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Strictly Confidential (FR) Class II FOMC

May 14, 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 pace of economic expansion appears to have slowed considerably in the past few months. Although a marked weakening of activity in March was attributable, at least in part, to the disruptive effects of unusually inclement weather, the apparent failure of the economy to rebound more vigorously since then suggests that aggregate demand has been softer than we had anticipated in our previous forecast. Most notably, consumer spending has been quite weak overall, against a backdrop of meager gains in employment and real labor income and diminished optimism about economic prospects. Uncertainties about prospective federal policies on a variety of fronts seem to be damaging business, as well as consumer, confidence, possibly adding to the caution firms have been exhibiting for some time in their hiring behavior. Meanwhile, the continued disappointing performance of key foreign industrial economies has constrained the growth of U.S. export business.

We project that real GDP growth will remain in the vicinity of 2 percent this quarter before picking up again. Our forecast is for GDP to increase at a 2-1/2 percent annual rate in the latter part of this year and 2-3/4 percent in 1994--a bit less than in the last Greenbook. Although the revision beyond the current quarter is in part a reaction to the weaker tone of the recent data, another key element is a change in the fiscal policy outlook. Contrary to our assumptions in the March Greenbook, Congress now seems likely to enact very little of the Administration's short-run stimulus package; consequently, fiscal policy is somewhat more contractionary than in the previous projection.

Our forecast continues to be conditioned on an assumption that short-term interest rates will remain near current levels through 1994; we anticipate that, under these circumstances, longer-term rates will move to somewhat lower levels. The favorable financial environment, including, as well, the further easing of credit supply constraints and the ongoing strengthening of balance sheets, is expected to provide support for private spending, especially on housing, consumer durables, and business equipment. In time, an easing of monetary policy abroad should help to bolster demand for U.S. exports, despite a likely tendency toward appreciation in the dollar.

With the rather subdued pace of output growth, employment gains are expected to be modest, and the jobless rate is likely to remain close to 7 percent into early 1994. While the recent data have suggested a bottoming out--if not an upturn--in wage and price inflation, we continue to think it probable that the persistent slack in the economy will produce a resumption of the disinflationary progress of the past couple of years. However, in light of the incoming evidence, the projected deceleration in prices has been trimmed a bit further; the "core" CPI is projected to increase 3 percent in 1994, 1/4 percentage point more than in our previous forecast and only 1/2 percentage point below the change over the past year.

Recent Developments and the Current-Quarter Outlook

Our 2 percent GDP forecast for the current quarter is 3/4 percentage point less than in the last Greenbook. As usual at this point in a quarter, our assessment of activity must rely heavily on an interpretation of the labor market information. The stability of the unemployment rate at 7 percent in April, in the context of a decline in labor force participation, suggests that output probably is growing only moderately. Aggregate hours of private production and nonsupervisory workers were up only about 1 percent (at an annual rate) from their first-quarter average; given that weekly unemployment insurance data suggest a continuation of slow job growth into early May, we are expecting only small changes in aggregate hours over the rest of the quarter. Our GDP forecast anticipates a significant pickup in nonfarm labor productivity after a flat first quarter. Industrial production also appears to be headed for a tepid gain this quarter, having risen just 0.1 percent in April after a flat March.

Real consumer spending is projected to rise at a 1-3/4 percent annual rate in the second quarter. Motor vehicle sales have been up substantially on average since March, but the advance report on April retail sales suggests a quite limited rebound in real non-auto purchases after the weather disruptions. The general sluggishness of consumer demand since the beginning of the year may be in good part a payback after an unsustainable burst of spending in the second half of 1992, which substantially outstripped income gains; in addition, some households may be finding their spending crimped by the absence of a tax refund this year. While the inherently transitory character of these factors might suggest the possibility of a greater snapback in consumer demand in the near term than we have projected, the labor market data thus far this quarter do not point to much in the way of increased wage and salary income. Moreover, the early May returns in the Michigan SRC survey point to a further erosion of sentiment.

By most reports, low mortgage interest rates are stimulating increased demand for single-family homes. However, we have forecast that real residential investment will rise only marginally in the current quarter. In part, this is simply a matter of the lagged effect of the drop in starts over the first three months of the year; but, in addition, we are projecting that starts will recover the lost ground only in steps. The April employment report indicated that construction activity continued to be hampered (at least in the survey week) by soggy weather, and builders and lenders have indicated quite recently that potential transactions were being disrupted by high lumber prices.

Real business fixed investment is projected to increase at about a 15-1/4 percent annual rate in the second quarter. Although firms generally appear to be reluctant to expand capacity in the current environment, they reportedly are continuing to look to purchases of new equipment as the means of achieving greater efficiency, lower costs, and more attractive product offerings. Moreover, businesses have ample cash flow to finance capital expenditures--and face low yields on liquid investments. Orders for nondefense capital goods other than aircraft increased at an annual rate of 5-1/2 percent in the first quarter; computers again led the way, but the advances in several categories of industrial equipment also were notable. Nonresidential construction activity is expected to be little changed in the current quarter, with the downtrend in office building offsetting some firming in other components.

The available data indicate a sizable rise in inventories in the first quarter. We believe some intended accumulation of stocks occurred in the wake of the late-1992 step-up in sales, but the March blizzard may have caused some undesired buildup. A reduction in the pace of inventory investment likely is under way now; in the forecast, this adjustment is centered in the motor vehicle sector, where stocks are projected to stabilize after rising sharply in the first quarter.[1]

The plunge in defense spending last quarter seems to have pushed total federal purchases below their declining trend path, and we are therefore anticipating a partial rebound this period. In the external sector, too, the levels of exports and imports came off their year-end highs in the first quarter but are projected to resume expanding this quarter; on balance, however, net exports are expected to continue their recent downtrend, partly reflecting the weakness of domestic demand in Europe and Japan.

Increases in consumer prices during March and April, averaging about 1/4 percent per month for both the total CPI and the CPI excluding food and energy, were smaller on net than those in the first two months of the year. Moreover, prices of many industrial materials have dropped with the slowing of manufacturing activity, and the earlier runup in lumber prices has been largely retraced. Nonetheless, no persuasive evidence is, as yet, available that the prior downtrend in price inflation has been restored. Indeed, the core CPI appears likely to register an increase this quarter in excess of 3 percent--leaving the twelve-month change near the upper end of the 3-1/4 to 3-1/2 percent range that has prevailed since last summer. The incoming data on labor cost trends have exhibited the same discouraging pattern: Despite the apparent slack in labor markets, the latest twelve-month changes in both the employment cost

1. The reduction in motor vehicle inventory investment is expected to amount to more than a percentage point of GDP; the gross product of the motor vehicle sector as a whole, however, is expected to have only a small negative effect on growth. Although assemblies of cars and trucks are projected to fall about 3/4 million units at an annual rate (BEA basis), the total markup on cars sold by dealers--which represents the value-added of the retail sector enumerated in GDP--is expected to rise sharply. This reflects both a projected rise in sales and a rebound in the average value of units sold, which had fallen sharply last quarter as the mix of sales was tilted, apparently temporarily, toward less expensive makes.

index and average hourly earnings have shown no further deceleration.

The Outlook Beyond the Current Quarter

Key assumptions. As noted above, we have maintained our assumption that short-term interest rates will change little through next year.[2] However, we also continue to anticipate that the constraints of the "credit crunch" will gradually be relaxed further as the health of financial intermediaries improves and they become more active in lending to businesses whose access to external funds has been unusually restricted in the past few years. In addition, we are projecting--as we have previously--that the combination of sustained low short-term rates and low inflation will push more investors into the capital markets, and that long-term interest rates will reach lower levels in coming quarters.

Even after abstracting from a number of temporary factors that have held down the broad monetary aggregates, the underlying trends in M2 and M3 growth thus far this year have been quite weak relative to the pace of nominal spending. While a repeat of the first-quarter velocity surge is not expected, we are projecting that monetary expansion will remain relatively subdued on average over the forecast period. The structure of interest rates will continue to induce households to shift from M2 assets to mutual funds and other capital market instruments. With larger firms still relying heavily on the bond market, overall business loan demand is likely to be limited, and increased costs of intermediation will generally discourage banks from expanding their balance sheets rapidly; moreover, banks probably will tap nondeposit sources further to fund

2. Of course, with the elevation of the inflation path in recent forecasts, the level of real short-term rates implied by this assumption has become progressively lower. This change, in effect, has provided some offset to the more restrictive fiscal policy assumptions adopted in the past two Greenbooks.

asset growth. As a result, both M2 and M3 are expected to finish the year below the bottoms of their target ranges. Both aggregates are projected to accelerate only modestly in 1994.

Our fiscal policy assumptions have been altered to reflect the rejection of the Administration's stimulus proposals. At this point, we assume that very little in the way of spending will be added to the $4 billion already appropriated for the extension of emergency unemployment insurance benefits. The Administration also appears to have abandoned the investment tax credit, although we believe that some minor tax benefits for business will find their way into the budget--for example, in the form of smaller corporate tax increases than those contemplated earlier. We are assuming that the budget resolution passed in April will provide the framework for subsequent fiscal decisions in terms of broad revenue and spending limits. However, we are not sanguine about the prospects for prompt enactment of the budget legislation, given the contention over many details and the additional issues likely to be raised by the upcoming health plan; the budget debate likely will wear on through the summer, thereby leaving the current uncertainties unresolved for some time. (We have assumed that the legislative debate with respect to health care reform will last well into 1994, and that no major programmatic changes will be implemented at least until very late in the projection period.)

As shown in the table, the direct effects of the new policy assumptions reduce the unified budget deficit by $6 billion in FY1993 and $15 billion in FY1994. However, our forecast of the deficit has been revised up $7 billion in FY1993, and down only $9 billion in FY1994, reflecting offsets to the new policy assumptions from weaker economic activity and recent data on tax collections that have led us to lower the effective tax rates embedded in our technical assumptions.

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

| | FY1993 | FY1994 |
|---|---|---|
| Deficit, March Greenbook | 276 | 279 |
| New policy assumptions | | |
| Higher receipts | -2 | -9 |
| Lower outlays | -4 | -6 |
| Economic assumptions | | |
| Lower GDP | 5 | 10 |
| Technical assumptions | | |
| Deposit insurance | -12 | -5 |
| Other | 20 | 1 |
| Deficit, May Greenbook | 283 | 270 |

The trade-weighted foreign exchange value of the dollar has fallen about 4 percent since the last Greenbook; over the forecast period, the dollar is projected to drift up, retracing much of this decline. Incoming data indicate that activity abroad was slightly more sluggish in late 1992 and early 1993 than we had thought earlier. Accordingly, we have revised down a bit our projection of growth abroad this year--although a gradual acceleration in activity still is expected. The posted price of West Texas intermediate crude oil is expected to move up from its average level in April of $19.24 per barrel to $19.50 per barrel later in the spring, and then to remain at that level for the remainder of the forecast period; this path is about $1 per barrel higher than that in the last Greenbook, reflecting expected OPEC production cuts in response to higher anticipated energy taxes here and in Europe.

Summary of the forecast. As may be seen in the table below, at 2-1/4 percent, the staff forecast of real GDP growth this year has been marked down significantly since the March Greenbook.[3] While the adjustments to the near-term path have been heavily influenced by the incoming data, the continued more moderate growth projected on through 1994 reflects, to a substantial degree, the changes in the federal fiscal outlook--both the lengthier period of uncertainty and the assumed elimination of most of the fiscal stimulus package. The lower level of aggregate demand in this forecast has caused us to maintain a projection of further slowing in core inflation; but, in light of the unfavorable indications regarding wage and price trends in recent quarters, that slowing is roughly 1/2 percentage point less than we forecast just a few months ago.

STAFF REAL GDP PROJECTION--SELECTED COMPONENTS
(Percent change, at annual rates, except as noted)

| | 1993 | | | | |
|---|---|---|---|---|---|
| | Q1 | Q2 | H2 | 1993 | 1994 |
| Real GDP | 1.8 | 2.0 | 2.5 | 2.2 | 2.7 |
| *Previous* | 3.0 | 2.7 | 2.9 | 2.9 | 2.9 |
| Civilian unemployment rate[1] | 7.0 | 7.0 | 7.0 | 7.0 | 6.7 |
| *Previous* | 7.0 | 7.0 | 6.9 | 6.9 | 6.6 |
| CPI ex. food and energy | 4.1 | 3.3 | 2.9 | 3.3 | 3.0 |
| *Previous* | 4.3 | 3.0 | 2.7 | 3.1 | 2.7 |

1. Averages for final quarter of period shown.

Consumer spending. Real consumer outlays are projected to rise 2-3/4 percent (annual rate) in the second half of 1993 and about 2-1/2 percent in 1994. In large part, these rather modest gains in spending reflect the slow pace of job growth--and the correspondingly small increases in labor income--in the forecast. Consumption growth is also assumed to be held down by the higher

3. Incoming data indicate that the advance estimate of first-quarter GDP growth may have been on the low side by half a percentage point or more. If this is so, given our "best change" approach, the growth figure for the year would be correspondingly higher.

personal income taxes in the Administration's budget proposal. Although the proposed tax increases are not scheduled to be collected until 1994, we assume some forward-looking households will begin to cut back consumption this year in response to the prospective reduction in their "permanent" disposable income.[4]

On the positive side, though, households as a group have substantially reduced their debt-service burdens, and the interest rate path in the forecast should facilitate this process further. Consequently, any drag on consumer spending that has been associated with debt problems should be a lesser force going forward. Another boost to consumption is expected to come from the motor vehicle sector, where several years of low sales likely generated some pent-up demand for cars and light trucks; as a result, the uptrend evident in motor vehicle sales since early 1992 is projected to extend through the end of the forecast period. In addition, spending on furnishings and other household goods should be bolstered by higher levels of home sales.

Housing. Residential construction is projected to pick up noticeably by midyear in response to the expected recovery in housing starts. We are projecting a brisk expansion of real residential investment over the second half of the year, with gains then tapering off in 1994. In the single-family sector, starts are expected to rise from the 1.03 million unit annual rate of the first quarter of this year to more than 1.2 million units in the second half of 1994. The projected gains in the single-family market reflect growth in employment and income, lower mortgage interest rates, and the effect of firming home prices on the perceived

4. Indeed, it is conceivable that, with all of the rather confusing talk of additional taxes--including those that may eventually be needed to pay for health reform--some consumers may be responding to bigger anticipated tax increases than they may actually face.

attractiveness of housing as an investment. Given the light supply of new homes currently for sale in some sections of the country, increases in demand are expected to generate new starts rather promptly. However, construction may respond more gradually than it might have in similar circumstances in the past, because some builders reportedly continue to encounter difficulty in obtaining credit for lot development and for speculative projects generally.

Meanwhile, in the multifamily sector, vacancy rates appear high enough that real rents will remain, on average, relatively soft for some time, offsetting the benefits accruing to this market from improvement in general economic conditions. Consequently, the market for multifamily housing is expected to show only a small improvement over the forecast horizon; starts are projected to rise to 180,000 units by late 1994, just marginally above the average pace of starts in 1991 and 1992.

Business fixed investment. Real BFI is projected to increase 8-1/2 percent (at an annual rate) in the second half of 1993 and 9 percent in 1994, boosted by the low cost of capital and continuing efforts to reduce costs by automating the workplace and otherwise raising productivity. Outlays for producers' durable equipment are forecast to increase at roughly a 10-1/2 percent annual rate in the second half of 1993 and in 1994. These gains in PDE are not much less than in the March Greenbook: The effect of the removal of the ITC from the forecast has been largely offset by an upward revision to our reading of the underlying demand for capital equipment--most notably for computers. (As noted above, we also believe it likely that the fiscal program that is eventually passed will contain some changes from the initial proposal--such as a smaller corporate rate increase or more generous provisions for immediate expensing--that would favor investment.)

Real investment in nonresidential structures is projected to pick up gradually over the forecast period, with growth moving up to a 4-1/2 percent annual rate by late 1994. The largest boost to this sector is expected to be come from the utilities sector, where an expansion of generation capacity seems warranted and existing facilities will be upgraded to meet the requirements of the Clean Air Act. The reduction in unused capacity at industrial plants and the continuing need to build or refurbish retail space also is likely to buoy construction activity. Declining long-term interest rates, improving access to finance, and changes in the tax code favorable to real estate should all be helpful--including in the office sector, where construction is expected to bottom out in 1994.

Inventory investment. After the adjustment in the current quarter, stockbuilding is expected to exert an essentially neutral influence on real output growth.[5] As in previous projections, we expect that businesses will be cautious in building stocks, and the forecast is consistent with additional small declines in the aggregate stock-to-sales ratio as firms take advantage of computing and telecommunications technologies to organize production and distribution systems to reduce inventory requirements further.

Government purchases. After rebounding somewhat in the current quarter, real federal purchases are expected to fall at roughly a 4 to 5 percent annual rate through 1994. The decline reflects sizable cuts in defense spending, as nondefense purchases are expected to register small increases over the forecast period.

Real state and local government purchases are expected to rise at about a 1 percent annual rate in the second half of 1993 and a little more than 2 percent in 1994. The rise in state and local

5. There may be some risk of a transitory pickup in stockbuilding (and GDP) in the third quarter--and subsequent drop-off in the fourth quarter--if automakers decide to build an inventory cushion in advance of the labor negotiations coming up this fall.

expenditures has been revised down about $3 billion over the forecast period in light of the removal of the Administration's stimulus package. We continue to forecast that budgetary pressures will lead some governmental units to increase income and excise taxes during 1993 and 1994; efforts to curb transfer payments and other expenditures also should continue. Nonetheless, given the reduced federal aid and weaker economic growth, the state and local deficits on operating and current accounts, at $38 billion in 1993 and $23 billion in 1994, are markedly higher than in the last Greenbook.

Net exports. Real exports of goods and services are expected to increase at a 6 to 7 percent annual rate through the end of 1994 as activity abroad picks up somewhat in the near term and the restoration of a moderate growth path by year-end offsets the effects of the anticipated firming of the dollar in 1994. Real imports are projected to grow a little faster than exports over the forecast period, so that the arithmetic contribution of net exports to real GDP growth is a small negative--less than in the March Greenbook, however, in part because of the recent drop in the dollar. (A detailed discussion of these developments is contained in the International Developments Section.)

Labor markets. Labor markets are expected to improve slowly over the forecast period. Clearly, many large firms have not completed their restructuring efforts, and numerous layoffs remain ahead. In general, employers are seeking to squeeze as much output as they can from their existing workforces; the increased use of contingent workers also tends to minimize hiring by enhancing flexibility and diminishing the stockpiling of labor to meet surges in activity. The desire to avoid the fixed costs of hiring permanent, full-time workers evidently is being reinforced by the possibility of new mandated benefits.

Under the circumstances, we expect that a good share of the projected gains in output will be achieved through increases in productivity. Output per hour in the nonfarm business sector is projected to rise at between a 1 and 2 percent annual rate over coming quarters--less than in 1992, but still a substantial pace by the standards of the past couple of decades.[6] We are looking for payrolls to increase a bit less than 150,000 per month on average after the current quarter.[7]

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

| | 1992 | 1993 | 1994 |
|---|---|---|---|
| Output per hour, nonfarm business | 3.1 | 1.3 | 1.4 |
| *Previous* | 3.3 | 1.8 | 1.6 |
| Nonfarm payroll employment | .4 | 1.3 | 1.7 |
| *Previous* | .4 | 1.7 | 1.7 |
| Civilian unemployment rate[1] | 7.3 | 7.0 | 6.7 |
| *Previous* | 7.3 | 6.9 | 6.6 |

1. Average for the fourth quarter.

Although labor force participation rates have moved down from their elevated levels of last fall, we expect participation to again move up slowly as the growing economy draws new entrants into the workforce. This pickup in participation rates limits the decline in

6. Next month's revisions to payroll employment will probably revise productivity growth in 1992 down by 1/4 percentage point.

7. State and local governments currently have a sizable reserve of funding for summer jobs left over from last year's supplemental appropriation, and we are assuming that some additional funding will be appropriated for these programs shortly. Consequently, we are expecting large gains in employment--mostly at state and local governments--in June and July, followed by a corresponding decline in August and September. The programs could cause some transitory fluctuations in the unemployment rate this summer. For the purpose of the forecast, however, we have assumed that most of the jobs will go to individuals who would not otherwise be counted in the labor force, so that the programs will have little effect on the unemployment rate (as apparently was the case last summer).

the unemployment rate, which is expected to edge off slightly from its current level of 7 percent to 6-3/4 percent by the end of 1994.

Wages and prices. The incoming information on labor costs has been disappointing. Even if one discounts the pattern of acceleration in the quarterly employment cost index figures since last spring, the fact remains that the twelve-month change has been stuck at roughly 3-1/2 percent for the past three quarters. Our perhaps optimistic reading of these data, however, is that the trend of deceleration evident since 1990 has not been decisively broken and that it is reasonable to expect at least a slight further slowing over the forecast period, in light of the substantial slack in labor markets. We project increases in the ECI to edge down to 3-1/4 percent in 1994--only slightly less slowing than projected in the last Greenbook.

Even with compensation increases slowing little, the underlying trend of unit labor costs--which we see as currently running in the vicinity of 2 to 2-1/4 percent per annum--suggests a case for some further deceleration in prices. The recent spate of stories about the competitive problems encountered by producers of brand-name products may be indicative of some downward pressure on prices. We are projecting that the CPI excluding food and energy will decelerate from 3.4 percent in 1992 to 3.3 percent this year and 3.0 percent in 1994. The overall CPI is expected to rise at roughly the same rates as the core component this year and next. Retail food price increases are projected to be moderate in 1993 and 1994, mainly responding to the broader cost trends in the economy; at this point we have built in no special allowance for crop losses because of delays in planting, although the window of opportunity for farmers is admittedly starting to narrow. Energy prices are expected to rise 2-3/4 percent this year, reflecting the pass-through of some small oil price increases in the second half of the year, and then to rise 5 percent in 1994 with the introduction of the Btu tax next July.

Despite the further upward adjustment of our inflation forecast, we remain on the low side of most outside forecasts. Some, but perhaps not all, of this difference appears to relate to our relatively low projection for economic activity. For example, the Blue Chip Consensus in early May was for a 3.3 percent CPI increase this year and 3.4 percent over 1994, with real GDP growth averaging 2.8 percent per year and the unemployment rate moving below 6-1/2 percent by the end of 1994.

One reason why the downtrend in inflation may have stalled is the evident failure of inflation expectations to diminish: The perceived trend in inflation clearly influences the norms for wage-setting and the notions of the range of price increases that will be accepted by customers. The absence of diminishing inflationary expectations is not only true among professional forecasters, as indicated by the Blue Chip inflation forecast, but also among households, who, according to the Michigan SRC Survey, have continued to report average inflation expectations in the 4 percent area for the next year and still higher for the longer term.

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

| | 1992 | 1993 | 1994 |
|---|---|---|---|
| Consumer price index | 3.1 | 3.1 | 3.1 |
| *Previous* | 3.1 | 2.9 | 2.7 |
| Excluding food and energy | 3.4 | 3.3 | 3.0 |
| *Previous* | 3.4 | 3.1 | 2.7 |
| ECI for compensation of private industry workers[1] | 3.5 | 3.3 | 3.3 |
| *Previous* | 3.5 | 3.3 | 3.2 |

1. December to December.

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

May 14, 1993

| Interval | Nominal GDP 3/17/93 | Nominal GDP 5/14/93 | Real GDP 3/17/93 | Real GDP 5/14/93 | GDP fixed-weight price index 3/17/93 | GDP fixed-weight price index 5/14/93 | Consumer price index[1] 3/17/93 | Consumer price index[1] 5/14/93 | Unemployment rate (level except as noted) 3/17/93 | Unemployment rate (level except as noted) 5/14/93 |
|---|---|---|---|---|---|---|---|---|---|---|
| ANNUAL | | | | | | | | | | |
| 1990[2] | 5.2 | 5.2 | .8 | .8 | 4.5 | 4.6 | 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 | 2.1 | 2.1 | 3.0 | 2.9 | 3.0 | 3.0 | 7.4 | 7.4 |
| 1993 | 5.9 | 5.2 | 3.2 | 2.7 | 2.9 | 3.0 | 3.0 | 3.2 | 6.9 | 7.0 |
| 1994 | 5.2 | 5.0 | 2.9 | 2.6 | 2.5 | 2.6 | 2.6 | 3.0 | 6.7 | 6.8 |
| QUARTERLY | | | | | | | | | | |
| 1991 Q1[2] | 1.8 | 1.8 | -3.0 | -3.0 | 4.7 | 4.9 | 3.6 | 3.6 | 6.5 | 6.5 |
| Q2[2] | 5.2 | 5.2 | 1.7 | 1.7 | 3.5 | 3.5 | 2.1 | 2.1 | 6.7 | 6.7 |
| Q3[2] | 4.0 | 4.0 | 1.2 | 1.2 | 3.0 | 2.9 | 2.7 | 2.7 | 6.7 | 6.7 |
| Q4[2] | 2.8 | 2.8 | .6 | .6 | 2.4 | 2.4 | 3.3 | 3.3 | 7.0 | 7.0 |
| 1992 Q1[2] | 6.2 | 6.2 | 2.9 | 2.9 | 3.6 | 3.4 | 3.5 | 3.5 | 7.3 | 7.3 |
| Q2[2] | 4.3 | 4.3 | 1.5 | 1.5 | 2.9 | 2.9 | 2.9 | 2.9 | 7.5 | 7.5 |
| Q3[2] | 5.3 | 5.3 | 3.4 | 3.4 | 2.1 | 2.2 | 2.9 | 2.9 | 7.5 | 7.5 |
| Q4[2] | 7.1 | 7.1 | 4.8 | 4.7 | 2.9 | 3.4 | 3.2 | 3.2 | 7.3 | 7.3 |
| 1993 Q1[2] | 6.7 | 5.2 | 3.0 | 1.8 | 3.9 | 4.2 | 3.8 | 3.7 | 7.0 | 7.0 |
| Q2 | 5.4 | 4.2 | 2.7 | 2.0 | 2.8 | 2.5 | 2.7 | 2.9 | 7.0 | 7.0 |
| Q3 | 5.0 | 4.7 | 2.8 | 2.5 | 2.4 | 2.5 | 2.3 | 2.7 | 6.9 | 7.0 |
| Q4 | 5.2 | 5.0 | 2.9 | 2.6 | 2.4 | 2.7 | 2.6 | 3.1 | 6.9 | 7.0 |
| 1994 Q1 | 5.2 | 5.1 | 2.9 | 2.7 | 2.5 | 2.7 | 2.7 | 3.1 | 6.8 | 6.9 |
| Q2 | 5.1 | 5.1 | 2.9 | 2.7 | 2.4 | 2.6 | 2.7 | 3.0 | 6.8 | 6.8 |
| Q3 | 5.2 | 5.2 | 2.9 | 2.7 | 2.5 | 2.8 | 2.9 | 3.3 | 6.6 | 6.7 |
| Q4 | 5.1 | 4.9 | 2.9 | 2.7 | 2.4 | 2.6 | 2.6 | 2.9 | 6.6 | 6.7 |
| TWO-QUARTER[3] | | | | | | | | | | |
| 1991 Q2[2] | 3.5 | 3.5 | -.7 | -.7 | 4.2 | 4.2 | 3.0 | 3.0 | .7 | .7 |
| Q4[2] | 3.4 | 3.4 | .9 | .9 | 2.7 | 2.6 | 3.0 | 3.0 | .3 | .3 |
| 1992 Q2[2] | 5.2 | 5.2 | 2.2 | 2.2 | 3.4 | 3.2 | 3.2 | 3.2 | .5 | .5 |
| Q4[2] | 6.2 | 6.2 | 4.1 | 4.1 | 2.5 | 2.8 | 2.9 | 2.9 | -.2 | -.2 |
| 1993 Q2 | 6.0 | 4.7 | 2.9 | 1.9 | 3.3 | 3.2 | 3.3 | 3.4 | -.3 | -.3 |
| Q4 | 5.1 | 4.9 | 2.9 | 2.5 | 2.4 | 2.6 | 2.4 | 2.9 | -.1 | .0 |
| 1994 Q2 | 5.1 | 5.1 | 2.9 | 2.7 | 2.4 | 2.7 | 2.7 | 3.0 | -.1 | -.2 |
| Q4 | 5.1 | 5.1 | 2.9 | 2.7 | 2.5 | 2.7 | 2.8 | 3.1 | -.2 | -.1 |
| FOUR-QUARTER[4] | | | | | | | | | | |
| 1990 Q4[2] | 4.1 | 4.1 | -.5 | -.5 | 4.7 | 4.7 | 6.2 | 6.2 | .6 | .6 |
| 1991 Q4[2] | 3.5 | 3.5 | .1 | .1 | 3.5 | 3.4 | 3.0 | 3.0 | 1.0 | 1.0 |
| 1992 Q4[2] | 5.7 | 5.7 | 3.2 | 3.1 | 2.9 | 3.0 | 3.1 | 3.1 | .3 | .3 |
| 1993 Q4 | 5.6 | 4.8 | 2.9 | 2.2 | 2.9 | 2.9 | 2.9 | 3.1 | -.4 | -.3 |
| 1994 Q4 | 5.1 | 5.1 | 2.9 | 2.7 | 2.5 | 2.7 | 2.7 | 3.1 | -.3 | -.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.

Strictly Confidential (FR)
Class II FOMC

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

May 14, 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 | 6262.5 | 6575.0 |
| Real GDP | Bill. 87$ | 4404.5 | 4540.0 | 4718.6 | 4838.0 | 4877.5 | 4821.0 | 4922.6 | 5054.7 | 5184.7 |
| Real GDP | % change | 2.2 | 4.5 | 3.3 | 1.6 | -.5 | .1 | 3.1 | 2.2 | 2.7 |
| Gross domestic purchases | | 2.1 | 3.9 | 2.5 | .9 | -1.2 | -.2 | 3.7 | 2.5 | 2.8 |
| Final sales | | 3.3 | 2.7 | 4.2 | 1.5 | .6 | -.6 | 3.1 | 2.0 | 2.6 |
| Private dom. final purch. | | 3.0 | 1.9 | 4.2 | .5 | -.8 | -.9 | 4.5 | 3.2 | 3.5 |
| Personal cons. expend. | | 4.0 | 2.1 | 4.2 | 1.2 | .2 | .0 | 3.4 | 2.1 | 2.4 |
| Durables | | 12.5 | -2.6 | 8.5 | -.5 | -2.3 | -2.5 | 9.2 | 3.2 | 5.4 |
| Nondurables | | 3.3 | 1.4 | 3.2 | 1.2 | -.7 | -1.5 | 3.3 | .6 | 1.4 |
| Services | | 2.5 | 3.7 | 3.7 | 1.7 | 1.3 | 1.6 | 2.2 | 2.7 | 2.3 |
| Business fixed invest. | | -5.7 | 3.0 | 5.5 | -.4 | -1.4 | -7.0 | 7.9 | 9.4 | 9.0 |
| Producers' dur. equip. | | -.7 | 2.4 | 9.1 | -1.7 | -.2 | -3.5 | 12.6 | 12.5 | 10.7 |
| Nonres. structures | | -14.1 | 4.4 | -1.2 | 2.3 | -3.7 | -14.3 | -3.0 | 1.1 | 3.9 |
| Res. structures | | 11.1 | -3.1 | .9 | -7.7 | -14.7 | -.1 | 14.1 | 4.7 | 5.2 |
| Exports | | 9.9 | 12.6 | 13.5 | 11.3 | 7.2 | 7.4 | 4.8 | 2.7 | 6.6 |
| Imports | | 6.7 | 4.7 | 3.6 | 2.6 | .1 | 4.8 | 9.5 | 5.3 | 7.6 |
| Government purchases | | 4.1 | 3.3 | .2 | 2.0 | 2.8 | -.6 | .4 | -1.5 | -.2 |
| Federal | | 3.8 | 3.7 | -3.4 | -.6 | 3.0 | -2.3 | -.8 | -5.0 | -4.0 |
| Defense | | 3.7 | 4.5 | -3.2 | -1.5 | 1.5 | -5.2 | -2.2 | -9.0 | -6.8 |
| State and local | | 4.4 | 2.9 | 2.9 | 4.0 | 2.7 | .7 | 1.3 | .8 | 2.1 |
| Change in bus. invent. | Bill. 87$ | 8.6 | 26.3 | 19.9 | 29.8 | 6.2 | -9.3 | 5.0 | 25.2 | 22.4 |
| Nonfarm | | 10.6 | 32.7 | 26.9 | 29.9 | 3.7 | -9.6 | 2.6 | 25.2 | 24.3 |
| Net exports | | -155.1 | -143.0 | -104.0 | -73.7 | -51.8 | -21.8 | -41.8 | -62.3 | -74.1 |
| Nominal GDP | % change | 4.7 | 8.0 | 7.7 | 6.0 | 4.1 | 3.5 | 5.7 | 4.8 | 5.1 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | |
| Nonfarm payroll employ. | Millions | 99.5 | 102.2 | 105.5 | 108.3 | 109.8 | 108.3 | 108.4 | 109.6 | 111.3 |
| Unemployment rate | % | 7.0 | 6.2 | 5.5 | 5.3 | 5.5 | 6.7 | 7.4 | 7.0 | 6.8 |
| Industrial prod. index | % change | 1.5 | 6.3 | 3.2 | -.1 | -.2 | -.3 | 3.2 | 3.7 | 3.6 |
| Capacity util. rate-mfg. | % | 79.1 | 81.6 | 83.6 | 83.1 | 81.1 | 77.8 | 78.8 | 81.1 | 82.1 |
| Housing starts | Millions | 1.81 | 1.62 | 1.49 | 1.38 | 1.19 | 1.01 | 1.20 | 1.26 | 1.37 |
| Auto sales in U.S. | | 11.45 | 10.24 | 10.63 | 9.91 | 9.51 | 8.39 | 8.35 | 8.65 | 9.18 |
| North American produced | | 8.22 | 7.07 | 7.54 | 7.08 | 6.91 | 6.14 | 6.25 | 6.65 | 7.19 |
| Other | | 3.24 | 3.18 | 3.10 | 2.83 | 2.60 | 2.25 | 2.10 | 2.00 | 1.99 |
| INCOME AND SAVING | | | | | | | | | | |
| Nominal GNP | Bill. $ | 4277.8 | 4544.5 | 4908.2 | 5266.8 | 5542.9 | 5694.9 | 5962.0 | 6268.4 | 6579.3 |
| Nominal GNP | % change | 4.4 | 8.1 | 7.8 | 6.1 | 4.2 | 3.1 | 5.6 | 4.8 | 5.0 |
| Nominal personal income | | 5.5 | 7.4 | 7.1 | 6.5 | 6.3 | 3.3 | 5.2 | 5.3 | 5.7 |
| Real disposable income | | 2.8 | 2.1 | 3.2 | 1.1 | .9 | .5 | 2.5 | 2.1 | 2.0 |
| Personal saving rate | % | 6.0 | 4.3 | 4.4 | 4.1 | 4.4 | 4.8 | 4.8 | 4.6 | 4.0 |
| Corp. profits, IVA&CCAdj | % change | -7.1 | 29.7 | 10.2 | -6.3 | -3.0 | .9 | 23.5 | 5.7 | -.2 |
| Profit share of GNP | % | 6.4 | 7.0 | 7.4 | 6.9 | 6.5 | 6.1 | 6.6 | 7.1 | 6.9 |
| Federal surpl./def. | Bill. $ | -201.1 | -151.8 | -136.6 | -122.3 | -166.2 | -210.4 | -298.0 | -252.3 | -192.8 |
| State/local surpl./def. | | 54.3 | 40.1 | 38.4 | 44.8 | 30.1 | 17.1 | 15.5 | 16.8 | 30.9 |
| Ex. social ins. funds | | 1.5 | -14.7 | -18.4 | -17.5 | -32.9 | -43.1 | -42.1 | -38.3 | -23.1 |
| PRICES AND COSTS | | | | | | | | | | |
| GDP implicit deflator | % change | 2.6 | 3.3 | 4.2 | 4.4 | 4.5 | 3.4 | 2.5 | 2.5 | 2.4 |
| GDP fixed-wt. price index | | 2.6 | 3.4 | 4.2 | 4.4 | 4.7 | 3.4 | 3.0 | 2.9 | 2.7 |
| Gross domestic purchases fixed-wt. price index | | 2.3 | 3.9 | 4.1 | 4.4 | 5.3 | 2.8 | 2.8 | 2.9 | 2.7 |
| CPI | | 1.3 | 4.5 | 4.3 | 4.6 | 6.2 | 3.0 | 3.1 | 3.1 | 3.1 |
| Ex. food and energy | | 3.9 | 4.3 | 4.5 | 4.4 | 5.2 | 4.5 | 3.4 | 3.3 | 3.0 |
| ECI, hourly compensation[2] | | 3.2 | 3.3 | 4.8 | 4.8 | 4.6 | 4.4 | 3.5 | 3.3 | 3.3 |
| Nonfarm business sector | | | | | | | | | | |
| Output per hour | | 1.2 | 1.8 | .5 | -1.4 | .1 | 1.3 | 3.1 | 1.3 | 1.4 |
| Compensation per hour | | 4.6 | 3.8 | 3.8 | 3.1 | 6.3 | 4.2 | 3.7 | 3.5 | 3.4 |
| Unit labor cost | | 3.4 | 1.9 | 3.3 | 4.6 | 6.2 | 2.8 | .6 | 2.2 | 1.9 |

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

Strictly Confidential (FR)
Class II FOMC

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

May 14, 1993

| 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 |
| 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 | 2.1 | 1.1 | 1.6 | -5.2 | -7.2 | .3 | 5.5 | .4 | .7 | 4.8 |
| Capacity util. rate-mfg.[1] | % | 81.9 | 81.5 | 81.3 | 79.8 | 77.5 | 77.4 | 78.2 | 78.1 | 78.1 | 78.8 |
| 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 | 4.8 | 4.8 | 4.4 | 4.2 | 5.0 | 3.5 | 2.7 | 2.3 | 3.1 | 2.7 |
| GDP fixed-wt. price index | | 5.6 | 4.6 | 4.8 | 4.0 | 4.9 | 3.5 | 2.9 | 2.4 | 3.4 | 2.9 |
| Gross domestic purchases fixed-wt. price index | | 5.9 | 3.8 | 5.6 | 5.7 | 3.4 | 2.6 | 2.9 | 2.6 | 2.9 | 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)

May 14, 1993

| Item | Units | 1992 | | 1993 | | | | 1994 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Projected | | | | | | |
| | | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| EXPENDITURES | | | | | | | | | | | |
| Nominal GDP | Bill. $ | 5978.5 | 6081.8 | 6158.8 | 6223.0 | 6295.2 | 6373.0 | 6453.1 | 6533.6 | 6616.7 | 6696.7 |
| Real GDP | Bill. 87$ | 4933.7 | 4990.8 | 5013.1 | 5037.4 | 5068.0 | 5100.2 | 5133.7 | 5167.6 | 5201.6 | 5235.8 |
| Real GDP | % change | 3.4 | 4.7 | 1.8 | 2.0 | 2.5 | 2.6 | 2.7 | 2.7 | 2.7 | 2.7 |
| Gross domestic purchases | | 4.1 | 4.4 | 2.2 | 2.5 | 2.7 | 2.6 | 2.7 | 3.0 | 2.9 | 2.8 |
| Final sales | | 2.8 | 5.2 | -.3 | 3.0 | 2.6 | 2.6 | 2.7 | 2.4 | 2.6 | 2.8 |
| Private dom. final purch. | | 3.5 | 6.6 | 1.7 | 3.5 | 3.8 | 3.7 | 3.5 | 3.4 | 3.4 | 3.5 |
| Personal cons. expend. | | 3.7 | 5.1 | 1.2 | 1.8 | 2.9 | 2.7 | 2.4 | 2.4 | 2.5 | 2.5 |
| Durables | | 9.4 | 14.0 | .7 | 3.4 | 2.6 | 6.0 | 4.7 | 5.8 | 5.4 | 5.6 |
| Nondurables | | 2.5 | 6.8 | -2.8 | .9 | 3.1 | 1.4 | 1.5 | 1.3 | 1.4 | 1.4 |
| Services | | 3.1 | 2.1 | 3.7 | 1.9 | 2.8 | 2.6 | 2.4 | 2.2 | 2.3 | 2.3 |
| Business fixed invest. | | 3.1 | 9.7 | 5.6 | 15.3 | 8.4 | 8.5 | 8.6 | 9.0 | 9.1 | 9.3 |
| Producers' dur. equip. | | 9.5 | 14.5 | 8.6 | 21.0 | 10.3 | 10.4 | 10.4 | 10.7 | 10.7 | 10.9 |
| Nonres. structures | | -11.3 | -1.9 | -2.2 | .6 | 3.0 | 3.2 | 3.5 | 3.7 | 4.2 | 4.4 |
| Res. structures | | .2 | 25.1 | .2 | 2.7 | 7.6 | 8.3 | 7.9 | 5.2 | 3.2 | 4.5 |
| Exports | | 9.2 | 8.9 | -7.1 | 6.2 | 5.7 | 6.7 | 6.3 | 6.4 | 6.6 | 6.9 |
| Imports | | 14.8 | 5.7 | -3.2 | 10.6 | 7.7 | 6.7 | 6.6 | 8.6 | 7.9 | 7.2 |
| Government purchases | | 3.8 | -2.6 | -6.4 | 3.8 | -1.3 | -1.9 | -.5 | -.3 | .0 | -.1 |
| Federal | | 7.5 | -4.7 | -15.3 | 8.1 | -6.3 | -5.2 | -4.6 | -3.9 | -3.7 | -3.7 |
| Defense | | 8.3 | -3.5 | -25.5 | 12.0 | -9.7 | -8.9 | -7.7 | -6.6 | -6.4 | -6.3 |
| State and local | | 1.4 | -1.1 | -.1 | 1.1 | 2.1 | .2 | 2.1 | 2.1 | 2.3 | 2.0 |
| Change in bus. invent. | Bill. 87$ | 15.0 | 9.8 | 35.8 | 23.0 | 21.5 | 20.7 | 20.0 | 22.9 | 24.0 | 22.5 |
| Nonfarm | | 9.6 | 5.6 | 32.5 | 22.8 | 22.8 | 22.9 | 21.7 | 24.9 | 26.3 | 24.4 |
| Net exports | | -52.7 | -49.0 | -54.6 | -61.9 | -65.9 | -67.0 | -68.6 | -73.2 | -76.5 | -78.3 |
| Nominal GDP | % change | 5.3 | 7.1 | 5.2 | 4.2 | 4.7 | 5.0 | 5.1 | 5.1 | 5.2 | 4.9 |
| EMPLOYMENT AND PRODUCTION | | | | | | | | | | | |
| Nonfarm payroll employ. | Millions | 108.5 | 108.7 | 109.1 | 109.4 | 109.9 | 110.1 | 110.5 | 111.0 | 111.5 | 112.0 |
| Unemployment rate[1] | % | 7.5 | 7.3 | 7.0 | 7.0 | 7.0 | 7.0 | 6.9 | 6.8 | 6.7 | 6.7 |
| Industrial prod. index | % change | .8 | 6.7 | 5.3 | 2.2 | 3.7 | 3.7 | 3.7 | 3.6 | 3.6 | 3.5 |
| Capacity util. rate-mfg[1] | % | 78.7 | 79.6 | 80.4 | 80.9 | 81.3 | 81.6 | 81.9 | 82.1 | 82.1 | 82.1 |
| Housing starts | Millions | 1.18 | 1.25 | 1.16 | 1.26 | 1.30 | 1.32 | 1.34 | 1.36 | 1.39 | 1.41 |
| Auto sales in U.S. | | 8.21 | 8.38 | 8.28 | 8.73 | 8.75 | 8.85 | 8.94 | 9.10 | 9.26 | 9.42 |
| North American produced | | 6.24 | 6.37 | 6.31 | 6.69 | 6.75 | 6.85 | 6.95 | 7.11 | 7.27 | 7.43 |
| Other | | 1.97 | 2.01 | 1.97 | 2.05 | 2.00 | 2.00 | 1.99 | 1.99 | 1.99 | 1.99 |
| INCOME AND SAVING | | | | | | | | | | | |
| Nominal GNP | Bill. $ | 5992.0 | 6086.8 | 6165.5 | 6228.0 | 6302.5 | 6377.5 | 6459.5 | 6537.0 | 6622.1 | 6698.6 |
| Nominal GNP | % change | 5.7 | 6.5 | 5.3 | 4.1 | 4.9 | 4.8 | 5.2 | 4.9 | 5.3 | 4.7 |
| Nominal personal income | | 2.7 | 8.0 | 6.0 | 4.1 | 5.1 | 6.0 | 6.4 | 5.4 | 5.0 | 6.2 |
| Real disposable income | | .5 | 4.3 | 2.7 | 1.0 | 2.1 | 2.7 | .2 | 1.6 | 3.3 | 2.9 |
| Personal saving rate[1] | % | 4.6 | 4.4 | 4.8 | 4.6 | 4.5 | 4.5 | 4.0 | 3.8 | 4.0 | 4.1 |
| Corp. profits, IVA&CCAdj. | % change | -13.9 | 72.1 | 16.8 | -.2 | -.1 | 7.0 | 1.0 | 2.0 | -3.3 | -.5 |
| Profit share of GNP[1] | % | 6.2 | 7.0 | 7.2 | 7.2 | 7.1 | 7.1 | 7.0 | 7.0 | 6.8 | 6.7 |
| Federal govt. surpl./def. | Bill. $ | -304.4 | -295.5 | -261.1 | -258.6 | -245.9 | -243.4 | -200.6 | -186.5 | -191.0 | -193.2 |
| State/local surpl./def. | | 9.2 | 18.3 | 12.8 | 13.4 | 20.3 | 20.8 | 24.8 | 27.6 | 35.7 | 35.5 |
| Ex. social ins. funds | | -48.0 | -38.1 | -42.8 | -41.9 | -34.7 | -33.9 | -29.7 | -26.6 | -18.1 | -18.0 |
| PRICES AND COSTS | | | | | | | | | | | |
| GDP implicit deflator | % change | 1.8 | 2.3 | 3.3 | 2.2 | 2.2 | 2.4 | 2.4 | 2.4 | 2.5 | 2.2 |
| GDP fixed-wt. price index | | 2.2 | 3.4 | 4.2 | 2.5 | 2.5 | 2.7 | 2.7 | 2.6 | 2.8 | 2.6 |
| Gross domestic purchases fixed-wt. price index | | 2.5 | 2.9 | 3.4 | 2.8 | 2.6 | 2.8 | 2.7 | 2.7 | 2.8 | 2.6 |
| CPI | | 2.9 | 3.2 | 3.7 | 2.9 | 2.7 | 3.1 | 3.1 | 3.0 | 3.3 | 2.9 |
| Ex. food and energy | | 2.7 | 3.6 | 4.1 | 3.3 | 2.8 | 3.0 | 3.0 | 3.0 | 3.0 | 2.9 |
| ECI, hourly compensation[2] | | 3.2 | 3.5 | 4.2 | 2.8 | 3.2 | 3.2 | 3.6 | 3.1 | 3.1 | 3.1 |
| Nonfarm business sector | | | | | | | | | | | |
| Output per hour | | 2.9 | 4.1 | -.1 | 1.4 | 1.9 | 2.0 | 1.5 | 1.4 | 1.4 | 1.3 |
| Compensation per hour | | 4.2 | 4.5 | 3.3 | 3.9 | 3.3 | 3.2 | 4.0 | 3.2 | 3.1 | 3.1 |
| Unit labor cost | | 1.3 | .3 | 3.4 | 2.5 | 1.4 | 1.1 | 2.5 | 1.8 | 1.7 | 1.8 |

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)

May 14, 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 | 152.3 |
| 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 | 180.8 |
| 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 | 150.1 |
| 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 | 174.9 |
| 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 | 110.9 |
| 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 | 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 | 33.8 |
| 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 | 38.8 |
| 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 | 38.8 |
| 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 | 43.2 |
| 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 | -4.4 |
| 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 | 25.0 |
| 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 | 2.3 |
| Nonfarm | -25.3 | 22.0 | -21.3 | -32.2 | .9 | .2 | 23.5 | 12.8 | -22.5 | 16.7 | .7 | -56.8 | 37.4 | -6.2 |
| 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 | 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 | -28.5 |
| 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 | 26.9 |
| 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 | 55.5 |
| 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 | 3.7 |
| 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 | -3.2 |
| 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 | -6.0 |
| Nondefense | 3.8 | 1.8 | .7 | .5 | .7 | 4.0 | .4 | .6 | 2.5 | .9 | 2.0 | 6.8 | 5.7 | 2.7 |
| 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 | 7.0 |

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)

May 14, 1993

| | | | | Projected | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1992 | | 1993 | | | | 1994 | | | | | | Projected | |
| Item | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 1991 | 1992 | 1993 | 1994 |
| Real GDP | 41.3 | 57.1 | 22.3 | 24.3 | 30.6 | 32.1 | 33.5 | 33.8 | 34.0 | 34.2 | 4.7 | 152.3 | 109.4 | 135.6 |
| Gross domestic purchases | 50.1 | 53.4 | 27.9 | 31.6 | 34.7 | 33.2 | 35.1 | 38.5 | 37.3 | 36.0 | -7.6 | 180.9 | 127.4 | 146.9 |
| Final sales | 34.1 | 62.3 | -3.6 | 37.0 | 32.2 | 32.9 | 34.2 | 31.0 | 32.8 | 35.7 | -29.7 | 150.1 | 98.5 | 133.7 |
| Private dom. final purch. | 34.1 | 64.8 | 17.3 | 35.7 | 39.2 | 38.5 | 36.9 | 36.2 | 36.1 | 37.8 | -36.5 | 174.9 | 130.7 | 147.2 |
| Personal cons. expend. | 29.9 | 41.5 | 10.0 | 14.8 | 24.1 | 22.5 | 20.7 | 20.6 | 21.1 | 21.5 | 1.0 | 110.9 | 71.5 | 83.9 |
| Durables | 9.8 | 14.6 | .8 | 3.9 | 3.0 | 6.7 | 5.4 | 6.7 | 6.4 | 6.7 | -10.5 | 38.3 | 14.4 | 25.2 |
| Nondurables | 6.4 | 17.4 | -7.5 | 2.3 | 8.2 | 3.7 | 4.0 | 3.5 | 3.8 | 3.8 | -16.0 | 33.8 | 6.7 | 15.1 |
| Services | 13.7 | 9.6 | 16.6 | 8.7 | 12.9 | 12.1 | 11.3 | 10.4 | 11.0 | 11.0 | 27.6 | 38.8 | 50.3 | 43.7 |
| Business fixed invest. | 4.0 | 12.2 | 7.3 | 19.5 | 11.3 | 11.8 | 12.1 | 12.8 | 13.3 | 13.9 | -37.2 | 38.8 | 49.9 | 52.2 |
| Producers' dur. equip. | 8.4 | 12.9 | 8.1 | 19.2 | 10.3 | 10.6 | 10.9 | 11.5 | 11.8 | 12.3 | -12.4 | 43.2 | 48.2 | 46.5 |
| Nonres. structures | -4.4 | -.7 | -.8 | .2 | 1.1 | 1.2 | 1.2 | 1.3 | 1.5 | 1.6 | -24.8 | -4.4 | 1.7 | 5.7 |
| Res. structures | .1 | 11.0 | .1 | 1.4 | 3.8 | 4.2 | 4.1 | 2.8 | 1.7 | 2.5 | -.2 | 25.0 | 9.4 | 11.0 |
| Change in bus. invent. | 7.2 | -5.2 | 26.0 | -12.8 | -1.6 | -.8 | -.6 | 2.8 | 1.2 | -1.5 | 34.3 | 2.3 | 10.9 | 1.9 |
| Nonfarm | 3.6 | -4.0 | 26.9 | -9.7 | -.1 | .1 | -1.1 | 3.1 | 1.5 | -1.9 | 37.4 | -6.2 | 17.3 | 1.6 |
| Farm | 3.5 | -1.1 | -.9 | -3.1 | -1.5 | -.9 | .5 | -.3 | -.3 | .4 | -3.0 | 8.4 | -6.4 | .3 |
| Net exports | -8.8 | 3.7 | -5.6 | -7.3 | -4.0 | -1.1 | -1.6 | -4.6 | -3.3 | -1.8 | 12.2 | -28.5 | -18.0 | -11.3 |
| Exports | 12.5 | 12.4 | -10.7 | 8.8 | 8.2 | 9.7 | 9.3 | 9.6 | 10.1 | 10.7 | 38.8 | 26.9 | 16.0 | 39.7 |
| Imports | 21.3 | 8.7 | -5.1 | 16.1 | 12.2 | 10.8 | 10.9 | 14.3 | 13.4 | 12.5 | 26.5 | 55.5 | 34.0 | 51.0 |
| Government purchases | 8.8 | -6.2 | -15.3 | 8.6 | -3.0 | -4.5 | -1.2 | -.6 | .0 | -.3 | -5.4 | 3.7 | -14.2 | -2.1 |
| Federal | 6.8 | -4.5 | -15.3 | 7.1 | -5.9 | -4.8 | -4.2 | -3.5 | -3.3 | -3.2 | -9.1 | -3.2 | -18.9 | -14.2 |
| Defense | 5.3 | -2.4 | -18.8 | 7.1 | -6.4 | -5.7 | -4.8 | -4.0 | -3.8 | -3.7 | -14.8 | -6.0 | -23.8 | -16.3 |
| Nondefense | 1.5 | -2.2 | 3.6 | .0 | .5 | .9 | .6 | .5 | .5 | .5 | 5.7 | 2.7 | 5.0 | 2.1 |
| State and local | 2.0 | -1.6 | -.1 | 1.5 | 2.9 | .3 | 3.0 | 2.9 | 3.3 | 2.9 | 3.7 | 7.0 | 4.6 | 12.1 |

1. Annual changes are from Q4 to Q4.

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

May 14, 1993

| Item | Fiscal year | | | | 1992 | | | | 1993 | | | | 1994 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1991[a] | 1992[a] | 1993 | 1994 | Q1[a] | Q2[a] | Q3[a] | Q4[a] | Q1[b] | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| UNIFIED BUDGET | | | | | Not seasonally adjusted | | | | | | | | | | | |
| Receipts[1] | 1054 | 1090 | 1156 | 1238 | 239 | 321 | 275 | 265 | 262 | 334 | 295 | 267 | 278 | 380 | 313 | 286 |
| Outlays[1] | 1324 | 1380 | 1439 | 1508 | 354 | 350 | 338 | 386 | 325 | 359 | 369 | 376 | 375 | 375 | 381 | 393 |
| Surplus/deficit[1] | -269 | -290 | -283 | -270 | -116 | -28 | -62 | -120 | -62 | -26 | -74 | -109 | -96 | 4 | -69 | -107 |
| On-budget | -322 | -340 | -341 | -332 | -121 | -60 | -62 | -108 | -90 | -64 | -80 | -122 | -105 | -32 | -73 | -120 |
| Off-budget | 52 | 50 | 58 | 62 | 6 | 31 | -1 | -13 | 27 | 38 | 6 | 12 | 9 | 36 | 5 | 14 |
| Surplus excluding deposit insurance[2] | -203 | -287 | -294 | -259 | -105 | -25 | -69 | -128 | -68 | -29 | -68 | -105 | -95 | 9 | -67 | -103 |
| Means of financing | | | | | | | | | | | | | | | | |
| Borrowing | 293 | 311 | 270 | 276 | 83 | 62 | 77 | 81 | 60 | 63 | 65 | 105 | 87 | 32 | 53 | 102 |
| Cash decrease | -1 | -17 | 17 | 2 | 29 | -27 | -12 | 29 | 8 | -30 | 10 | 12 | 10 | -30 | 10 | 10 |
| Other[3] | -23 | -4 | -4 | -8 | 4 | -7 | -3 | 10 | -6 | -7 | -1 | -7 | 0 | -6 | 6 | -6 |
| Cash operating balance, end of period | 41 | 59 | 42 | 40 | 20 | 47 | 59 | 30 | 22 | 52 | 42 | 30 | 20 | 50 | 40 | 30 |
| NIPA FEDERAL SECTOR | | | | | Seasonally adjusted, annual rate | | | | | | | | | | | |
| Receipts | 1118 | 1144 | 1231 | 1334 | 1143 | 1150 | 1155 | 1193 | 1229 | 1243 | 1257 | 1274 | 1339 | 1362 | 1362 | 1379 |
| Expenditures | 1313 | 1433 | 1496 | 1540 | 1433 | 1453 | 1460 | 1489 | 1490 | 1502 | 1503 | 1518 | 1539 | 1549 | 1553 | 1572 |
| Purchases | 447 | 446 | 449 | 442 | 445 | 445 | 455 | 452 | 444 | 454 | 449 | 446 | 443 | 441 | 439 | 437 |
| Defense | 326 | 315 | 311 | 297 | 314 | 312 | 320 | 318 | 304 | 313 | 308 | 302 | 298 | 295 | 292 | 289 |
| Nondefense | 121 | 132 | 139 | 145 | 131 | 133 | 136 | 133 | 140 | 140 | 142 | 143 | 145 | 146 | 147 | 148 |
| Other expenditures | 866 | 987 | 1046 | 1098 | 988 | 1008 | 1005 | 1037 | 1047 | 1048 | 1054 | 1072 | 1096 | 1108 | 1114 | 1135 |
| Surplus/deficit | -194 | -289 | -265 | -205 | -289 | -303 | -304 | -296 | -261 | -259 | -246 | -243 | -201 | -186 | -191 | -193 |
| FISCAL INDICATORS[4] | | | | | | | | | | | | | | | | |
| High-employment (HEB) surplus/deficit | -153 | -222 | -210 | -158 | -224 | -233 | -237 | -238 | -205 | -203 | -193 | -192 | -151 | -140 | -149 | -155 |
| Change in HEB, percent of potential GDP | -.4 | 1.2 | -.2 | -.8 | .5 | .2 | .1 | 0 | -.5 | 0 | -.2 | 0 | -.6 | -.2 | .1 | .1 |
| Fiscal impetus (FI), percent, cal. year | -3.8 | -3.9 | -3.9 | -5.5 | -2.6 | -.1 | 1.3 | -1.2 | -4.8 | 2.3 | -.7 | -2.5 | -2.1 | -1.1 | -1.8 | -1.3 |

1. OMB's April deficit estimates, including the President's proposals, are $322 billion in FY93 and $264 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 April deficit estimates, excluding deposit insurance spending, are $319 billion in FY93 and $256 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

Short-term rates--anchored by a stable federal funds rate--have changed little since the March FOMC meeting. However, most long-term rates have moved somewhat higher, on net, owing to concern about inflationary pressures and increased uncertainty about the outlook for deficit reduction. Major stock price indexes have posted relatively small changes over the intermeeting period.

M2 was unchanged in April, after declining slightly in March. Demand deposits were boosted by distortions to seasonal factors and by a resurgence in mortgage refinancing. Offsetting this strength, however, was weakness in other checkable deposits and the nontransactions component, as lower individual nonwithheld income tax payments this year obviated the usual buildup of liquid household balances in April. M3 grew at a 2 percent pace in April partly because of an increase in large time deposits. All the monetary aggregates have surged in early May, partly reflecting a reversal of tax effects and a likely further buildup of prepayment activity.

Bank credit increased at a 5 percent annual rate in April, with nearly all of the growth accounted for by securities holdings. Business loans moved up at small banks, but fell at large domestic banks and foreign-related institutions. This pattern of the past few months is consistent with the view that the weakening in bank loans importantly reflects the substitution of longer-term sources of funds for bank credit. Consumer loans at banks grew briskly in April, continuing the stronger growth exhibited since the beginning of the year. After a small advance in March, real estate loans resumed their slide in April; the declines in this category, too, have been concentrated at large domestic banks and foreign-related institutions and likely reflect continued write-downs of commercial real estate loans. Nevertheless, nearly a third of recently surveyed loan officers at domestic banks reported that the volume of commercial real estate sales in their market area had picked up relative to six months ago.

Broader-based measures indicate that borrowing by nonfinancial businesses remained subdued in April. Although net issuance of commercial paper by nonfinancial firms jumped, the increase was mostly offset by the sharp decline in business loans at banks. Gross public bond and equity offerings continued at a heavy pace, but below that of February and March. As in previous months, the primary uses of bond proceeds still were the refinancing of outstanding debt and the paydown of bank loans.

Consumer installment debt in the first quarter posted its largest increase since the fourth quarter of 1989. Revolving credit accounted for most of the advance, in part because of the successful marketing of rebates and other incentives tied to the volume of credit card transactions. Growth of home mortgage debt appears to have slowed somewhat in the first quarter. However, applications for mortgages to purchase homes, as well as to refinance outstanding home loans, have been quite heavy, suggesting mortgage debt growth currently may be picking up.

Gross issuance of long-term municipal bonds slowed somewhat in April. Heavy issuance in the previous two months, along with an appreciable slowing of inflows to tax-exempt bond funds in March, helped to push tax-exempt yields higher relative to long-term Treasury rates and may have deterred some potential issuers. Refunding volume has accounted for nearly 70 percent of all offerings so far this year, compared with about 45 percent in 1992, the record year for refunding volume.

Federal debt growth has accelerated somewhat in the second quarter on a seasonally adjusted basis, to a rate about equal to the average pace for all of last year. After reducing the size of weekly bill auctions in April to allow for tax receipts, the Treasury subsequently increased the size of its bill auctions, reflecting the lower-than-expected individual nonwithheld tax payments. The Treasury also announced changes in its debt management strategy. Thirty-year bonds will be auctioned only in February and August and no longer in May and November, while the 7-year note will be discontinued. The Treasury estimates that the combination of these cuts will reduce the amount of funds raised with long-term debt by more than $50 billion annually.

Outlook

The staff projection assumes that the federal funds rate will change little, if at all, through the end of 1994. Moreover, long-term interest rates are projected to move lower over the coming year as credit demands remain subdued and investors are encouraged by continued low short-term interest rates and inflation to accept lower yields on long-term instruments. This pattern remains at odds with the rate expectations prevailing in the market, which evidently continue to reflect a more pessimistic consensus about prospects for inflation and the likelihood that the System will need to tighten nominal money market rates significantly to avoid unsustainable growth of aggregate demand.

Total debt of domestic nonfinancial sectors is projected to grow 6 percent at a seasonally adjusted annual rate in the second quarter and to slow to about a 5-1/2 percent pace through the end of 1994, a rate somewhat exceeding that of nominal GDP. Federal debt growth remains rapid in 1993 and 1994, but the projected decline in federal deficits shows through with a deceleration from 9-1/2 percent this year to 8 percent in 1994.

Nonfederal debt continues to grow very slowly over the forecast period. In the nonfinancial business sector, debt growth is expected to edge higher. Corporate investment outlays are projected to strengthen relative to internally generated funds, boosting needs for external funds. A greater proportion of funding is expected to be met by added debt, with net equity issuance diminishing from recent high levels. Bonds are likely to remain the dominant form of borrowing, as interest rates remain favorable. Bank loans to businesses probably will stop declining and turn slightly positive at some point in 1994, reflecting in part an increasing ability and willingness to extend credit to small and middle-market borrowers. Banks may have to work hard, however, to win back customers who have turned to finance companies and other asset-based lenders in recent years. Accomplishing that task may require more aggressive loan pricing, in addition to less onerous documentation and non-price terms.

Growth of consumer debt has shown some signs of strengthening, owing in part to marketing incentives designed to increase the volume of credit card transactions, and is projected to grow 4 percent in 1993 and 6 percent in 1994. That pace, however, remains moderate relative to the projected path of income and consumption, reflecting a likely reluctance by households to return to the borrowing patterns of prior years. Gross originations of mortgages and mortgage securities are expected to increase in the second and third quarters of the year, as historically low interest rates have led to the third major wave of refinancing in the past eighteen months. In the past couple of years, however, homeowners have limited their equity withdrawals when refinancing and, with the level of housing market activity expected to rise only moderately, mortgage debt growth is expected to remain around 7 percent through the end of 1994.

State and local government debt growth is expected to remain around 5 percent this year and next. Advance refunding operations will account for some of the expansion, but the straitened budget condition of many units will drive a substantial amount of bond issuance--either to finance pressing capital projects or to cover operating deficits, directly or indirectly.

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

| | Calendar year 1991 | 1992 | 1993 | 1994 | 1993 Q1 | Q2 | Q3 | Q4 | 1994 Q1 | Q2 | Q3 | Q4 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Seasonally Adjusted Annual Rates | | | | | | | |
| Net funds raised by domestic nonfinancial sectors | | | | | | | | | | | | |
| 1 Total | 460.9 | 614.2 | 668.0 | 693.7 | 605.9 | 722.7 | 550.8 | 792.6 | 779.3 | 637.6 | 529.0 | 828.8 |
| 2 Net equity issuance | 18.3 | 26.8 | 19.8 | 7.0 | 27.0 | 22.0 | 18.0 | 12.0 | 10.0 | 8.0 | 5.0 | 5.0 |
| 3 Net debt issuance | 442.7 | 587.5 | 648.3 | 686.7 | 578.9 | 700.7 | 532.8 | 780.6 | 769.3 | 629.6 | 524.0 | 823.8 |
| Borrowing sectors | | | | | | | | | | | | |
| Nonfinancial business | | | | | | | | | | | | |
| 4 Financing gap[2] | -4.4 | -28.5 | 9.1 | 46.4 | 7.8 | 2.8 | 10.7 | 15.2 | 28.9 | 41.3 | 54.1 | 61.5 |
| 5 Net equity issuance | 18.3 | 26.8 | 19.8 | 7.0 | 27.0 | 22.0 | 18.0 | 12.0 | 10.0 | 8.0 | 5.0 | 5.0 |
| 6 Credit market borrowing | -18.9 | 20.3 | 52.1 | 74.7 | 27.6 | 47.4 | 64.6 | 68.6 | 71.4 | 69.1 | 77.6 | 80.7 |
| Households | | | | | | | | | | | | |
| 7 Net borrowing, of which: | 144.9 | 215.2 | 252.2 | 288.1 | 222.8 | 252.0 | 268.3 | 265.5 | 268.3 | 284.6 | 295.7 | 303.7 |
| 8 Home mortgages | 123.9 | 190.8 | 204.1 | 220.0 | 190.6 | 202.0 | 219.4 | 204.4 | 209.2 | 214.9 | 224.6 | 231.4 |
| 9 Consumer credit | -12.6 | 2.5 | 32.8 | 50.3 | 28.0 | 31.0 | 32.0 | 40.0 | 42.0 | 50.0 | 52.0 | 57.0 |
| 10 Debt/DPI (percent)[3] | 91.5 | 91.0 | 91.6 | 92.8 | 91.6 | 92.1 | 92.4 | 92.5 | 93.2 | 93.6 | 93.6 | 93.7 |
| State and local governments | | | | | | | | | | | | |
| 11 Net borrowing | 38.5 | 48.1 | 51.1 | 50.2 | 52.9 | 51.2 | 48.3 | 52.2 | 47.6 | 51.6 | 47.5 | 54.1 |
| 12 Current surplus[4] | -39.6 | -42.9 | -38.6 | -28.5 | -41.0 | -37.8 | -38.6 | -37.1 | -33.5 | -31.6 | -24.1 | -25.0 |
| U.S.government | | | | | | | | | | | | |
| 13 Net borrowing | 278.2 | 304.0 | 292.9 | 273.7 | 275.6 | 350.1 | 151.6 | 394.3 | 382.1 | 224.4 | 103.1 | 385.3 |
| 14 Net borrowing;quarterly, nsa | 278.2 | 304.0 | 292.9 | 273.7 | 60.1 | 63.1 | 65.1 | 104.6 | 86.7 | 31.7 | 52.9 | 102.4 |
| 15 Unified deficit;quarterly, nsa | 266.8 | 326.9 | 271.6 | 267.4 | 62.4 | 25.6 | 74.2 | 109.4 | 96.5 | -4.4 | 68.5 | 106.8 |
| Funds supplied by | | | | | | | | | | | | |
| 16 depository institutions | -61.0 | 27.0 | 78.9 | 104.8 | -2.5 | 87.6 | 111.1 | 119.3 | 122.5 | 85.4 | 89.5 | 121.6 |
| MEMO: (percent of GDP) | | | | | | | | | | | | |
| 17 Dom. nonfinancial debt[3] | 193.4 | 193.2 | 193.4 | 194.4 | 193.8 | 194.6 | 194.5 | 195.1 | 195.7 | 195.7 | 195.2 | 196.0 |
| 18 Dom. nonfinancial borrowing | 7.8 | 9.9 | 10.4 | 10.4 | 9.4 | 11.3 | 8.5 | 12.2 | 11.9 | 9.6 | 7.9 | 12.3 |
| 19 U.S. government[5] | 4.9 | 5.1 | 4.7 | 4.2 | 4.5 | 5.6 | 2.4 | 6.2 | 5.9 | 3.4 | 1.6 | 5.8 |
| 20 Private | 2.9 | 4.8 | 5.7 | 6.3 | 4.9 | 5.6 | 6.1 | 6.1 | 6.0 | 6.2 | 6.4 | 6.5 |

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.

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May 14, 1993

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 | 5.5 | 9.5 | 4.1 | 6.1 | 7.0 | 4.1 | 1.4 | 5.4 | 0.3 | 4.8 |
| 1994 | 5.5 | 8.1 | 4.6 | 6.6 | 7.1 | 6.0 | 2.0 | 5.0 | 0.7 | 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 | 4.9 | 8.9 | 3.5 | 5.4 | 6.5 | 3.5 | 0.8 | 5.6 | -1.7 | 5.2 |
| 2 | 5.9 | 11.1 | 4.0 | 6.0 | 6.8 | 3.8 | 1.3 | 5.3 | 2.2 | 4.2 |
| 3 | 4.4 | 4.7 | 4.3 | 6.3 | 7.3 | 3.9 | 1.8 | 4.9 | -0.7 | 4.7 |
| 4 | 6.4 | 12.0 | 4.3 | 6.1 | 6.7 | 4.9 | 1.9 | 5.3 | 1.4 | 5.0 |
| 1994:1 | 6.2 | 11.3 | 4.3 | 6.1 | 6.7 | 5.0 | 1.9 | 4.7 | 0.7 | 5.1 |
| 2 | 5.0 | 6.5 | 4.4 | 6.4 | 6.8 | 5.9 | 1.9 | 5.1 | 0.9 | 5.1 |
| 3 | 4.1 | 2.9 | 4.5 | 6.5 | 7.0 | 6.1 | 2.1 | 4.6 | -0.2 | 5.2 |
| 4 | 6.4 | 10.8 | 4.7 | 6.6 | 7.1 | 6.6 | 2.2 | 5.2 | 1.5 | 4.9 |

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 5.4 in 1993 and 5.4 percent in 1994.

Recent Developments

Between the March FOMC meeting and May 14, the weighted-average foreign-exchange value of the dollar in terms of other G-10 currencies has declined 2-1/2 percent. The dollar has depreciated 3-3/4 percent against the yen and 1-1/2 percent against the DM. Factors that have contributed to the dollar's decline include further evidence of weakness in U.S. economic activity, the diminished prospects for the Clinton Administration's fiscal stimulus package, fiscal stimulus in Japan, and official comments indicating only limited official support for taking concerted actions to support the dollar against the yen.

. The central ERM parities of the peseta and the Portugese escudo were devalued by 8 percent and 6-1/2 percent respectively, and both currencies depreciated about 4 percent against the mark in spot markets. Following the devaluation, the Bank of Spain cut its money market intervention rate 150 basis points, to 11-1/2 percent.

Earlier in the period, the Bundesbank eased interest rates somewhat as the outlook for the German economy weakened further. German three-month interest rates fell 45 basis points, to 7-1/4 percent, following a 50 basis point cut in the Lombard rate and a 25 basis point cut in the discount rate on April 22; long-term rates are little changed. In France, interest rates have declined since the late-March parliamentary election; three-month rates are now about 340 basis points below their level at the time of the last FOMC meeting, while long-term rates have fallen considerably less. Even so, the franc has strengthened against the mark. In Japan and the United Kingdom, short-term rates remained little changed over the intermeeting period. In those countries, long-term rates have risen somewhat--in the context of a stimulus package and some positive economic signs in Japan, and amid improved economic prospects in the United Kingdom.

. The Desk intervened on one occasion, selling $200 million equivalent of yen, evenly divided between the Federal Reserve and the Treasury.

Recent indicators point to further declines in real activity in continental Europe through the first quarter, a possible bottoming-out of the recession in Japan, and further economic expansion in Canada and the United Kingdom. Inflation has remained subdued in most of the major foreign industrial countries.

West German industrial production (s.a.) fell about 1/2 percent in March and 3-1/2 percent for the first quarter as a whole; the unemployment rate (s.a.) reached nearly 8 percent in April. Twelve-month consumer price inflation in Germany exceeded 4-1/4 percent in April, partly reflecting the effects of a value-added tax increase early this year; German producer price increases have been much smaller.

Recent indicators in Japan have been mixed, as industrial production, orders, and housing starts have turned up in recent months, while retail sales and business and consumer confidence have slipped further. The Japanese fiscal stimulus package will add an estimated 1-1/2 percent to real domestic spending over the next four quarters, about in line with our earlier expectations. Twelve-month Japanese consumer price inflation has been running in the vicinity of 1 percent.

Most indicators of real activity in Canada were up fairly strongly in January-February from their fourth-quarter levels. Initial estimates of first-quarter real GDP in the United Kingdom showed a 1 percent increase (s.a.a.r.), despite a significant decline in oil and gas production.

The nominal U.S. merchandise trade deficit narrowed slightly in January-February from the rate in the fourth quarter, dropping below an annual rate of $100 billion. The levels of both imports and exports fell sharply in January-February, after having advanced strongly in the fourth quarter. Much of the decline in exports was in aircraft, computers, and passenger cars (largely to developing countries), following a bunching of shipments in the fourth quarter. The drop in imports was spread across most commodity categories.

Outlook

A lower projected path of the dollar, a weaker outlook for U.S. real GDP growth, and only a slightly weaker outlook for growth of real activity abroad have resulted in a less negative trajectory for real net exports than in the March projection. We now expect net exports to decline over the next seven quarters by a bit less than 1/2 percent of GDP, compared with a decline of nearly 1 percent of GDP in the previous forecast.

The dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to drift up from current levels through the end of 1994 at roughly the same pace as in the previous Greenbook. This forecast reflects our expectation that European interest rates, long-term as well as short-term, will decline relative to comparable U.S. rates. Nevertheless, the level of the dollar's projected path is nearly 4 percent lower than it was in the March Greenbook, reflecting the depreciation since mid-March. Against the currencies of key developing countries, the CPI-adjusted value of the dollar is expected to show a moderate decline, on average, through the end of the forecast period.

Foreign industrial countries. We project four-quarter growth in the G-6 countries (weighted by their shares in U.S. exports) to average about 1-1/2 percent in 1993 and to recover to 2-3/4 percent in 1994, roughly the same as in the March forecast. A moderate further weakening of the outlook for continental European countries has been largely offset by the slightly stronger growth anticipated for Canada and the United Kingdom.

We expect west German real GDP to decline about 1-1/4 percent this year (Q4/Q4) and growth elsewhere in continental Europe and in Japan to be sluggish (in a range of zero to 1 percent). Growth in the United Kingdom and Canada is expected to be noticeably stronger, at 2 percent and 2-3/4 percent respectively. Economic recovery in continental Europe should begin to take hold in the second half of 1993 and to accelerate moderately in 1994, stimulated largely by recent and projected further easing of monetary policy. In Japan, expansionary fiscal measures will contribute to some pickup in economic growth beginning in the second half of 1993.

Increasing economic slack in the major foreign economies should help to restrain price increases. We project consumer-price inflation in the foreign G-7 countries to average about 2-1/2 percent over the next two years, rates roughly the same as last year and in our previous forecast.

Foreign short-term interest rates, on average, are projected to decline more than 100 basis points from current levels by the end of 1993 and another 25 basis points during 1994. The end-1994 level is about the same as that projected in the March Greenbook. We expect German short-term interest rates to fall more than 150 basis points from current levels by the end of the year and to decline a further 75 basis points during 1994 to a level of 5 percent. Rates in other major continental European countries should fall by similar amounts. We expect Japanese short-term rates to ease slightly, 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 about 75 basis points over the forecast period.

Developing countries. The outlook for real GDP growth in the developing countries that are major U.S. trading partners is somewhat lower in 1993 and 1994 partly because of reduced growth in the United States. Real GDP growth slowed to 4 percent in 1992, when weak import demand in industrial countries and tight macroeconomic policies in a number of developing countries restrained growth. Real activity is projected to accelerate slightly in 1993, as some countries relax their contractionary policies. The pickup in demand in industrial countries is assumed to support faster growth in 1994. We expect real GDP growth in Mexico to remain in the vicinity of 2-1/2 percent through 1994. Growth in the key U.S. export markets among developing countries in Asia is projected to pick up slightly to a range of 5-3/4 to 6-1/2 percent on average over the next two years.

U.S. real net exports. We project real net exports of goods and services to decline $12 billion over the last three quarters of 1993 and another $11 billion during 1994. Imports are expected to expand more than exports over the next seven quarters, even though we now see U.S. real GDP growing slightly more slowly than real GDP abroad during this period.[1] The downtrend in net exports results from (1) a relatively greater response of imports (compared with exports) to a given change in income here and abroad and (2) the negative effects of the net appreciation of the dollar over the past year and the further small appreciation projected for the period ahead.[2]

TRADE QUANTITIES*
(Percent change from preceding period shown, s.a.a.r.)

| | 1992 | | 1993 | ------- Projection | ------- | | 1994 |
|---|---|---|---|---|---|---|---|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q4 |
| Exports | | | | | | | |
| Total | 12.7 | 13.7 | -11.6 | 7.6 | 6.5 | 7.7 | 7.5 |
| Agricultural | 58.7 | -5.6 | -23.5 | -4.9 | -4.8 | 10.0 | 3.4 |
| Computers | 35.4 | 33.5 | 2.2 | 21.7 | 23.0 | 24.0 | 27.8 |
| Other nonag. | 5.1 | 13.2 | -12.2 | 6.8 | 5.1 | 4.6 | 4.0 |
| Imports | | | | | | | |
| Total | 15.5 | 6.8 | -5.9 | 12.1 | 8.8 | 7.5 | 8.5 |
| Oil | 13.2 | -3.0 | 1.5 | 15.6 | 1.9 | -0.3 | 10.1 |
| Computers | 81.2 | 19.0 | 20.2 | 34.2 | 24.1 | 20.8 | 23.1 |
| Other non-oil | 8.3 | 6.2 | -10.6 | 8.1 | 7.0 | 6.1 | 5.3 |

* GDP basis, 1987 dollars.

The quantity of merchandise exports is projected to increase at roughly a 7-1/2 percent annual rate over the next seven quarters. Shipments of agricultural commodities should decline a bit in the second and third quarters--particularly as shipments of soybeans recede from unusually high levels in the first quarter--and then expand through 1994. Exports of computers are expected to continue

1. Beyond the current quarter, U.S. real GDP growth averages a little under 2-3/4 percent (a.r.), whereas foreign growth (weighted by shares in U.S. exports) averages nearly 3 percent.

2. We estimate that the response of imports, in percentage terms, to a given percentage change in U.S. income (income elasticity) is roughly 50 percent higher than that of exports to the same percentage change in foreign income. Moreover, since the current level of imports is higher than that of exports, a given percentage change in both imports and exports implies a larger dollar change in imports than in exports.

growing at about the same rapid rate seen on average over the past two years. We expect the growth of other exports to approach 7 percent in the current quarter following the unexpectedly sharp decline in the first quarter. Most of the first-quarter decline in those exports appears to have been an adjustment to a bunching of shipments in the fourth quarter of 1992, and we have assumed that only a small part of the first-quarter decline will be made up in the second quarter. Accordingly, the projected path of exports takes off from a significantly lower level in the first half of 1993 than projected previously. The projected growth of exports over the rest of the forecast period nevertheless averages about 1-1/2 percentage points (at an annual rate) more than in the March forecast, primarily because of the lower path of the dollar.

After having declined significantly in the first quarter, the quantity of total merchandise imports is projected to resume expanding at a fairly brisk pace over the forecast period. As a result of the unexpected weakness of imports in the first quarter, the downward revision to the outlook for U.S. domestic expenditures, and the lower level of the dollar, we have revised the projected growth of real non-oil imports excluding computers down to 7 percent for the remaining three quarters of 1993 and to 5-1/4 percent for 1994. Nevertheless, rapid growth of trade in computers continues to provide a substantial boost to the projected growth of total imports.

The quantity of oil imports is expected to increase in the current quarter as stocks are rebuilt. Over the remainder of the forecast period, imports should expand fairly strongly as oil consumption grows, U.S. oil drilling activity remains stagnant, and production declines.

Oil prices. Since the March Greenbook, the spot price of West Texas intermediate (WTI) has fluctuated in a relatively narrow band around $20.00 per barrel. OPEC production restraint (most noticeable for Saudi Arabia, Kuwait, and Iran) has roughly matched the seasonal decline in oil consumption. We assume that oil prices will remain around current levels (consistent with an import unit value of $18.00 per barrel) over the forecast period. This projection is $1.00 per barrel above that in the March Greenbook and is based on our assessment of an increased likelihood that OPEC will effectively restrict production in response to proposed energy and oil tax increases in the United States and Europe during the forecast period. We continue to assume that Iraq will begin exporting significant volumes of oil in early 1994.

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

| | 1992 | | 1993 | Projection 1993 | | | Projection 1994 |
|---|---|---|---|---|---|---|---|
| | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q4 |
| PPI (exp. wts.) | 3.1 | -1.6 | 1.9 | 2.1 | 1.9 | 1.8 | 1.7 |
| Nonag. exports* | 3.2 | 0.5 | 1.2 | 1.0 | 1.5 | 1.8 | 1.6 |
| Non-oil imports* | 4.7 | 1.0 | -2.7 | 1.8 | 2.9 | 3.5 | 2.3 |
| Oil imports (level, $/bl) | 18.60 | 17.90 | 16.50 | 17.70 | 18.00 | 18.00 | 18.00 |

* Excluding computers.

Prices of non-oil imports and exports. The lower projected path of the dollar has led us to revise up the projected rate of increase in non-oil import prices (excluding computers) over the next several quarters. We expect these prices to rise at nearly a 2 percent annual rate in the second quarter and at more than a 3 percent rate in the second half of 1993, about 1-1/2 percentage points faster than in the previous forecast. Import price inflation should ease back closer to 2 percent in 1994 as the dollar edges up. The increase in prices of U.S. nonagricultural exports (excluding computers) should about 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, at a rate roughly consistent with prices in commodity futures markets.

Nominal trade and current account balances. We expect that the merchandise trade deficit was in the vicinity of $100 billion at an annual rate in the first quarter, and that it will widen gradually to more than $140 billion by the end of 1994. For the next several quarters, the projected deficit differs little from that in the March Greenbook, as the narrowing of the deficit in real terms is offset by higher import prices. By the end of 1994, however, the projected nominal trade deficit is nearly $10 billion smaller than in the previous forecast.

We expect that net service receipts will continue on an uptrend, from an annual rate of $52 billion in the fourth quarter of 1992 to $64 billion by the end of 1994. This increase is slightly greater than in the previous forecast largely because of the lower level of the dollar. We continue to project that net investment income receipts will decline slightly over the forecast period as earnings of foreign direct investors in the United States recover from depressed levels and the stock of U.S. net debt to foreigners increases. The bottom line for the current account deficit is a projected deterioration of $10 billion over the four quarters of 1993 and another $14 billion during 1994, reaching an annual rate in excess of $110 billion by the end of 1994.

May 14, 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 | 3.1 |
| France | 1.8 | 1.2 | 0.7 | 0.4 | 2.4 |
| Western Germany | 6.0 | 2.0 | 0.2 | -1.2 | 2.2 |
| Italy | 1.6 | 1.4 | -0.3 | 0.4 | 1.7 |
| Japan | 4.7 | 3.0 | 0.2 | 0.8 | 2.7 |
| United Kingdom | -1.0 | -1.6 | 0.1 | 1.9 | 2.6 |
| Average, weighted by 1987-89 GDP | 2.6 | 1.4 | 0.3 | 0.7 | 2.4 |
| Average, weighted by share of U.S. nonagricultural exports | | | | | |
| Total foreign | 1.8 | 1.6 | 1.4 | 2.1 | 3.1 |
| G-6 | 0.6 | 0.7 | 0.7 | 1.6 | 2.8 |
| Developing countries | 5.0 | 4.9 | 3.8 | 4.4 | 4.7 |
| CONSUMER PRICES | | | | | |
| Canada | 4.9 | 4.1 | 1.8 | 2.1 | 1.8 |
| France | 3.6 | 2.9 | 1.8 | 2.6 | 1.9 |
| Western Germany | 3.0 | 3.9 | 3.7 | 3.3 | 2.3 |
| Italy | 6.3 | 6.1 | 4.8 | 5.7 | 4.6 |
| Japan | 3.2 | 3.2 | 0.9 | 1.3 | 1.3 |
| United Kingdom | 10.0 | 4.2 | 3.1 | 2.9 | 4.0 |
| Average, weighted by 1987-89 GDP | 4.8 | 3.9 | 2.4 | 2.7 | 2.4 |
| Average, weighted by share of U.S. non-oil imports | 4.4 | 3.8 | 1.9 | 2.2 | 2.0 |

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## U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

| | 1990 | | | | 1991 | | | | 1992 | | ANNUAL | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | 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 | 368.6 | 392.5 |
| Services | 136.7 | 140.0 | 141.7 | 147.3 | 138.5 | 146.1 | 149.0 | 154.0 | 157.3 | 155.4 | 128.0 | 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 | 48.7 |
| Non-oil | 402.4 | 408.9 | 412.4 | 409.1 | 394.7 | 403.4 | 425.5 | 435.7 | 441.3 | 456.8 | 399.1 | 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 | 95.1 | 101.5 | 97.7 |
| Memo:(Percent change 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 | 11.5 | 7.3 | 7.8 |
| *of which: Goods* | 10.2 | 5.8 | -2.2 | 9.7 | 2.3 | 14.2 | 5.3 | 12.8 | 0.8 | -0.1 | 10.6 | 5.9 | 8.6 |
| Imports of G+S | 2.6 | 5.1 | 1.5 | -8.5 | -14.6 | 15.6 | 17.1 | 4.2 | 3.5 | 14.7 | 2.7 | 0.2 | 5.6 |
| 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 | 3.2 | 0.6 | 7.4 |
| 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 | -70.6 | -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.

Strictly Confidential (FR) Class II-FOMC

## 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 | -49.0 | -54.6 | -61.9 | -65.9 | -67.0 | -68.6 | -73.2 | -76.5 | -78.3 | -41.8 | -62.3 | -74.1 |
| Exports of G+S | 575.9 | 588.3 | 577.6 | 586.4 | 594.6 | 604.3 | 613.6 | 623.2 | 633.3 | 644.0 | 573.3 | 590.7 | 628.5 |
| Merchandise | 420.4 | 434.1 | 420.9 | 428.7 | 435.5 | 443.7 | 451.4 | 459.5 | 468.0 | 477.0 | 417.7 | 432.2 | 464.0 |
| Services | 155.5 | 154.2 | 156.7 | 157.7 | 159.0 | 160.6 | 162.2 | 163.7 | 165.3 | 167.0 | 155.6 | 158.5 | 164.6 |
| Imports of G+S | 628.6 | 637.3 | 632.2 | 648.3 | 660.5 | 671.3 | 682.2 | 696.4 | 709.8 | 722.3 | 615.0 | 653.1 | 702.6 |
| Merchandise | 526.4 | 535.1 | 527.0 | 542.3 | 553.8 | 563.9 | 574.1 | 587.5 | 600.0 | 611.6 | 514.3 | 546.8 | 593.3 |
| Oil | 52.5 | 52.1 | 52.3 | 54.2 | 54.5 | 54.4 | 54.6 | 57.8 | 59.3 | 59.9 | 50.6 | 53.9 | 57.9 |
| Non-oil | 473.9 | 483.0 | 474.7 | 488.1 | 499.3 | 509.5 | 519.5 | 529.7 | 540.7 | 551.7 | 463.7 | 492.9 | 535.4 |
| Services | 102.2 | 102.2 | 105.2 | 105.9 | 106.7 | 107.3 | 108.0 | 108.9 | 109.8 | 110.6 | 100.7 | 106.3 | 109.3 |
| Memo: (Percent change 1/) | | | | | | | | | | | | | |
| Exports of G+S | 9.2 | 8.9 | -7.1 | 6.2 | 5.7 | 6.7 | 6.3 | 6.4 | 6.6 | 6.9 | 4.9 | 2.9 | 6.6 |
| of which: Goods | 12.7 | 13.7 | -11.6 | 7.6 | 6.5 | 7.7 | 7.2 | 7.3 | 7.6 | 7.9 | 6.8 | 2.6 | 7.5 |
| Imports of G+S | 14.8 | 5.7 | -3.2 | 10.6 | 7.7 | 6.7 | 6.6 | 8.6 | 7.9 | 7.2 | 9.7 | 5.5 | 7.6 |
| of which: Non-oil Goods | 15.8 | 7.9 | -6.7 | 11.8 | 9.5 | 8.4 | 8.1 | 8.2 | 8.5 | 8.4 | 10.9 | 5.8 | 8.3 |
| Current Account Balance | -63.1 | -88.1 | -74.2 | -86.9 | -90.1 | -97.9 | -95.1 | -102.7 | -103.9 | -111.6 | -62.4 | -87.3 | -103.3 |
| Merchandise Trade, net | -110.5 | -103.9 | -100.4 | -112.9 | -120.0 | -123.9 | -127.4 | -133.5 | -138.2 | -141.3 | -96.3 | -114.3 | -135.1 |
| Exports | 440.5 | 457.5 | 439.5 | 443.9 | 447.9 | 455.7 | 462.9 | 469.8 | 476.7 | 483.5 | 439.3 | 446.7 | 473.2 |
| Agricultural | 45.9 | 45.6 | 43.2 | 42.0 | 41.1 | 42.2 | 42.7 | 43.4 | 44.0 | 44.5 | 43.9 | 42.1 | 43.7 |
| Nonagricultural | 394.6 | 411.9 | 396.3 | 401.9 | 406.7 | 413.5 | 420.1 | 426.4 | 432.8 | 439.0 | 395.3 | 404.6 | 429.6 |
| Imports | 551.0 | 561.4 | 539.9 | 556.8 | 567.9 | 579.6 | 590.2 | 603.3 | 614.9 | 624.8 | 535.5 | 561.0 | 608.3 |
| Oil | 57.1 | 55.0 | 50.6 | 56.5 | 57.6 | 57.5 | 57.7 | 61.0 | 62.7 | 63.3 | 51.4 | 55.6 | 61.2 |
| Non-oil | 493.9 | 506.4 | 489.2 | 500.4 | 510.3 | 522.1 | 532.5 | 542.3 | 552.2 | 561.5 | 484.2 | 505.5 | 547.1 |
| Other Current Account | 35.5 | 12.5 | 21.6 | 22.7 | 24.3 | 23.2 | 27.5 | 29.0 | 30.5 | 29.4 | 23.8 | 22.9 | 29.1 |
| Invest. Income, net | 11.9 | 3.4 | 4.6 | 3.3 | 5.6 | 2.8 | 4.8 | 1.8 | 3.7 | 0.3 | 10.1 | 4.1 | 2.6 |
| Direct, net | 49.1 | 44.9 | 42.3 | 42.2 | 42.2 | 42.0 | 41.7 | 41.6 | 42.0 | 42.1 | 49.2 | 42.2 | 41.8 |
| Portfolio, net | -37.2 | -41.6 | -37.6 | -38.9 | -36.5 | -39.2 | -36.9 | -39.9 | -38.2 | -41.8 | -39.1 | -38.1 | -39.2 |
| 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 | 55.0 | 55.7 | 56.7 | 58.0 | 59.1 | 60.2 | 61.3 | 62.6 | 57.6 | 56.3 | 60.8 |
| 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.