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Strictly Confidential (FR) Class II FOMC

March 17, 1993

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 staff projection for economic activity has changed little since the January Greenbook. While incoming data suggest that first-quarter GDP growth may be slightly greater than we forecast earlier, a less-promising trade outlook and the adoption of more restrictive fiscal assumptions have taken just a hair off the pace of expansion over the remainder of the projection period.

We have patterned our new fiscal assumptions on President Clinton's proposals. While the analysis is not clear-cut, we are anticipating that forward-looking consumers will begin to adjust their spending this year to the higher tax liabilities they will face and that this adjustment will largely offset the positive demand effects of the short-run stimulus package. The contractionary effects are expected to become dominant in 1994, when the deficit-reduction side of the proposal comes to the fore.

The effects of the increased fiscal drag would be greater in this forecast were it not for the favorable bond market response we have seen; although a significant decline in long rates had been part of our earlier forecasts, recent developments have prompted us to lower the path of rates slightly through next year. The new initiatives to encourage lending to smaller businesses increase the probability that an easing of the credit crunch will help to bolster the economy.

On balance, real GDP is expected to grow almost 3 percent in both 1993 and 1994. The pace of expansion is sufficient to gradually reduce the unemployment rate, which is projected to decline to almost 6-1/2 percent by the end of next year. The slack in the economy should result in a further slowing in inflation. But, reflecting a reassessment of underlying trends and also the effects of likely governmental actions, consumer prices are now expected to decelerate somewhat less over the projection period. We now put the 1994 increase in the CPI excluding food and energy at about 2-3/4 percent--1/4 percentage point higher than in the previous forecast.

Recent Developments and the Near-Term Outlook

We now estimate that real GDP will increase at a 3 percent annual rate in the first quarter--1/4 percentage point faster than in the last Greenbook forecast. A key element in that projection is the recent improvement in the labor market. The unemployment rate has fallen 1/4 percentage point over the past two months, which suggests the economy is growing faster than its potential rate (assumed to be in the vicinity of 2-1/4 percent). Payrolls rose sharply in February, and aggregate production-worker hours in January and February were almost 2-1/2 percent (annual rate) above the fourth-quarter average. Allowing for some further gain in productivity after the fourth-quarter surge, this increase in hours is consistent with a solid rise in real GDP.

Among the key components of aggregate demand, real consumer spending is expected to rise at a 3-1/4 percent annual rate in the first quarter; outlays likely will increase faster than disposable income for the third quarter in a row. In part, this rise in spending is the product of quarterly arithmetic; recent monthly increases in retail sales have been smaller than during the holiday season. Consumer sentiment appears to have become somewhat less upbeat since December.

Residential investment should increase somewhat further this quarter as construction activity reflects the surge in starts at the end of 1992. Starts and sales data thus far this year, however, have been surprisingly sluggish in the face of a confluence of factors favorable to housing demand. Single-family starts were 1.06 million units (annual rate) in January and 1.05 million in February--both appreciably below the fourth-quarter pace. However, the mortgage bankers' survey and other, anecdotal evidence suggest that low interest rates are bolstering home sales.

Business fixed investment is projected to rise at roughly a 10 percent annual pace in real terms again in the current quarter, led by further large gains in equipment spending. Orders for nondefense capital goods other than aircraft fell only slightly in January after a big increase at the end of 1992. Computers remain an area of particular strength, but trends appear to have turned more positive for other equipment as well. The proposed investment tax credit may be providing some stimulus to equipment spending, but the major effect is unlikely to be felt until the ITC is enacted and businesses have assessed the actual details of the plan. Nonresidential construction activity is expected to be little changed in the first quarter.

We are projecting a moderate step-up in nonfarm inventory investment in the current quarter. The increase in motor vehicles assemblies this quarter, coupled with a flattening of sales, appears to have led to a rise in stocks. Outside of motor vehicles, a decline in inventories in January left stock-to-sales ratios quite low in a number of industries. Manufacturing purchasing managers report lengthening delivery times--which may encourage them to hold larger amounts of materials and supplies. Our forecast anticipates some accumulation of non-auto inventories over the balance of the quarter.

The recent news on prices has not been especially encouraging. Prices of industrial and construction materials have firmed in response to rising activity, with trade and environmental restrictions exacerbating pressures in sectors such as steel and forest products. The CPI excluding food and energy increased 0.5 percent in both January and February. Although special factors (such as higher excise taxes on tobacco) accounted for part of the pickup, we are interpreting the numbers as indicating that the underlying trend in consumer price inflation is a little higher than we had previously thought. Wage increases remain modest, however, suggesting that a significant deterioration in inflation is not in the cards at this time.

The Outlook Beyond the Current Quarter

Key assumptions. We continue to assume that short-term interest rates will change little over the 1993-94 projection period. Long-term interest rates have come down somewhat faster than we anticipated, evidently because of the expectational effects of the Clinton budget proposals and subsequent congressional actions to cut spending further. We believe that some additional decline in long rates is probable, as the markets adjust to the continued low levels of short-term rates and inflation. Nonetheless, bond yields are just a little lower in 1994 than projected in the January Greenbook--partly because inflation does not decline as much in this projection.

The growth of the broad monetary aggregates in early 1993 has been depressed by a temporary slowing of mortgage refinancing and distortions of seasonal factors arising from the unusual strength of the aggregates early in 1991 and 1992 following policy easings. Even abstracting from such special factors, underlying growth of M2 and M3 has been extremely weak relative to the pace of nominal spending. In the projected economic and interest rate environment, depositories are unlikely to regain their previous share of credit supply during the expansion; moreover, given the increased costs of intermediation, their asset growth probably will continue to be financed to a greater extent than before with nondeposit sources of funding. In light of a still steeply sloped yield curve, the demand for monetary assets by the public will likely remain subdued, as the public continues to substitute away from such assets in favor of capital market instruments and debt repayment. Consequently, both M2 and M3 are expected to finish this year below the bottom ends of their respective target ranges and to grow relatively slowly in 1994.

For fiscal policy, we have incorporated the major elements of President Clinton's budget proposal, taking into account the congressional efforts to make up the shortfall in targeted deficit-reduction suggested by the CBO and JCT assessments of the Administration numbers. We have assumed that the short-run stimulus package will be enacted in the next few weeks, along with a budget resolution consistent with the overall package, and that the rest of the plan will be passed into law by late summer. Apart from the uncertainties attending the ongoing legislative process, the reader is cautioned that, in light of such extraordinary devices as retroactive income tax increases and the temporary, incremental investment tax credit, the assessment of the aggregate demand effects of the program is far from straightforward.

It should be noted that the staff had previously assumed that some deficit reduction would be forthcoming, on the basis of adherence to OBRA requirements. This has muted the effects of the Clinton plan on the staff's budget projections. As shown in the table, our forecast of the unified budget deficit has been lowered by $18 billion in FY1993 to $277 billion and by $28 billion in F1994 to $279 billion. The direct effects of the new policy assumptions raise our forecast of the deficit in the current fiscal year by

$6 billion and reduce the deficit in FY1994 by $23 billion. In addition, these projections incorporate lower outlays for deposit insurance, somewhat higher effective tax rates, and changes to several other technical assumptions.

REVISIONS TO STAFF UNIFIED BUDGET DEFICIT PROJECTIONS
(Billions of dollars)

	FY1993	FY1994
Deficit, January Greenbook	295	307
New policy assumptions		
Higher receipts	0	-29
Higher outlays	6	6
Economic assumptions		
GDP	-4	-2
Lower interest rates	0	-2
Technical assumptions		
Deposit insurance	-10	-4
Other	-10	3
Deficit, March Greenbook	277	279

The trade-weighted foreign exchange value of the dollar has been about unchanged, on balance, since the FOMC meeting and is projected to appreciate gradually over the projection period. Although the staff still expects foreign economic activity to accelerate through 1994, the forecast has been revised downward from the last Greenbook, because of weaker growth in the major industrialized countries. The projection of crude oil prices is essentially unchanged from the January Greenbook. The posted price of West Texas intermediate crude oil is expected to average around $18.75 per barrel in the first half of this year before edging down to $18.50 per barrel.

Summary of the forecast. Although the forecast of real GDP growth is little changed from the last Greenbook, the composition of output has been altered somewhat. Most notably, in response to the

Clinton fiscal initiatives and the decline in long-term interest rates, business investment has been strengthened significantly in this forecast and personal consumption has been weakened. And we now expect the external sector to be a greater drag on real GDP than before in 1993 and 1994, because of the higher value of the dollar and somewhat slower growth in the economies of our major trading partners.

STAFF REAL GDP PROJECTION--SELECTED COMPONENTS
(Percent change, Q4 to Q4)

	1992	1993	1994
Real GDP	3.2	2.9	2.9
Previous	2.9	2.8	3.0
Real PCE	3.3	3.0	2.9
Previous	3.3	3.1	3.3
Real PDE	12.5	12.4	12.0
Previous	10.8	11.1	9.3

Consumer spending. After a 3-1/4 percent increase in 1992, real personal consumption expenditures are expected to grow 3.0 percent in 1993 and 2.9 percent in 1994--downward revisions from the January Greenbook of 0.1 percentage point and 0.4 percentage point, respectively. This change in the outlook reflects the contractionary effect of higher personal income taxes under the Clinton plan, which is only partially offset by lower interest rates. The increased taxes represent a reduction in the "permanent" income of the affected individuals. Higher-income taxpayers, especially, are likely to be forward-looking with respect to their personal finances, and we anticipate that they will begin adjusting their consumption downward before very long. Although the higher taxes do not need to be paid until 1994, we expect approximately one-half of the adjustment to consumption to be complete by the end of this year and virtually all of the adjustment by the fourth quarter of 1994. During the period of adjustment, the personal saving rate is likely to be depressed.[1]

Housing. After a gain of more than 14 percent in 1992, increases in real residential investment are projected to slow to 8 percent in 1993 and 4-1/2 percent in 1994. Single-family housing starts are expected to turn upward again in the near term and to exceed 1.2 million units in 1994. Low mortgage rates, continued growth in real incomes, and--as prices firm--a stronger investment motive for owning a home all are projected to be important influences sustaining the construction of single-family units.[2] Reports of a dearth of developed lots have surfaced recently, but this shortage has not been confirmed by a rise in home prices; to the extent that the reports are true, the easing of the credit crunch should help to alleviate the problem over time. We expect the spectacular run-up in spot lumber prices to be largely reversed and to have only a small effect on housing construction. In the multifamily market, housing starts are expected to drift upward to 220,000 units in 1994, as vacancy rates decline and real rents firm.

Business fixed investment. Business capital spending is projected to remain strong over the forecast period, stimulated by higher levels of economic activity, lower interest rates, and the investment tax credit. Given the complexity of the ITC proposal and the uncertainty about the ultimate form of the legislation, we do not expect to see much of a boost to equipment spending until after the Congress acts on the President's proposal. The ITC will reduce

1. Because the national income accounts measure personal taxes on a cash rather than a liability basis, the underlying movements in the personal saving rate will be distorted. In 1993, consumer spending will be reduced, but the NIPA will not yet pick up the higher taxes; this artificially boosts the saving rate by about 0.3 percentage point. The NIPA will recognize the additional 1993 tax liabilities in 1994, depressing the saving rate by 0.3 percentage point at that time.

2. Higher marginal tax rates will encourage high-income households to make debt-financed investments in housing.

the cost of capital and encourage both large and small firms to adopt somewhat more capital-intensive forms of production; in the case of the temporary ITC for large firms, the rise in capital intensity will be transitory, with capital-output ratios eventually returning to previous levels. In addition, there is likely to be some shifting into late 1994 of investment that would have occurred in early 1995 as large firms seek to maximize benefits from the temporary credit.[3] Based on these considerations, we now project real spending on producers' durable equipment to rise about 12 percent per year in 1993 and 1994 before decelerating appreciably in early 1995 when the ITC for large firms expires.

Investment in nonresidential structures is expected to increase 3-1/4 percent in 1993 and 4 percent in 1994. This sector should benefit from lower long-term interest rates, any easing of the credit crunch, and efforts (such as the proposed passive loss relief for real-estate businesses) to boost the liquidity of the commercial real estate market.[4] Significant growth is expected to come from public utilities in response to requirements of the Clean Air Act. In addition, we are projecting larger spending increases in the non-office commercial and industrial sectors. Expenditures on drilling and mining also are projected to drift upward, with the bulk of the exploration activity concentrated on natural gas, which benefits relative to crude oil both from the BTU tax and from efforts to shift to cleaner-burning fuels. In contrast, we expect office

3. The quantity of investment that is shifted between 1994 and 1995 is likely to be restrained by the requirement that qualifying equipment be installed and contributing to the firm's operation by the end of 1994, and also by the stringent recapture provisions that would penalize firms that reduce spending after 1994.

4. The Clinton plan lengthens the tax depreciation life for nonresidential structures from 31-1/2 years to 36 years. This change will raise the cost of capital only slightly, and its impact on investment in nonresidential structures is likely to be small.

construction to continue to trend lower through 1993 and to bottom out in 1994.

Inventory investment. Inventories appear to be fairly lean on the whole, and with the sustained pickup in economic activity, we expect businesses to build their stocks. In addition, producers of capital goods are likely to raise their inventories in anticipation of the increased shipments associated with the ITC; this production smoothing boosts inventory investment (and real GDP) into early 1994 and restrains it in the latter part of next year as these added stocks are run off.

Net exports. Real exports of goods and services are projected to increase 5-1/4 percent in 1993 and 5-1/2 percent in 1994, restrained by the appreciation of the dollar and only a mild recovery in foreign activity. Real imports of goods and services are forecast to rise 9-1/2 percent this year and another 7-3/4 percent in 1994, reflecting favorable relative prices and growing domestic spending. As a result, net exports subtract somewhat more than 1/2 percentage point from real GDP growth in 1993 and somewhat less than 1/2 percentage point in 1994--more than in the January Greenbook. (A detailed discussion of these developments is contained in the International Developments section.)

Government purchases. Real federal purchases are forecast to fall 5-3/4 percent this year and 4 percent in 1994. Real defense spending is expected to decline more than 9 percent this year and almost 7 percent in 1994, reflecting declines in employment of 5 percent per year and even sharper reductions in major weapons procurement. Small increases in spending on health, space, basic research, law enforcement, and agency modernization programs raise real nondefense purchases 2-1/2 percent in 1993 and 1-3/4 percent in 1994.

The forecast for state and local purchases has been revised upward from the January Greenbook, because of increased federal grants for infrastructure improvement, education and training, and nutrition programs. We now expect real purchases to increase 1-1/4 percent in 1993 and 2-1/4 percent in 1994. Despite greater federal assistance, many governmental units will remain under considerable fiscal pressure, and as a result, we anticipate income tax hikes and higher indirect business taxes in both years. These measures, together with the improvement in the economy as a whole, are sufficient to reduce the state and local deficit on operating and current account from $42 billion in 1992 to $13 billion in 1994.

STAFF LABOR MARKET PROJECTIONS
(Percent change, Q4 to Q4, except as noted)

	1992	1993	1994
Output per hour, nonfarm business	3.3	1.8	1.6
Nonfarm payroll employment	.4	1.7	1.7
Civilian unemployment rate[1]	7.3	6.9	6.6

1. Average for the fourth quarter.

<u>Labor markets</u>. Labor markets are expected to firm gradually over the forecast period in response to rising levels of economic activity. Although businesses are expected to maintain their focus on improving efficiency, given the trimming of workforces that already has occurred, we believe that the scope for increasing output per hour by this means has been reduced. Thus, growth in labor productivity is expected to slow from the rapid pace in 1992, and employment is projected to grow moderately. We expect the labor force to increase again, after the recent lull. Some of this increase reflects the expanded summer jobs program, but we also are expecting the expanding economy to attract new entrants or

reentrants into the labor force.[5] On balance, we are projecting the unemployment rate to decline only a bit further this year--to 6.9 percent in the fourth quarter--but to fall to almost 6-1/2 percent by the end of 1994.

Wages and prices. With slack remaining in labor markets, growth in ECI hourly compensation is expected to slow somewhat further over the forecast period. This deceleration is a bit less than in the January Greenbook, reflecting a slightly higher trend increase in prices and an assumed increase in the minimum wage in 1994.[6] After an increase of 3-1/2 percent in 1992, the employment cost index is forecast to slow to 3-1/4 percent in 1994, with deceleration evident in both wages and benefits. At this juncture, the forecast does not include a health-care reform package; rather, the deceleration in benefits reflects a continuation of current efforts to cut costs and shift more of the burden of health insurance to employees.

Although "core" inflation--as measured by the CPI excluding food and energy--appears to be running a bit higher at present than we anticipated in the last forecast, we still expect it to slow over the forecast period. The disinflationary trend of the past few years has contained numerous short-run gyrations, suggesting that

5. We are assuming that an additional 650,000 youths will be hired (in June and July) as the result of the expansion of the summer jobs program. Approximately 85 percent of those jobs are expected to be at state and local governments, with the remainder in the private sector. We do not think that the summer jobs program will have a significant effect on the unemployment rate: most of the increase in employment is expected to come from people who currently are not in the labor force.

6. In light of recent statements by congressional leaders and members of the Administration, we have assumed that the minimum wage will be raised. We have built in an increase from the $4.25 per hour level established in April 1991 to $4.75 at the beginning of 1994: although there is some chance of an even larger increase--$5 per hour has been mentioned--this seemed a reasonable, middle-of-the-road assumption, given the uncertainties. The effect of our assumed increase is to add 0.1 percentage point to the growth in hourly compensation in 1994.

some caution is appropriate in reacting to the most recent data. Of course, the firming in materials prices that has accompanied the recent pickup in activity is a departure from the pattern of the past couple of years. However, we believe that, at this point, it is appropriate to put greater weight in our forecast of inflation on the continued slack in labor and product markets and the relative stability of non-oil import prices. Food prices are projected to increase only a bit more than 2 percent in both 1993 and 1994. Energy prices increase 1 percent this year but accelerate to 4-1/2 percent in 1994, as the first round of the BTU tax goes into effect in July.[7] Excluding food and energy, the CPI is expected to slow to almost a 3 percent pace this year and to 2-3/4 percent in 1994--core inflation is 1/4 percentage point higher than in the previous forecast. The overall CPI is projected to increase just under 3 percent in 1993 and 2-3/4 percent in 1994.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, except as noted)

	1992	1993	1994
Consumer price index	3.1	2.9	2.7
Previous	3.0	2.6	2.4
Energy	2.4	1.1	4.6
Previous	2.4	2.2	3.2
Excluding food and energy	3.4	3.1	2.7
Previous	3.4	2.8	2.4
ECI for compensation private industry workers[1]	3.5	3.3	3.2
Previous	3.5	3.2	2.9

1. December to December.

7. The staff estimates that the BTU tax will raise consumer prices by 0.2 percentage point in 1994; it eventually will add 1 percent to the price level when it is fully implemented in 1998.

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

March 17, 1993

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	1/27/93	3/17/93	1/27/93	3/17/93	1/27/93	3/17/93	1/27/93	3/17/93	1/27/93	3/17/93
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	4.0	4.0	4.2	4.2	6.7	6.7
1992[2]	4.8	4.8	2.0	2.1	3.0	3.0	3.0	3.0	7.4	7.4
1993	5.6	5.9	3.0	3.2	2.8	2.9	2.8	3.0	7.1	6.9
1994	5.1	5.2	2.9	2.9	2.4	2.5	2.5	2.6	6.8	6.7
QUARTERLY										
1991 Q1[2]	1.8	1.8	-3.0	-3.0	4.7	4.7	3.3	3.6	6.5	6.5
Q2[2]	5.2	5.2	1.7	1.7	3.5	3.5	2.4	2.1	6.7	6.7
Q3[2]	4.0	4.0	1.2	1.2	3.0	3.0	2.7	2.7	6.7	6.7
Q4[2]	2.8	2.8	.6	.6	2.4	2.4	3.6	3.3	7.0	7.0
1992 Q1[2]	6.2	6.2	2.9	2.9	3.6	3.6	2.9	3.5	7.3	7.3
Q2[2]	4.3	4.3	1.5	1.5	2.9	2.9	3.5	2.9	7.5	7.5
Q3[2]	5.3	5.3	3.4	3.4	2.1	2.1	2.6	2.9	7.5	7.5
Q4[2]	6.5	7.1	3.6	4.8	3.2	2.9	3.3	3.2	7.3	7.3
1993 Q1	6.2	6.7	2.7	3.0	3.4	3.9	2.4	3.8	7.2	7.0
Q2	5.1	5.4	2.9	2.7	2.4	2.8	2.8	2.7	7.2	7.0
Q3	5.1	5.0	2.9	2.8	2.5	2.4	2.7	2.3	7.1	6.9
Q4	5.1	5.2	2.9	2.9	2.4	2.4	2.6	2.6	7.0	6.9
1994 Q1	5.2	5.2	2.9	2.9	2.6	2.5	2.5	2.7	6.9	6.8
Q2	5.0	5.1	3.0	2.9	2.2	2.4	2.4	2.7	6.8	6.8
Q3	4.9	5.2	3.0	2.9	2.1	2.5	2.3	2.9	6.7	6.6
Q4	4.8	5.1	3.1	2.9	2.0	2.4	2.2	2.6	6.6	6.6
TWO-QUARTER[3]										
1991 Q2[2]	3.5	3.5	-.7	-.7	4.2	4.2	2.9	3.0	.7	.7
Q4[2]	3.4	3.4	.9	.9	2.7	2.7	3.1	3.0	.3	.3
1992 Q2[2]	5.2	5.2	2.2	2.2	3.4	3.4	3.1	3.2	.5	.5
Q4[2]	5.9	6.2	3.5	4.1	2.6	2.5	3.0	2.9	-.2	-.2
1993 Q2	5.7	6.0	2.8	2.9	2.9	3.3	2.6	3.3	-.1	-.3
Q4	5.1	5.1	2.9	2.9	2.4	2.4	2.6	2.4	-.2	-.1
1994 Q2	5.1	5.1	2.9	2.9	2.4	2.4	2.5	2.7	-.2	-.1
Q4	4.9	5.1	3.0	2.9	2.1	2.5	2.3	2.8	-.2	-.2
FOUR-QUARTER[4]										
1990 Q4[2]	4.1	4.1	-.5	-.5	4.7	4.7	6.3	6.2	.6	.6
1991 Q4[2]	3.5	3.5	.1	.1	3.5	3.5	3.0	3.0	1.0	1.0
1992 Q4[2]	5.6	5.7	2.9	3.2	3.0	2.9	3.0	3.1	.3	.3
1993 Q4	5.4	5.6	2.8	2.9	2.7	2.9	2.6	2.9	-.3	-.4
1994 Q4	5.0	5.1	3.0	2.9	2.3	2.5	2.4	2.7	-.4	-.3

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)

March 17, 1993

Item	Unit[1]	1986	1987	1988	1989	1990	1991	1992	Projected 1993	Projected 1994
EXPENDITURES										
Nominal GDP	Bill. $	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5950.7	6301.3	6625.9
Real GDP	Bill. 87$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4922.8	5080.7	5226.1
Real GDP	% change	2.2	4.5	3.3	1.6	-.5	.1	3.2	2.9	2.9
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	-.2	3.7	3.4	3.2
Final sales		3.3	2.7	4.2	1.5	.6	-.6	3.1	2.5	2.9
Private dom. final purch.		3.0	1.9	4.2	.5	-.8	-.9	4.4	4.2	4.0
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	3.3	3.0	2.9
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	9.2	6.9	5.9
Nondurables		3.3	1.4	3.2	1.2	-.7	-1.5	3.3	1.9	1.8
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.0	2.7	2.8
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.9	9.9	10.0
Producers' dur. equip.		-.7	2.4	9.1	-1.7	-.2	-3.5	12.5	12.4	12.0
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-2.8	3.3	4.1
Res. structures		11.1	-3.1	.9	-7.7	-14.7	-.1	14.3	7.9	4.4
Exports		9.9	12.6	13.5	11.3	7.2	7.4	5.0	5.2	5.4
Imports		6.7	4.7	3.6	2.6	.1	4.8	9.6	9.6	7.7
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.5	-1.6	-.1
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	-.7	-5.8	-4.1
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-1.8	-9.3	-6.8
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.4	1.2	2.3
Change in bus. invent.	Bill. 87$	8.6	26.3	19.9	29.8	6.2	-9.3	5.0	24.3	28.9
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	2.7	25.9	31.7
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-41.5	-67.9	-90.6
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	5.7	5.6	5.1
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	99.5	102.2	105.5	108.3	109.8	108.3	108.4	109.9	111.7
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	6.9	6.7
Industrial prod. index	% change	1.4	6.5	4.5	1.1	.3	-.5	2.2	4.7	3.7
Capacity util. rate-mfg.	%	79.0	81.4	83.9	83.9	82.3	78.2	77.8	79.4	80.0
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.33	1.44
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.35	8.70	9.27
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.25	6.63	7.06
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.06	2.21
INCOME AND SAVING										
Nominal GNP	Bill. $	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5962.0	6305.2	6628.1
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	5.6	5.5	5.1
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	5.2	6.0	5.4
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.5	2.8	2.1
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.8	4.8	4.3	3.7
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	25.4	8.8	1.5
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.6	7.4	7.2
Federal surpl./def.	Bill. $	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-295.2	-245.1	-174.7
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.4	34.5	43.2
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.1	-21.5	-12.5
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.6	2.2
GDP fixed-wt. price index		2.6	3.4	4.2	4.3	4.7	3.5	2.9	2.9	2.5
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	2.9	2.7
Ex. food and energy		3.9	4.3	4.5	4.4	5.3	4.5	3.4	3.1	2.7
ECI, hourly compensation[2]		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.3	3.2
Nonfarm business sector										
Output per hour		1.2	1.8	.5	-1.4	.1	1.3	3.2	1.8	1.6
Compensation per hour		4.6	3.8	3.8	3.1	6.3	4.2	3.7	3.5	3.3
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.8	.4	1.6	1.6

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)

March 17, 1993

Item	Unit	1990				1991				1992	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	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
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]	%	5.3	5.3	5.6	6.0	6.5	6.7	6.7	7.0	7.3	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	1.43	1.21	1.13	1.04	.90	1.01	1.04	1.09	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		7.5	3.8	7.0	6.9	3.6	2.1	2.7	3.3	3.5	2.9
Ex. food and energy		5.3	5.5	5.8	4.2	6.5	3.8	4.0	3.7	4.2	3.3
ECI, hourly compensation[2]		5.6	5.1	4.3	3.8	4.6	4.9	4.4	3.7	4.0	2.9
Nonfarm business sector											
Output per hour		-.5	2.5	-1.7	.1	-.7	1.7	1.9	2.5	3.7	1.7
Compensation per hour		5.0	7.8	6.4	5.9	3.9	5.8	3.9	3.1	3.8	2.4
Unit labor cost		5.6	5.1	8.2	5.8	4.6	4.0	2.0	.6	.1	.8

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)

March 17, 1993

Item	Units	1992 Q3	1992 Q4	Projected 1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4
EXPENDITURES											
Nominal GDP	Bill. $	5978.5	6082.1	6181.5	6262.7	6340.2	6420.7	6502.3	6583.7	6667.3	6750.2
Real GDP	Bill. 87$	4933.7	4991.5	5029.1	5062.3	5097.3	5134.1	5170.6	5207.5	5244.4	5282.1
Real GDP	% change	3.4	4.8	3.0	2.7	2.8	2.9	2.9	2.9	2.9	2.9
Gross domestic purchases		4.1	4.3	3.6	3.5	3.4	3.2	3.2	3.3	3.2	3.2
Final sales		2.8	5.2	2.2	2.3	2.7	2.8	2.8	2.9	2.8	3.1
Private dom. final purch.		3.5	6.4	4.2	4.4	4.0	4.1	3.9	4.0	3.8	4.2
Personal cons. expend.		3.7	4.8	3.2	3.3	2.7	2.9	2.9	3.1	2.8	2.9
Durables		9.4	14.0	7.6	8.5	5.3	6.3	5.3	7.1	5.5	5.6
Nondurables		2.5	6.7	1.3	3.0	1.6	1.7	1.9	1.8	1.7	1.9
Services		3.1	1.6	3.1	2.2	2.8	2.8	2.8	2.8	2.8	2.8
Business fixed invest.		3.1	9.9	9.6	10.3	9.7	10.0	9.1	9.5	9.9	11.6
Producers' dur. equip.		9.5	14.4	12.9	12.6	11.8	12.2	11.2	11.6	11.8	13.7
Nonres. structures		-11.3	-1.1	1.2	3.9	4.1	4.0	3.1	3.4	4.4	5.5
Res. structures		.2	26.1	6.7	7.5	9.6	7.7	6.3	4.6	3.1	3.7
Exports		9.2	9.8	5.0	4.7	5.4	5.8	5.2	5.2	5.4	5.6
Imports		14.8	5.7	9.0	11.1	10.4	7.8	7.2	8.0	7.9	7.6
Government purchases		3.8	-2.1	-3.2	-2.1	.4	-1.4	-.4	-.2	.4	-.3
Federal		7.5	-4.0	-5.9	-6.2	-6.0	-5.1	-5.0	-4.5	-3.4	-3.5
Defense		8.3	-2.1	-10.1	-9.5	-9.0	-8.5	-8.0	-7.4	-5.9	-6.0
State and local		1.4	-.8	-1.3	.7	4.7	1.0	2.5	2.5	2.7	1.6
Change in bus. invent.	Bill. 87$	15.0	9.9	20.0	24.0	25.7	27.4	28.7	29.2	29.7	28.1
Nonfarm		9.6	5.7	18.3	25.3	28.7	31.4	32.2	32.2	32.2	30.1
Net exports		-52.7	-48.0	-54.6	-65.1	-73.8	-78.1	-82.4	-88.1	-93.5	-98.4
Nominal GDP	% change	5.3	7.1	6.7	5.4	5.0	5.2	5.2	5.1	5.2	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.5	108.7	109.1	109.6	110.4	110.5	110.9	111.4	112.0	112.4
Unemployment rate[1]	%	7.5	7.3	7.0	7.0	6.9	6.9	6.8	6.8	6.6	6.6
Industrial prod. index	% change	2.3	4.4	5.5	5.6	3.9	3.9	3.7	3.7	3.5	3.8
Capacity util. rate-mfg[1]	%	77.8	78.2	78.8	79.4	79.6	79.7	79.8	80.0	80.0	80.1
Housing starts	Millions	1.18	1.25	1.22	1.32	1.37	1.39	1.41	1.43	1.45	1.47
Auto sales in U.S.		8.21	8.38	8.37	8.72	8.80	8.90	9.00	9.18	9.35	9.53
North American produced		6.24	6.37	6.37	6.68	6.72	6.77	6.83	6.98	7.13	7.28
Other		1.97	2.01	2.00	2.04	2.08	2.13	2.17	2.20	2.22	2.25
INCOME AND SAVING											
Nominal GNP	Bill. $	5992.0	6087.0	6187.1	6265.6	6344.9	6423.0	6506.7	6584.9	6670.6	6750.4
Nominal GNP	% change	5.7	6.5	6.7	5.2	5.2	5.0	5.3	4.9	5.3	4.9
Nominal personal income		2.7	8.0	6.0	5.9	5.9	6.0	6.0	5.2	5.1	5.7
Real disposable income		.5	4.4	1.9	2.9	3.2	3.2	.2	1.8	4.0	2.8
Personal saving rate[1]	%	4.6	4.5	4.3	4.2	4.3	4.4	3.8	3.5	3.7	3.7
Corp. profits, IVA&CCAdj	% change	-13.9	83.3	27.2	7.2	-3.1	5.8	1.3	5.1	-5.7	5.7
Profit share of GNP[1]	%	6.2	7.2	7.5	7.5	7.4	7.4	7.3	7.3	7.1	7.1
Federal govt. surpl./def.	Bill. $	-304.4	-284.3	-256.7	-247.3	-239.8	-236.8	-185.0	-169.1	-171.4	-173.5
State/local surpl./def.		9.2	18.3	26.2	30.6	40.2	41.1	41.7	41.3	44.0	45.9
Ex. social ins. funds		-48.0	-38.1	-30.0	-25.5	-15.8	-14.8	-14.1	-14.4	-11.6	-9.7
PRICES AND COSTS											
GDP implicit deflator	% change	1.8	2.2	3.5	2.6	2.2	2.2	2.2	2.2	2.3	2.1
GDP fixed-wt. price index		2.1	2.9	3.9	2.8	2.4	2.4	2.5	2.4	2.5	2.4
Gross domestic purchases fixed-wt. price index		2.5	2.8	3.5	2.7	2.3	2.4	2.4	2.4	2.5	2.4
CPI		2.9	3.2	3.8	2.7	2.3	2.6	2.7	2.7	2.9	2.6
Ex. food and energy		2.7	3.6	4.3	3.0	2.7	2.7	2.7	2.7	2.6	2.6
ECI, hourly compensation[2]		3.2	3.5	3.4	3.3	3.2	3.2	3.5	3.1	3.0	3.0
Nonfarm business sector											
Output per hour		2.9	4.8	1.8	1.4	2.0	1.9	1.8	1.7	1.6	1.5
Compensation per hour		4.2	4.3	3.9	3.4	3.3	3.2	4.0	3.1	3.0	3.0
Unit labor cost		1.3	-.4	2.1	1.9	1.3	1.3	2.2	1.4	1.4	1.5

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)

March 17, 1993

Item	1990				1991				1992					
	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	153.0
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	180.5
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	150.6
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	173.2
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	108.7
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	38.3
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	33.7
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	36.6
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	39.0
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	43.1
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	-4.1
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	25.4
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	2.4
Nonfarm	-25.3	22.0	-21.3	-32.2	.9	.2	23.5	12.8	-22.5	16.7	.7	-56.8	37.4	-6.1
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	8.4
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	-27.5
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	28.1
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	55.6
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	4.9
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	-2.6
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	-5.0
Nondefense	3.8	1.8	.7	.5	.7	4.0	.4	.6	2.5	.9	2.0	6.8	5.7	2.4
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	7.5

1. Annual changes are from Q4 to Q4.

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

Item	Projected												Projected	
	1992		1993				1994							
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993	1994
Real GDP	41.3	57.8	37.6	33.2	34.9	36.8	36.6	36.9	36.8	37.7	4.7	153.0	142.6	148.0
Gross domestic purchases	50.1	53.0	44.2	43.7	43.7	41.1	40.8	42.7	42.3	42.6	-7.5	180.5	172.6	168.4
Final sales	34.1	62.8	27.7	29.1	33.3	35.0	35.3	36.4	36.3	39.3	-29.7	150.6	125.1	147.4
Private dom. final purch.	34.1	63.1	41.8	44.5	41.1	42.6	40.6	42.7	40.8	44.9	-36.5	173.2	170.0	169.0
Personal cons. expend.	29.9	39.3	26.2	27.3	23.2	24.8	24.4	26.5	24.5	25.4	1.0	108.7	101.5	100.8
Durables	9.8	14.6	8.4	9.5	6.1	7.3	6.3	8.5	6.7	7.0	-10.5	38.3	31.3	28.6
Nondurables	6.4	17.3	3.5	7.9	4.2	4.5	5.0	4.8	4.5	5.1	-16.0	33.7	20.1	19.5
Services	13.7	7.4	14.2	9.9	12.9	13.0	13.1	13.1	13.2	13.3	27.6	36.6	50.0	52.8
Business fixed invest.	4.0	12.4	12.3	13.4	13.1	13.8	12.8	13.7	14.6	17.4	-37.2	39.0	52.6	58.5
Producers' dur. equip.	8.4	12.8	11.9	12.0	11.6	12.4	11.7	12.4	12.9	15.4	-12.4	43.1	47.9	52.4
Nonres. structures	-4.4	-.4	.4	1.4	1.5	1.4	1.2	1.3	1.6	2.1	-24.8	-4.1	4.7	6.1
Res. structures	.1	11.4	3.3	3.7	4.9	4.0	3.4	2.5	1.7	2.1	-.2	25.4	15.9	9.7
Change in bus. invent.	7.2	-5.1	10.1	4.1	1.6	1.8	1.2	.5	.5	-1.6	34.3	2.4	17.5	.6
Nonfarm	3.6	-3.9	12.6	7.1	3.3	2.8	.7	.0	.0	-2.1	37.4	-6.1	25.7	-1.4
Farm	3.5	-1.1	-2.5	-3.0	-1.7	-1.0	.5	.5	.5	.5	-3.0	8.4	-8.2	2.0
Net exports	-8.8	4.7	-6.6	-10.5	-8.7	-4.3	-4.3	-5.7	-5.4	-4.9	12.2	-27.5	-30.1	-20.3
Exports	12.5	13.6	7.2	6.8	8.0	8.7	7.9	8.1	8.4	8.9	38.8	28.1	30.8	33.3
Imports	21.3	8.8	13.9	17.3	16.8	13.0	12.2	13.8	13.9	13.7	26.5	55.6	61.0	53.6
Government purchases	8.8	-5.0	-7.5	-4.9	.9	-3.3	-1.0	-.5	.9	-.7	-5.4	4.9	-14.8	-1.3
Federal	6.8	-3.9	-5.6	-5.9	-5.6	-4.7	-4.5	-4.0	-3.0	-3.0	-9.1	-2.6	-21.8	-14.5
Defense	5.3	-1.4	-7.0	-6.4	-5.9	-5.4	-5.0	-4.5	-3.5	-3.5	-14.8	-5.0	-24.7	-16.5
Nondefense	1.5	-2.5	1.4	.5	.3	.7	.5	.5	.5	.5	5.7	2.4	2.9	2.0
State and local	2.0	-1.1	-1.9	1.0	6.5	1.4	3.5	3.5	3.9	2.3	3.7	7.5	7.0	13.2

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

March 17, 1993

Item	Fiscal year				1992				1993				1994			
	1991[a]	1992[a]	1993	1994	Q1[a]	Q2[a]	Q3[a]	Q4[b]	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1054	1091	1180	1243	239	322	276	265	266	356	293	271	272	392	308	290
Outlays[1]	1324	1381	1457	1522	355	350	338	386	329	365	377	383	376	383	380	397
Surplus/deficit[1]	-269	-290	-276	-279	-116	-28	-62	-120	-63	-9	-84	-112	-104	9	-72	-107
On-budget	-322	-340	-338	-340	-121	-60	-62	-108	-93	-47	-90	-123	-113	-25	-78	-119
Off-budget	52	50	62	61	6	31	-1	-13	30	38	7	11	9	34	6	12
Surplus excluding deposit insurance[2]	-203	-287	-276	-263	-105	-25	-69	-128	-68	-7	-72	-106	-101	14	-69	-102
Means of financing																
Borrowing	293	311	244	285	83	62	77	81	57	31	75	108	91	26	59	96
Cash decrease	-1	-17	19	0	29	-27	-12	29	6	-25	9	10	10	-30	10	10
Other[3]	-23	-4	14	-6	4	-7	-3	10	1	3	0	-6	3	-5	3	1
Cash operating balance, end of period	41	59	40	40	20	47	59	30	24	49	40	30	20	50	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1118	1144	1243	1352	1143	1150	1155	1198	1243	1259	1274	1292	1357	1380	1379	1398
Expenditures	1313	1433	1500	1543	1433	1453	1460	1482	1499	1507	1513	1529	1542	1550	1551	1572
Purchases	447	446	449	436	445	445	455	452	453	449	444	441	437	434	432	430
Defense	326	315	313	294	314	312	320	319	316	311	305	300	296	292	289	286
Nondefense	121	132	137	142	131	133	136	133	137	138	139	140	141	142	144	145
Other expenditures	866	987	1051	1107	988	1008	1005	1030	1046	1058	1069	1088	1105	1116	1119	1141
Surplus/deficit	-194	-289	-257	-191	-289	-303	-304	-284	-257	-247	-240	-237	-185	-169	-172	-174
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-153	-222	-208	-159	-224	-233	-237	-227	-206	-201	-197	-199	-151	-139	-147	-154
Change in HEB, percent of potential GDP	-.4	1.2	-.2	-.8	.5	.2	.1	-.2	-.3	-.1	-.1	0	-.7	-.2	.1	.1
Fiscal impetus (FI), percent, cal. year	-3.8	-3.8	-2.2	-6.1	-2.6	-.1	1.3	-1	-1.6	-.3	.4	-2.5	-2.4	-1.5	-1.9	-.8

1. OMB's February deficit estimates, including the President's proposals, are $332 billion in FY93 and $262 billion in FY94. CBO's preliminary deficit estimates of the President's proposals are $308 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 February deficit estimates, excluding deposit insurance spending, are $325 billion in FY93 and $254 billion in FY94. CBO's preliminary deficit estimates, excluding deposit insurance spending, are $315 billion in FY93 and $263 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 2.0 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.

b--Unified and NIPA data are actuals except for NIPA corporate profit tax total which is a staff projection.

Recent Developments

Investors have responded enthusiastically to Administration and congressional proposals aimed at achieving substantial cuts in projected federal deficits. Thus, while short-term interest rates have changed little, intermediate- and long-term rates have fallen 30 to 40 basis points over the intermeeting period--in many instances reaching the lowest levels in two decades. Buoyed by lower interest rates, major stock price indexes posted record highs during the intermeeting period; most are up 1 percent to 2 percent.

M2 fell in February at a 3-3/4 percent rate, a bit faster than in January. Weakness in the aggregate resulted in part from transitory factors, including seasonal adjustment distortions and a lull in mortgage refinancing settlements. Even abstracting from special factors, though, underlying growth still was quite sluggish. Liquid retail deposits ran off as deposit interest rates continued to drop. Substitution by households of money holdings into bonds and stocks likely remained substantial, as flows into long-term mutual funds reportedly were near record levels. M3 declined at a 1-3/4 percent rate in February, despite a hefty increase in institutional money funds. Banks continued to tap capital markets in volume last month, reducing their need to fund assets with M3-type deposits.

Bank credit grew at a 1-1/2 percent rate in February, but the growth was more than accounted for by an increase in security holdings in connection with the acquisition of one large thrift. Business loans ran off in part because firms continued to pay down bank debt--as well as commercial paper--with the proceeds of capital market financings. Rate spreads and non-price terms on loans to businesses have not indicated any real shift toward a more accommodative lending posture. While real estate loans also fell in February, consumer loans posted a second month of solid gains, though some of the strength may be transitory, resulting from unusually large tax-refund-anticipation loans.

Debt of nonfinancial businesses apparently has grown only modestly so far this year. Gross public issuance of investment-grade and junk bonds has surged, but the proceeds continue to be used largely to refund other debt. Nonfinancial firms are extending the maturity of their bond offerings to take advantage of reduced long-term rates and narrow risk premia. Gross public equity issuance was robust in February, and the pace so far this year nearly matches the vigorous performance in 1992. Nonfinancial firms also have placed a significant amount of equity shares privately under SEC Rule 144A.

Consumer installment debt decelerated in January, as auto loans fell off after a December spurt; revolving debt posted a sizable gain during the month. Home mortgage debt appears to be growing less rapidly than in the fourth quarter. However, a sharp increase in applications for home purchases and refinancings portends a re-acceleration of home mortgage growth in the months ahead.

The decline in municipal bond yields has spurred heavy refunding issuance in the last three months, but the growth of municipal debt has been restrained by a falloff in financings to raise new capital and by the retirement of issues that had been advance-refunded earlier.

Growth of debt of domestic nonfinancial sectors over 1992 was revised up 1/2 percentage point to 5 percent as a result of new data on mortgages. Debt growth in the fourth quarter dipped to 4-1/2 percent with a slowdown in federal borrowing but appears likely to edge back up in the first quarter of 1993.

Outlook

The staff assumes that short-term interest rates will change little over the projection period, in contrast to the prevailing market expectation that money market rates will rise appreciably. Long-term interest rates are projected to edge down further, reflecting the persistence of low short-term rates and a likely downward adjustment of long-run inflation expectations. Unusual restraints on the supply of credit by banks and other intermediaries should ease gradually, as their balance sheets continue to improve. Efforts by banking regulators may help to spur lending to small businesses and other borrowers, but the capital markets are likely to remain the financing source of choice for those entities with access to them.

Domestic nonfinancial debt is projected to grow 5 percent in 1993 and 6 percent in 1994--essentially the same as the projections in the last Greenbook. The composition of debt growth has been revised, however, in part as a result of incorporation in this forecast of the Administration's fiscal program. Federal debt growth has been reduced in this forecast and is expected to run at a near 9 percent rate for 1993 and 8 percent for 1994. Nonfederal debt growth has been raised and is forecast to be a moderate 4 percent for 1993 and to be near 5 percent for 1994.

The staff projects that business borrowing will strengthen over the projection period, as investment outlays outstrip internal funds and as net equity issuance tapers off. The lion's share of net corporate financing needs are expected to continue to be met through the bond market. Gross bond issuance may remain exceptionally high for a while, as higher-cost debt continues to be refinanced. Bank loans and other short-term credit turn up only mildly over the forecast period in association with a modest increase in inventory financing.

Home mortgage borrowing is projected to rise moderately over coming quarters, in line with increases in housing activity. Still, the pace of mortgage debt growth is likely to remain subdued compared with that experienced during the 1980s. Although mortgage rates have fallen substantially, they are still high relative to returns on liquid household assets--encouraging people to make larger downpayments and to repay debt more rapidly. Households also may maintain a more cautious attitude toward the use of debt until a greater sense of job security is reestablished. At the same time, loan underwriting standards are likely to remain firmer than in the 1980s.

Debt growth in the state and local government sector is expected to edge down from the moderate pace of 1992, as call dates for previously refunded issues arrive over the next two years and as the budgetary positions of state and local governments continue to improve. However, many governmental units may experience continuing fiscal distress, the most notable case being California. The Administration is proposing to extend or enhance the availability of tax-exempt financing for mortgage revenue bonds, small industrial development bonds, high-speed rail projects, and business investments in economically depressed areas, including proposed enterprise zones. These initiatives are likely to provide only a modest contribution to the growth of tax-exempt debt over the forecast period.

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS[1]
(Percent)

			Nonfederal						MEMO	
				Households						
	Total[2]	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
1980	9.4	11.8	8.9	8.7	11.1	0.7	10.2	3.6	9.7	9.9
1981	9.8	11.6	9.4	7.9	7.6	4.8	11.6	5.2	10.6	9.3
1982	9.4	19.6	7.0	5.6	4.8	4.4	7.8	9.3	10.4	3.2
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	31.4	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	6.9	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	4.1	11.1	2.0	3.8	4.8	-1.6	-0.5	4.5	0.6	3.5
1992	5.2	10.9	3.4	5.5	7.0	0.3	0.6	5.3	1.0	5.7
1993	5.4	8.8	4.2	5.8	6.8	3.3	2.3	4.5	0.1	5.6
1994	5.7	8.1	4.7	6.4	7.2	5.2	2.8	4.5	0.9	5.1
Quarter (seasonally adjusted annual rates)										
1992:1	6.1	13.3	3.8	5.8	7.9	0.4	1.2	5.1	5.9	6.2
2	5.1	12.3	2.7	4.4	5.3	-1.6	-0.3	6.9	-0.6	4.3
3	4.1	6.5	3.3	5.5	6.9	0.1	0.3	5.4	-2.4	5.3
4	5.2	10.0	3.5	5.7	7.2	2.4	1.0	3.5	1.3	7.1
1993:1	5.2	8.5	4.0	5.7	6.7	2.5	2.0	4.0	-1.6	6.7
2	4.8	7.0	4.0	5.5	6.6	3.0	2.2	4.6	0.6	5.4
3	4.6	6.0	4.2	5.6	6.6	3.5	2.5	4.3	-0.1	5.0
4	6.6	12.6	4.4	5.9	6.7	4.3	2.6	4.7	1.5	5.2
1994:1	6.5	11.9	4.5	6.0	6.9	4.5	2.7	4.2	1.2	5.2
2	5.0	5.9	4.7	6.2	6.9	4.9	2.8	4.5	0.8	5.1
3	4.4	3.7	4.7	6.4	7.1	5.3	2.8	4.1	0.0	5.2
4	6.3	10.1	4.8	6.5	7.2	5.8	2.9	4.7	1.4	5.1

1. Data after 1992:4 are staff projections. Year-to-year change in nominal GDP measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes measured from end of preceding period to end of period indicated.
2. Deposit insurance outlays raised total debt growth roughly 0.4 percentage point in 1991; it had little effect on debt growth in 1992 and is not anticipated to affect debt growth significantly in 1993 or 1994. On a quarterly average basis, total debt growth is projected to be 5.2 in 1993 and 5.7 percent in 1994.

Confidenti Class II
March 17, 1

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS[1]
(Billions of dollars)

	Calendar year				1993				1994			
	1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Seasonally Adjusted Annual Rates							
Net funds raised by domestic *nonfinancial sectors*												
1 Total	460.9	614.2	652.4	707.8	634.3	591.1	570.4	813.9	810.5	635.0	569.9	816.0
2 Net equity issuance	18.3	26.8	13.5	5.0	22.0	14.0	10.0	8.0	5.0	5.0	5.0	5.0
3 Net debt issuance	442.7	587.5	638.9	702.8	612.3	577.1	560.4	805.9	805.5	630.0	564.9	811.0
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	-4.4	-29.7	18.2	57.9	-3.9	11.7	27.0	38.1	46.6	51.1	63.5	70.6
5 Net equity issuance	18.3	26.8	13.5	5.0	22.0	14.0	10.0	8.0	5.0	5.0	5.0	5.0
6 *Credit market borrowing*	-18.9	20.3	84.4	104.6	74.1	78.7	90.6	94.1	99.4	105.1	106.1	107.7
Households												
7 Net borrowing, of which:	144.9	215.2	241.0	281.8	237.7	232.7	237.1	256.5	264.3	276.6	289.2	297.2
8 Home mortgages	123.9	190.8	199.2	225.0	195.4	196.9	200.2	204.4	214.2	219.9	229.6	236.4
9 Consumer credit	-12.6	2.5	26.8	43.1	20.0	24.0	28.0	35.0	37.0	41.1	45.0	49.4
10 Debt/DPI (percent)[3]	91.5	91.0	91.3	92.3	91.8	91.8	91.9	91.9	92.6	93.0	93.0	93.2
State and local governments												
11 Net borrowing	38.5	48.1	42.5	44.2	38.4	44.2	41.3	46.2	41.6	45.6	41.5	48.1
12 Current surplus[4]	-39.6	-42.9	-27.4	-23.4	-32.7	-27.6	-25.7	-23.8	-23.7	-25.1	-23.0	-21.7
U.S.government												
13 Net borrowing	278.2	304.0	271.0	272.2	262.1	221.5	191.4	409.1	400.3	202.7	128.0	357.9
14 Net borrowing;quarterly, nsa	278.2	304.0	271.0	272.2	56.7	31.0	75.0	108.3	91.2	26.3	59.2	95.6
15 Unified deficit;quarterly, nsa	266.8	326.9	268.0	273.8	63.4	8.9	83.8	112.0	104.0	-8.9	72.0	106.7
Funds supplied by												
16 *depository institutions*	-61.0	27.0	93.2	107.0	39.4	96.6	114.1	122.8	124.5	92.4	91.6	119.6
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	193.4	193.2	192.1	192.9	193.2	193.0	192.8	193.5	194.2	194.2	193.9	194.5
18 Dom. nonfinancial borrowing	7.8	9.9	10.1	10.6	9.9	9.2	8.8	12.6	12.4	9.6	8.5	12.0
19 U.S. government[5]	4.9	5.1	4.3	4.1	4.2	3.5	3.0	6.4	6.2	3.1	1.9	5.3
20 Private	2.9	4.8	5.8	6.5	5.7	5.7	5.8	6.2	6.2	6.5	6.6	6.7

1. Data after 1992:4 are staff projections.
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.

2.6.4 FOF

Recent Developments

Since the February FOMC meeting, the weighted-average foreign-exchange value of the dollar in terms of other G-10 currencies has been about unchanged, on balance. The dollar depreciated after mid-February, partly in response to data that pointed to some slowing of economic expansion in the United States and partly to the decline in U.S. long-term interest rates associated with the Clinton Administration's fiscal program. Since late February, however, unexpectedly strong U.S. employment statistics and disappointing inflation data, combined with further signs of weakening activity abroad, have helped reverse the earlier decline in the dollar.

The dollar has appreciated 1-1/4 percent on balance against the mark, partly because the Bundesbank has lowered interest rates and is now expected to ease more and sooner than markets had anticipated. In early February, the Bundesbank cut its discount and Lombard rates, and in early March it lowered its RP rate. Over the intermeeting period, three-month interest rates in Germany came down 70 basis points, to 7.70 percent, and rates in other major European countries declined 30 to 100 basis points. The German easing has reduced, but not eliminated, pressure on the French franc, which has traded above its floor in the ERM against the mark. However, the lira has declined significantly further against the mark as a result of political turmoil in Italy. Since the February FOMC meeting, long-term interest rates in most European countries have come down about 50 basis points.

In a widely anticipated move, the Bank of Japan lowered its discount rate 3/4 percentage point, to 2-1/2 percent, in early February. The dollar fell sharply against the yen through late February and now stands 6-1/4 percent below its level at the time of the last FOMC. Remarks by U.S. and European officials advocating a stronger yen apparently contributed to the upward pressure on the yen. Those pressures abated around the time of the G-7 meeting in late February, however, when it was perceived that the meeting did not produce further pressure on Japan to appreciate the yen to reduce Japan's trade surplus.

. The Desk did not intervene.

Recently released data for the fourth quarter of 1992 indicate that growth of real GDP was positive and stronger than expected in Canada and the United Kingdom but negative and weaker than expected in continental Europe and Japan. Indicators for the first quarter suggest that growth has continued negative in Germany and much of the rest of continental Europe and remained close to zero in Japan.

A 3.3 percent (s.a.a.r.) decline in west German real GDP in the fourth quarter was more than accounted for by sharp declines in net exports and investment; a rise in consumption was stimulated by the anticipation of a value-added tax increase scheduled for the beginning of 1993. Industrial production and manufacturing orders picked up a bit in January from the depressed levels of the fourth quarter, but labor market indicators remained negative. French real GDP fell 1.2 percent (s.a.a.r.) in the fourth quarter, and various surveys of business activity point to continued decline in the current quarter. Japanese real GDP edged off at a 0.3 percent annual rate in the fourth quarter despite significant expansions of government spending, net exports, and inventories. Industrial production and housing starts declined further in January, and the latest Bank of Japan survey showed a further decline in business sentiment and negative investment intentions for 1993. However, orders picked up for the third month in a row. In the fourth quarter, U.K. real GDP showed modest positive growth for the second quarter in a row; retail sales turned up strongly in January and February, but industrial production in January fell 1/2 percent from its fourth-quarter average. Canadian real GDP advanced at a 3-1/2 percent rate in the fourth quarter as a result of a surge in net exports, which in turn largely reflected strong demand in the United States; indicators for the first quarter are mixed.

Inflation rates abroad have ticked up recently as a result of special factors, including a value added tax hike in Germany and the pass-through of recent currency depreciations in Italy, the United Kingdom, and Canada. However, underlying inflation rates appear to be steady or easing further in most foreign industrial countries.

The nominal U.S. merchandise trade deficit narrowed slightly in December and somewhat more for the fourth quarter as a whole but remained above $100 billion at an annual rate.[1] Exports advanced strongly in the fourth quarter, with most of the growth accounted for by shipments of capital goods and autos to developing countries in Asia (especially China and Taiwan) and the Middle East. The current account deficit widened to $88 billion in the fourth quarter (from an upward-revised $63 billion in the third); declines in both net service receipts and net investment income receipts offset the improvement in the trade balance.

1. January trade data will be released on March 18.

Outlook

The outlook for growth in foreign countries on average is somewhat weaker than in the January projection. That weakening, combined with a moderately higher projected path for the dollar, contributes to a more negative trajectory for real net exports. We now expect real net exports to decline over the next two years by about 1 percent of GDP, compared with a decline of 3/4 percent of GDP in the previous forecast.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will drift up from current levels through the end of 1994. The dollar takes off from a higher starting point than in the previous forecast, but the projected rate of increase is about the same. This forecast reflects a balance of several factors--fiscal contraction in the United States, weaker activity abroad, and the assumption that European interest rates, long-term as well as short-term, will continue to decline relative to comparable U.S. rates. 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. The combination of weaker-than-expected real GDP growth at the end of 1992 and negative indicators for the first quarter have led us to revise downward the projected 1993 growth rates in western Germany, Japan, France, and Italy. Four-quarter growth in the G-6 countries (weighted by their shares in U.S. exports) is projected to average about 1-1/2 percent in 1993 and to recover to nearly 3 percent in 1994.[2]

2. On a U.S.-export-weighted basis, the outlook for 1993 is 1/2 percentage point less than that in the January forecast; on a GDP-weighted basis, the downward revision is closer to 1 percentage point.

We project west German real GDP to decline 1/2 percent this year (Q4/Q4) and growth elsewhere in Europe and in Japan to be anemic (in a range of zero to 1 percent). Growth in the United Kingdom and Canada is expected to be a bit stronger--1-1/2 percent and 2-3/4 percent respectively. Economic recovery in Japan and continental Europe is now expected to begin taking hold in the second half of 1993 and to accelerate moderately in 1994, stimulated largely by recent and projected further easing of monetary policy. Expansionary fiscal measures adopted in Japan in recent months and anticipated for both Japan and France in the year ahead should help as well.

We project consumer-price inflation in the major foreign industrial countries to average slightly less than in the January forecast--about 2-3/4 percent in 1993 and 2-1/4 percent in 1994.

Foreign short-term interest rates, on average, are projected to decline about 150 basis points from current levels by the end of 1993 and another 25 basis points during 1994. The end-1994 level is more than 50 basis points below that projected in the January Greenbook, reflecting the weaker outlook for growth abroad. We expect German short-term interest rates to fall about 200 basis points from current levels by the end of the year and to decline another 75 basis points during 1994. Rates in France, which are well above German rates, are projected to fall substantially more, while those in other major European countries should fall somewhat less. (We are assuming that the French franc will maintain its central rate with the DM after the French elections later this month.) We expect Japanese short-term rates to ease moderately, to about 3 percent over the next few months, and to remain there through year-end. Long-term interest rates in the major foreign countries should decline on average more than 50 basis points over the forecast period. Long-term rates in Germany should remain significantly above the rate of inflation, in part, because of that country's extremely large budget deficit.

Developing countries. The outlook for real GDP growth in the developing countries that are major U.S. trading partners is essentially unchanged from that in the previous Greenbook. Real GDP growth slowed to 4 percent in 1992, as weak import demand in industrial countries and tight macroeconomic policies in several developing countries restrained growth. Some relaxation of contractionary policies, as well as a pickup in demand in industrial countries, should support faster growth in 1993-94. We expect real GDP in Mexico to expand at an annual rate of 3 to 3-1/2 percent over the next two years, up from growth of 2-3/4 percent in 1992. Annual growth in the key U.S. export markets among developing countries in Asia is projected to be in the range of 6 to 7 percent on average over the next two years (up from growth of 5-1/2 percent in 1992), supported in part by continued rapid growth in China.

U.S. real net exports. We project real net exports of goods and services to decline $30 billion over the four quarters of 1993 and another $20 billion during 1994.

Real merchandise exports are projected to increase 6-1/4 percent at an annual rate in the current quarter--significantly less than they increased during the second half of 1992--and to continue to grow at roughly a 6 percent rate through the end of the forecast period. Shipments of agricultural commodities should recede a bit in the near term and then expand moderately through 1994. Exports of computers are projected to continue expanding at about the same rapid rate seen on average over the past two years. We expect the growth of other exports to average around 4 percent in 1993 and to slow to 2-1/4 percent in 1994 as the depressing effects of the recent and projected further appreciation of the dollar more than offset the stimulative effects of the gradual pickup in GDP growth abroad. Although exports take off from a significantly higher level in the fourth quarter of 1992 than we had projected previously, the projected growth of exports averages nearly 1 percentage point per year less than in the January forecast, reflecting the higher path of the dollar and the weaker outlook for growth abroad.

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

	1992		Projection 1993				1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
Exports							
Total	12.7	13.9	6.2	5.4	6.2	6.6	5.9
Agricultural	58.7	-6.5	1.8	-11.9	2.1	13.5	2.6
Computers	35.4	34.4	21.3	21.6	21.6	21.6	26.4
Other nonag.	5.1	13.6	4.4	5.0	4.0	3.1	2.3
Imports							
Total	15.5	6.5	9.9	12.3	11.4	8.6	8.5
Oil	13.2	-1.5	-3.7	8.9	14.7	2.1	9.2
Computers	81.2	19.7	23.3	24.0	23.9	24.0	22.3
Other non-oil	8.3	5.6	9.6	10.8	9.0	6.8	5.8

* GDP basis, 1987 dollars.

We expect total merchandise imports in real terms to expand 10-1/2 percent in 1993 and about 8-1/2 percent in 1994, somewhat faster than projected in the January Greenbook. Declines in relative prices of imports (associated in part with the appreciation of the dollar) and rapid growth of trade in computers contribute importantly to the projected strong growth of imports. Even so, the growth of computer imports is expected to slow substantially from the exceptionally rapid rate of about 50 percent during 1992 and to be generally in line with the projected growth of computer exports.

The quantity of oil imports is projected to remain essentially flat in the first quarter. Over the rest of the forecast period, imports are likely to show seasonal fluctuations around a strong upward trend as U.S. oil drilling activity stagnates and production declines.

Oil prices. Since the previous Greenbook, spot West Texas Intermediate (WTI) has varied between roughly $19.00 and $21.00 per barrel, nearly $1.00 per barrel above the range assumed in the last Greenbook. We assume that the price will recede a bit from the current level (just below $20 per barrel) as production cuts by OPEC fail to fully offset seasonal declines in consumption. Beyond the middle of the year we assume that spot WTI prices will remain at $19.50 per barrel. This spot price should be consistent with an import unit value of $17.00 per barrel, which is the same projection for the longer-term as in the January Greenbook. We continue to assume that Iraq will begin exporting significant volumes of oil sometime in early 1994.

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

	1992		Projection 1993				1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
PPI (exp. wts.)	3.0	-1.5	2.2	2.3	1.4	1.6	1.7
Nonag. exports*	3.2	-0.3	1.5	0.9	0.7	1.2	1.5
Non-oil imports*	4.7	0.9	-0.9	-0.2	1.3	2.1	1.5
Oil imports (level, $/bl)	18.60	17.90	16.90	17.40	17.00	17.00	17.00

* Excluding computers.

Prices of non-oil imports and exports. The appreciation of the dollar in recent months is expected to result in slight declines in U.S. non-oil import prices during the first half of 1993. We expect these import prices to continue rising less rapidly than domestic prices abroad after mid-1993, partly because of the actual and projected appreciation of the dollar. The increase in prices of U.S. nonagricultural exports (excluding computers) should roughly keep pace with increases in U.S. producer prices. The prices of agricultural exports are projected to rise somewhat faster than those of other exports on average, consistent with prices in commodity futures markets.

Nominal trade and current account balances. The merchandise trade deficit is projected to widen from an annual rate of less than $105 billion in the fourth quarter of 1992 and the first quarter of 1993 to nearly $130 billion by the end of 1993 and to $150 billion by the end of 1994. Beyond the current quarter, the projected level of the deficit is somewhat greater than that in the previous forecast. The worsening reflects a combination of lower growth of exports and higher import growth associated with the higher path for the dollar and weaker growth abroad.

We expect that the current account deficit will widen to more than $100 billion by the end of 1993 and more than $120 billion (or over 1-3/4 percent of nominal GDP) by the end of 1994. A continued expansion of net service receipts is expected to be partly offset by declines in net investment income receipts. Net receipts of direct investment income in particular are expected to decline as the earnings of foreign companies in the United States (and their payments to home offices) rise with the recovery of U.S. corporate profits.

March 17, 1993

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

Measure and country	1990	1991	1992	Projection 1993	Projection 1994
REAL GDP					
Canada	-2.0	-0.0	1.3	2.7	3.2
France	1.5	1.6	1.0	0.9	3.1
Western Germany	6.0	2.0	0.2	-0.6	2.1
Italy	1.6	1.7	-0.0	0.1	1.7
Japan	4.7	3.0	0.2	0.8	2.7
United Kingdom	-1.0	-1.6	0.1	1.5	2.5
Average, weighted by 1987-89 GDP	2.6	1.5	0.3	0.8	2.5
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.8	1.7	1.5	2.3	3.3
G-6	0.6	0.8	0.7	1.6	2.9
Developing countries	5.0	4.9	3.9	4.8	5.2
CONSUMER PRICES					
Canada	4.9	4.1	1.8	2.1	1.8
France	3.6	2.9	2.2	2.5	1.8
Western Germany	3.0	3.9	3.7	3.2	2.2
Italy	6.3	6.1	4.8	5.8	3.8
Japan	3.2	3.2	0.9	1.9	1.6
United Kingdom	10.0	4.2	3.1	2.4	3.5
Average, weighted by 1987-89 GDP	4.8	3.9	2.4	2.8	2.3
Average, weighted by share of U.S. non-oil imports	4.4	3.8	1.9	2.3	2.0

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	1989	1990	1991
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	-25.5	-73.1	-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	-70.7	-100.0	-115.7	-108.9	-73.4
Exports	379.9	386.6	386.2	402.1	402.5	413.3	416.6	431.4	430.5	428.6	361.7	388.7	416.0
Agricultural	43.0	40.5	39.4	37.9	39.2	37.5	40.7	43.2	42.9	41.4	42.2	40.2	40.1
Nonagricultural	337.0	346.1	346.8	364.2	363.3	375.8	375.9	388.2	387.7	387.2	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	528.6	477.4	497.6	489.4
Oil	63.2	51.3	61.8	72.9	51.7	51.7	52.5	48.8	41.6	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	459.6	476.8	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	27.6	19.5	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	17.6	7.4	14.4	19.3	16.4
Direct, net	52.1	51.5	54.0	59.7	61.7	53.0	48.3	48.5	55.0	47.7	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	-40.3	-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	-2.5	-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	57.8	53.0	32.6	39.9	50.8
Transfers, net	-26.2	-29.6	-28.8	-47.1	56.8	16.5	-24.0	-17.1	-27.7	-31.0	-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 (Projection)				1994 (Projection)				ANNUAL (Projection)		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994
GDP Net Exports of Goods and Services (87$)	-52.7	-48.0	-54.7	-65.2	-73.9	-78.2	-82.5	-88.2	-93.6	-98.5	-41.5	-68.0	-90.7
Exports of G+S	575.9	589.5	596.7	603.6	611.6	620.3	628.2	636.3	644.7	653.6	573.5	608.1	640.7
Merchandise	420.4	434.3	440.9	446.7	453.4	460.7	467.2	473.7	480.7	487.9	417.7	450.4	477.4
Services	155.5	155.1	155.8	156.8	158.1	159.6	161.0	162.5	164.0	165.6	155.8	157.5	163.2
Imports of G+S	628.6	637.4	651.3	668.7	685.4	698.4	710.6	724.4	738.3	752.0	615.0	676.0	731.3
Merchandise	526.4	534.8	547.5	563.7	579.1	591.3	602.5	615.5	628.5	641.3	514.2	570.4	621.9
Oil	52.5	52.3	51.8	52.9	54.8	55.1	55.0	57.2	59.0	60.1	50.6	53.6	57.9
Non-oil	473.9	482.5	495.7	510.7	524.4	536.2	547.5	558.2	569.5	581.2	463.6	516.8	564.1
Services	102.2	102.6	103.8	105.0	106.3	107.2	108.1	108.9	109.8	110.7	100.8	105.6	109.4
Memo: (Percent changes 1/)													
Exports of G+S	9.2	9.8	5.0	4.7	5.4	5.8	5.2	5.2	5.4	5.6	5.0	5.2	5.4
of which: Goods	12.7	13.9	6.2	5.4	6.2	6.6	5.8	5.7	6.0	6.2	6.6	6.1	5.9
Imports of G+S	14.8	5.7	9.0	11.1	10.4	7.8	7.2	8.0	7.9	7.6	9.6	9.6	7.7
of which: Non-oil Goods	15.8	7.5	11.4	12.7	11.1	9.3	8.7	8.1	8.3	8.5	10.7	11.1	8.4
Current Account Balance	-63.1	-88.1	-77.6	-89.6	-94.3	-103.0	-102.1	-110.4	-112.6	-122.6	-62.4	-91.1	-111.9
Merchandise Trade, net	-110.5	-103.9	-104.3	-114.8	-122.5	-127.6	-132.5	-139.0	-144.8	-150.5	-96.3	-117.3	-141.7
Exports	440.5	457.5	461.0	465.2	471.1	478.1	484.0	489.4	495.4	500.9	439.3	468.9	492.4
Agricultural	45.9	45.6	44.8	44.6	45.1	47.1	47.9	48.7	49.6	50.4	43.9	45.4	49.1
Nonagricultural	394.6	411.9	416.2	420.7	426.0	431.0	436.1	440.7	445.8	450.5	395.3	423.5	443.3
Imports	551.0	561.4	565.3	580.0	593.6	605.7	616.5	628.4	640.2	651.4	535.5	586.2	634.1
Oil	57.1	55.0	51.3	54.1	54.7	54.9	54.9	57.1	58.9	59.9	51.4	53.8	57.7
Non-oil	493.9	506.4	514.0	525.9	538.9	550.8	561.6	571.3	581.3	591.4	484.2	532.4	576.4
Other Current Account	35.5	12.5	21.7	22.9	24.1	22.8	26.7	28.1	29.5	28.3	23.8	22.9	28.1
Invest. Income, net	11.9	3.4	5.0	2.3	4.1	1.8	3.8	0.6	2.7	-0.4	10.1	3.3	1.7
Direct, net	49.1	44.9	42.7	41.4	40.9	41.3	40.9	40.7	41.1	41.3	49.2	41.6	41.0
Portfolio, net	-37.2	-41.6	-37.6	-39.1	-36.8	-39.5	-37.2	-40.2	-38.4	-41.7	-39.1	-38.3	-39.4
Military, net	-2.3	-2.7	-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	65.3	54.5	55.1	55.9	56.5	57.6	58.3	59.3	60.3	61.5	57.6	56.3	59.8
Transfers, net	-27.4	-39.3	-31.4	-31.4	-31.4	-34.2	-31.4	-31.4	-31.4	-34.2	-31.4	-32.1	-32.1

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