Andrew. Imports are likely to ease somewhat in the first quarter of 1993 before resuming an upward trend brought about by the secular decline in U.S. oil production.

Oil Prices. Current prices in the spot and futures markets for crude oil are consistent with an average U.S. oil import unit value of $19 per barrel in the fourth quarter of 1992. This projection is slightly below that in the last Greenbook. The widely expected increase in OPEC's quota for the fourth quarter had little effect on prices, as did the withdrawal of Ecuador from the cartel. Market concerns appear to be focused on the prospects for a cold winter, along with questions about the availability of Russian supplies in the winter. We assume that WTI spot prices will remain at about current levels ($21.50 per barrel) through the forecast period; this level of spot prices is consistent with an average import price of $19 per barrel.

Over the year ahead, this price path is $1 above that in the August Greenbook, because of our reassessment of the likely timing of Iraq's re-entry to the world oil market. We now assume that Iraq will not resume oil exports under U.N. auspices until the second half of 1993. We also assume that in the meantime, most of the Iraqi shortfall will continue to be made up by increased production in Saudi Arabia and Kuwait (where reconstruction continues at a rapid pace). A continued absence of Iraq from the world oil market beyond the second half of 1993 would put upward pressure on oil prices.

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

					---------- Projection ----------	
	1992				1993	1994
	Q1	Q2	Q3	Q4	Q4	Q4
PPI (exp. wts.)	-0.3	3.9	2.8	1.9	1.6	1.2
Nonag. exports*	0.1	2.7	2.8	2.8	1.7	1.1
Non-oil imports*	2.1	0.2	3.8	3.6	3.1	2.6
Oil imports ($/bl)	15.27	17.47	18.61	19.00	19.00	19.00

* Excluding computers.

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports (excluding computers) is projected to increase at a moderate pace over the period ahead, roughly in line with U.S. producer prices. The price of non-oil imports (excluding computers) is expected to increase at a little more than a 3 percent annual rate through 1993. This projected rate of increase is somewhat less than in the June forecast as a result of the somewhat higher path of the dollar.

Nominal Trade and Current Account Balances. The staff projects the merchandise trade deficit to widen from an annual rate of just under $100 billion in the second quarter of 1992 to about $120 billion by the second half of 1993. This wider deficit exceeds that in the previous forecast by about $8 billion. The factors contributing to this revision include higher oil prices, the weaker outlook for growth abroad, the somewhat stronger dollar, and a significantly stronger outlook for net imports of computers that is partly offset by a weaker outlook for U.S. growth.

After having worsened sharply in the second quarter, the current account is expected to show a transitory $10 billion (annual rate) improvement in the third quarter. That improvement primarily reflects the expected one-time receipt of payments from foreign reinsurance companies covering losses associated with Hurricane Andrew.[1] As in the August Greenbook, we expect improvements in net services and net investment income receipts to offset much of the worsening of the trade balance over the rest of the forecast period. However, the current account is projected to follow a substantially weaker path than that in the previous projection, reaching a deficit of over $70 billion by the end of 1993 ($25 billion more than in the August Greenbook). This revision reflects the fact that we have carried forward much of the

1. By NIPA accounting practices, receipts from foreign reinsurance companies covering losses associated with Hurricane Andrew will be reflected in a reduction of current-dollar U.S. service payments to foreigners. However, these transactions will not affect constant-dollar net services. The difference between nominal and real net services will be reflected in an increase in the deflator for service payments.

negative surprise about net services and investment income that occurred in the second quarter.

Outlook for 1994. In extending the forecast beyond 1993, we have projected the growth of real GDP abroad to increase further. The dollar is projected to appreciate somewhat during 1994 assuming some firming of U.S. short-term interest rates. Real net exports continue to show a slight positive trend and the current account deficit falls a bit below $70 billion for the year.

September 30, 1992

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1990-94
(Percent change from fourth quarter to fourth quarter)

			Projection		
Measure and country	1990	1991	1992	1993	1994
REAL GDP					
Canada	-2.0	-0.0	0.9	2.6	3.2
France	1.5	1.7	2.0	2.6	2.8
Western Germany	5.8	2.0	2.1	2.0	2.6
Italy	1.6	1.8	1.4	1.7	2.1
Japan	5.2	3.0	1.5	2.8	4.3
United Kingdom	-1.0	-1.6	0.2	2.7	2.8
Average, weighted by 1987-89 GDP	2.7	1.5	1.4	2.5	3.2
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.9	1.7	2.0	3.2	3.7
G-6	0.6	0.8	1.2	2.6	3.3
Developing countries	5.0	5.0	4.4	5.1	5.5
CONSUMER PRICES					
Canada	4.9	4.1	2.0	2.3	2.3
France	3.6	2.9	2.8	2.8	2.7
Western Germany	3.0	3.9	3.0	3.2	3.0
Italy	6.3	6.1	7.4	4.3	3.4
Japan	3.2	3.2	2.3	2.1	2.1
United Kingdom	10.0	4.2	3.3	4.0	4.8
Average, weighted by 1987-89 GDP	4.8	3.9	3.3	3.0	2.9
Average, weighted by share of U.S. non-oil imports	4.4	3.8	2.6	2.6	2.6

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	-43.9	-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	563.4	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	408.0	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	155.4	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	607.3	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	507.8	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	50.9	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	456.8	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	99.5	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	-1.4	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	-0.1	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	14.7	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	14.8	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	-23.6	-71.2	-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	-68.9	-97.7	-115.7	-108.9	-73.4
Exports	379.9	386.6	386.2	402.1	402.5	413.3	416.6	431.4	431.8	430.3	361.7	388.7	416.0
Agricultural	43.0	40.5	39.4	37.9	39.2	37.5	40.7	43.2	43.3	42.0	42.2	40.2	40.1
Nonagricultural	337.0	346.1	346.8	364.2	363.3	375.8	375.9	388.2	388.5	388.3	319.5	348.5	375.8
Imports	489.4	485.8	501.7	513.2	475.8	478.9	497.3	505.6	500.7	528.0	477.4	497.6	489.4
Oil	63.2	51.3	61.8	72.9	51.7	51.7	52.5	48.8	41.5	51.9	50.9	62.3	51.2
Non-oil	426.3	434.5	439.9	440.3	424.2	427.1	444.8	456.8	459.2	476.1	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	27.4	21.0	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	17.9	5.5	14.4	19.3	16.4
Direct, net	52.1	51.5	54.0	59.7	61.7	53.0	48.3	48.5	55.3	46.4	47.8	54.3	52.9
Portfolio, net	-34.8	-38.7	-37.1	-29.6	-33.9	-37.3	-36.0	-38.7	-37.4	-40.9	-33.5	-35.1	-36.5
Military, net	-7.5	-6.5	-6.8	-10.5	-10.3	-5.7	-4.0	-2.2	-2.5	-2.6	-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	57.9	54.5	32.6	39.9	50.8
Transfers, net	-26.2	-29.6	-28.8	-47.1	56.8	16.5	-24.0	-17.1	-28.0	-30.9	-25.6	-32.9	8.0

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

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$)	-49.4	-48.8	-45.5	-47.8	-48.7	-45.0	-43.5	-46.0	-47.2	-42.7	-40.9	-46.7	-44.8
Exports of G+S	569.9	576.9	585.4	594.9	605.5	616.5	627.2	637.9	649.0	660.3	568.9	600.6	643.6
Merchandise	413.4	418.3	424.6	431.9	440.1	448.7	457.1	465.6	474.5	483.4	411.9	436.3	470.1
Services	156.5	158.6	160.8	163.0	165.4	167.8	170.1	172.3	174.6	176.9	157.0	164.3	173.5
Imports of G+S	619.4	625.7	630.9	642.7	654.2	661.5	670.7	684.0	696.2	703.0	609.8	647.3	688.5
Merchandise	519.8	526.9	530.9	541.9	552.8	559.5	567.9	580.5	591.9	598.0	510.6	546.3	584.6
Oil	53.1	55.4	53.5	57.2	60.0	58.3	58.2	62.0	64.9	63.2	51.5	57.3	62.1
Non-oil	466.6	471.3	477.3	484.5	492.7	501.1	509.5	518.3	526.9	534.8	459.0	488.9	522.4
Services	99.6	98.9	100.0	100.8	101.4	102.0	102.8	103.5	104.3	104.9	99.2	101.1	103.9
Memo:(Percent changes 1/)													
Exports of G+S	4.7	5.0	6.0	6.7	7.3	7.5	7.1	7.0	7.1	7.1	2.8	6.9	7.1
of which: Goods	5.4	4.8	6.2	7.1	7.8	8.1	7.7	7.7	7.8	7.8	2.7	7.3	7.7
Imports of G+S	8.2	4.2	3.3	7.7	7.3	4.5	5.7	8.2	7.3	4.0	7.5	5.7	6.3
of which: Non-oil Goods	8.9	4.1	5.2	6.2	6.9	7.0	6.9	7.1	6.7	6.1	8.2	6.3	6.7
Current Account Balance	-61.1	-80.3	-70.3	-73.1	-70.3	-71.9	-64.3	-68.8	-67.7	-69.1	-59.0	-71.4	-67.5
Merchandise Trade, net	-107.0	-112.7	-111.2	-116.2	-120.1	-118.8	-119.9	-125.3	-129.0	-126.6	-96.6	-116.6	-125.2
Exports	437.3	441.9	449.3	458.1	467.7	477.7	487.1	496.6	506.4	516.2	435.3	463.2	501.6
Agricultural	44.0	42.3	42.5	43.0	43.5	44.1	44.6	45.1	45.6	46.1	42.9	43.3	45.3
Nonagricultural	393.3	399.6	406.8	415.1	424.2	433.5	442.5	451.6	460.8	470.2	392.4	419.9	456.2
Imports	544.3	554.6	560.5	574.2	587.8	596.5	607.0	621.9	635.4	642.9	531.9	579.8	626.8
Oil	57.5	61.3	59.2	63.3	66.4	64.5	64.4	68.6	71.8	69.9	53.0	63.4	68.7
Non-oil	486.8	493.3	501.4	510.9	521.4	532.0	542.5	553.3	563.6	573.0	478.9	516.4	558.1
Other Current Account	35.1	24.0	28.7	31.1	34.0	34.0	39.3	41.5	43.5	43.5	26.9	32.0	41.9
Invest. Income, net	10.8	8.4	12.2	12.0	15.8	12.9	16.3	15.0	17.8	14.0	10.7	13.2	15.8
Direct, net	48.4	46.9	46.4	47.3	48.6	48.6	48.2	49.7	50.3	50.9	49.2	47.7	49.8
Portfolio, net	-37.6	-38.5	-34.2	-35.3	-32.8	-35.7	-31.9	-34.8	-32.6	-36.8	-38.6	-34.5	-34.0
Military, net	-2.7	-2.4	-2.0	-1.6	-1.0	-0.6	-0.2	0.2	0.6	1.0	-2.5	-1.3	0.4
Other Services, net	70.0	60.6	62.3	64.3	66.6	68.8	70.9	72.7	74.3	76.3	60.7	65.5	73.5
Transfers, net	-32.2	-34.2	-31.6	-31.6	-31.6	-34.2	-31.4	-31.4	-31.4	-33.8	-31.3	-32.2	-32.0

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