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Strictly Confidential (FR) Class II FOMC

August 12, 1994

SUMMARY AND OUTLOOK

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

Overview

Recent indications of sustained strength in hiring suggest that the economy is continuing to grow at a fairly good clip this quarter. Despite the buildup of inventories during the second quarter, aggregate stocks do not appear to have been out of kilter with sales trends as of mid-year. And, outside of the single-family housing market, it is not clear that the rise in interest rates has thus far placed a heavy drag on the growth of final demand. Rising labor income and favorable sentiment continue to buoy consumer spending, while business outlays for plant and equipment remain on a steep uptrend.

We think it likely that real GDP growth in the current quarter will be somewhat less rapid than it was during the first half of the year--our point-estimate being 2.8 percent. Nonetheless, it remains our judgment that greater financial restraint probably will be necessary to prevent a buildup of inflationary pressures over the coming year. On the demand side, improving activity abroad and the depreciation of the dollar this year are likely to translate into a firming of U.S. net exports. In that context, the trend of domestic spending will have to decelerate appreciably further to avoid excessive pressure on labor and capital resources, which currently appear to be quite fully employed. Our forecast, based on the assumption of a considerable further increase in the federal funds rate, is for output growth to average less than 2-1/4 percent over the next five quarters, yielding an unemployment rate in the neighborhood of 6-1/4 percent and a slight decline in factory utilization rates. In these circumstances, we expect consumer prices to increase roughly 3 percent in both 1994 and 1995.

Key Assumptions

Although there are signs that higher interest rates are exerting some restraint on spending currently, that restraint appears to us mild relative to what may be needed to hold aggregate demand to a sustainable path--especially in light of the easing of credit availability that has been under way, most obviously at commercial banks. Our forecast assumes that the federal funds rate will rise the same amount by early 1995 as in the last Greenbook, just starting a little bit later. We expect that this appreciable increase in short-term rates will produce a mild firming of bond yields, but only temporarily: Long rates should move significantly below current levels in 1995, as it becomes evident that monetary tightening has been sufficient to moderate aggregate demand and to avert any sustained pickup in inflation.

The rise in short-term interest rates this year is expected to contribute to continuing increases in the velocity of the broad monetary aggregates in 1994 and 1995. Investors are viewing mutual funds with some greater caution, and the growth of M2 is projected to track somewhat more closely its traditional relationships to income and opportunity costs. Slower nominal GDP expansion in the second half of 1994 and in 1995 is also expected to restrain money growth, and as a result, M2 and M3 are likely to come in a little above the lower ends of their 1994 target ranges and to expand slightly faster next year. Total debt of domestic nonfinancial sectors is expected to grow at about a 5 percent rate through 1995.

We have not made substantive changes to our fiscal policy assumptions for this projection. We continue to assume that the broad contours of fiscal policy will be dictated by OBRA-1993.[1]

1 The odds of sweeping health care legislation coming out of the current congressional debate do not appear high, but it is unlikely that any package that was passed would have major budgetary impacts in the near term.

As a result, fiscal policy is expected to exert a moderate amount of restraint on economic activity through the projection period. The unified budget deficit is expected to total $206 billion in FY1994 and $197 billion in FY1995. Technical information on tax and spending rates from the the Administration's Mid-Session Review and the effects of changes to our economic assumptions had little effect, in the aggregate, on these deficit estimates.

The trade-weighted foreign exchange value of the dollar has been about unchanged on balance in terms of other G-10 currencies since our last Greenbook projection; we are anticipating no major changes from the current level through the end of 1995. Our forecast of economic activity abroad is slightly stronger than before. We project that the export-weighted growth of foreign GDP will accelerate a bit to 3-1/2 percent this year and continue to grow at that rate in 1995. During the intermeeting period, concern about potential supply disruptions in Nigeria resulted in a temporary spurt in oil prices. These concerns appear to have abated, and we expect the price of WTI to remain around the $18.50 per barrel that was assumed in the June Greenbook and to hold there through 1995.

Recent Domestic Economic Indicators

While the new Census survey of households continued to show a puzzling weakness in employment growth in July, other indicators have pointed to sustained strength in hiring. In the establishment survey, nonfarm payrolls rose 260,000 last month, after gaining nearly 360,000 in June, and low levels of filings for unemployment insurance suggest further sizable increases in jobs since the July survey week. Aggregate hours for private production workers retraced their June decline last month and appear to be on track for at least a moderate increase this quarter. The 6.1 percent unemployment rate in July, though up a touch from June, was below the second-quarter average.

Consumer spending appears to be growing moderately. The latest report on retail sales showed a considerable upward revision to outlays in the second quarter--perhaps raising real PCE growth from the 1.2 percent annual rate in BEA's advance estimate to about 2 percent. The advance estimate of non-auto retail sales for July indicated a nominal gain of 0.4 percent, suggesting a level of real expenditure somewhat above the second-quarter average. Meanwhile, sales of light motor vehicles have slipped during the past two months; however, all indications are that the decline has been aggravated appreciably by the inability of manufacturers to produce enough of the most popular models, a problem that will be somewhat alleviated in the next several months. The strong gains in employment in recent months have boosted labor income, and surveys show consumer sentiment holding up well in the face of concerns about rising interest rates.

In the business sector, the June report on inventories in manufacturing and trade was in line with the assumptions underlying BEA's advance estimate that real nonfarm stocks rose $50 billion during the second quarter. The spurt in stocks appears to have been essentially a catch-up after the surge in sales in prior months, and there is no evidence of an inventory overhang at this time. Inventory-sales ratios appear generally to be within their recent ranges. Even so, the return to more sustainable rates of accumulation is expected to subtract about 1-1/4 percentage points from current-quarter GDP growth. With regard to fixed investment, new orders and backlogs for nondefense capital goods continued to trend upward strongly in June, boding well for the volume of shipments in the short run, and permits data point to further increases in nonresidential construction.

All signs are that activity in the single-family housing sector is weakening under the weight of higher mortgage rates. Starts fell appreciably in June, and home sales declined. In the multifamily sector, starts plunged in June after soaring in May; on balance, the indications are that apartment markets have firmed in enough locales to support a moderate uptrend in building. All told, the incoming information has led us to steepen the near-term decline of residential investment in this forecast.

On the inflation front, despite a continuing climb in industrial materials prices, broader wage and price trends have remained fairly stable. The Employment Cost Indexes for the second quarter showed a marked step-up in the pace of wage and salary increases, after a sharp slowing in the first quarter; benefit costs increased just a touch faster than the relatively moderate 3-1/2 percent pace in the previous period. Overall compensation rose at a 3.7 percent annual rate; given the short-run variation in the series, this datum can reasonably be characterized as in line

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, at annual rates, except as noted)

	1993	1994		
	Q4	Q1	Q2	Q3
Real GDP	6.3	3.3	3.7	2.8
Previous	7.0	3.0	3.5	2.9
Civilian unemployment rate[1]	6.5	6.6	6.2	6.2
Previous	6.5	6.6	6.3	6.3
CPI inflation	3.1	1.9	2.8	4.0
Previous	3.1	1.9	2.7	3.7

1 Values for 1993 are from the old CPS.

with the 3-1/2 percent per annum trend since 1992. In July, the narrower index of average hourly earnings jumped 0.4 percent, but the twelve-month change, at 2.7 percent, was still within the range of the past couple of years. The CPI increased 0.3 percent in July, boosted by sizable increases in food and energy prices. Excluding food and energy, the CPI rose 0.2 percent, holding the twelve-month increase at 2.9 percent.

The Outlook for the Economy

The general contours of the projection have changed little from the June Greenbook. Real GDP growth is projected to slow appreciably in the near term and to average a little more than 2 percent over the four quarters of 1995. Much of the deceleration in final demand is attributable to the softening in major investment sectors that have propelled demand in the past year: residential construction, producers' durable equipment, and consumer durables. The unemployment rate is expected to edge back up to about 6-1/4 percent--a figure well within the range of alternative estimates of the NAIRU developed by the Board staff and other analysts. With little or no slack left in the economy, the "exogenous shocks" of higher oil prices and higher non-oil import prices show through in overall inflation during the projection period.

SUMMARY OF STAFF PROJECTIONS FOR 1994-95[1]
(Percent change, at annual rates, except as noted)

	1993	1994 H1	1994 H2	1995
Real GDP	3.1	3.5	2.6	2.1
Previous	3.1	3.2	2.6	2.2
Civilian unemployment rate[2]	6.5	6.2	6.2	6.3
Previous	6.5	6.3	6.3	6.4

1. Percent changes are from final quarter of previous period to final quarter of period indicated.
2. Average level in the final quarter of period indicated, percent. The value for 1993 is from the old CPS.

Consumer spending. After increasing at an average rate of more than 3 percent (on our estimate) during the first two quarters of the year, growth of real personal consumption expenditures is expected to slow to 2-1/2 percent during the second half and 2 percent in 1995. This deceleration is expected to be associated with a modest upturn in the personal saving rate. The saving rate typically falls during early stages of business cycle expansions, as reduced job risks, low interest rates, and rapidly rising real incomes support increased purchases of durable goods, some of which may have been deferred during the recession. This stage of the cycle is now behind us. Borrowing costs are rising, and labor income is projected to grow more slowly. The financial wealth position of consumers has been weakened a bit by the decline in the bond and stock markets--and the forecast implies some further erosion of asset values. And consumers have had ample time and resources (partly from equity withdrawn in several recent waves of mortgage refinancing) to work down their pent-up demands.

The slackening in consumption growth is expected to be most marked in the durable goods category. Real outlays for durables increased 9 percent during 1993 and are expected to decelerate to 4-3/4 percent this year and to 3 percent over 1995. The slowdown in housing activity is expected to contribute to the damping of sales of furniture and appliances, which have remained robust to this point. Motor vehicle purchases are expected to pick up over the remainder of the year, as supply constraints ease. But we do not foresee a return of sales to the pace of this past winter. Light vehicle sales, which ran at almost a 15-1/2 million unit annual rate in the first quarter, before sliding to a little over a 14 million rate in the past couple of months, are projected to total just over 15 million in calendar 1995--scarcely a bad year historically

Residential investment. Recent indicators suggest that the rise in mortgage interest rates is inducing a greater slowing in residential construction activity than we had expected. We now project single-family housing starts to bottom out at a 1.05 million unit annual rate at the end of this year, 40,000 units below our June Greenbook projection. With the projected decline in mortgage rates next year, however, single-family starts are expected to turn up moderately. Single-family construction is projected to remain far above the depressed levels of the early 1990s, owing to the pent-up demand for homeownership and the fact that--even for fixed-rate loans--cash-flow affordability remains extremely good by the standards of the past two decades. (Of course, many buyers recently have muted the effects of higher rates by opting for adjustable-rate loans that reduce cash flow requirements for at least the early years of the mortgage.)

High apartment vacancy rates and low real rental rates continue to exert a restraining influence on the multifamily segment of the housing market. Nevertheless, tighter market conditions in some locales and an easing of financial constraints on developers are expected to support a gradual uptrend in multifamily starts over the forecast period.

Business fixed investment. Real BFI is projected to advance at an 11-1/2 percent annual rate over the second half of this year, based on current trends in orders and building permits. However, some deceleration--albeit to a still considerable 7-1/2 percent pace--is expected for 1995. This reflects the increase in financing costs, growing dependence on external funds, and the projected slowing in sales growth.

The slowing of investment growth occurs primarily in the equipment category. However, we anticipate that spending on computing and communications equipment will continue to rise steeply. Rapid technological innovation and declining prices will make spending on these types of equipment attractive to many businesses even as output growth wanes.

We also expect investment in nonresidential structures to hold up well, rising at a 7-1/4 percent annual rate in the second half of 1994 and 6-1/4 percent in 1995. Construction of "other" commercial buildings--notably stores for some of the rapidly growing retail chains--is projected to pace the advance, but moderate advances are anticipated for most other categories as well. The market for office space has begun to firm, and there are already signs of an upturn--from a deeply depressed level--in this sector. Credit to finance commercial and industrial construction is more readily available from depository institutions and REIT investment also is helping to support construction activity.

Business inventories. After a substantial downshift in the pace of accumulation this quarter, we anticipate that inventory investment will slow gradually over the remainder of the projection period. The aggregate inventory-sales ratio appears to have risen a touch recently, and our forecast implies rough stability in this ratio through 1995. Although there is a risk that desired stocking levels could rise further as firms seek to meet customer demands and avoid production disruptions in the context of deteriorating vendor performance and lengthening lead times, the underlying trend toward lean inventory systems is likely to limit any movement in that direction.

Government purchases. Real federal purchases declined at a 7-1/2 percent annual rate during the first half of 1994, and the descent should slow to only 3/4 percent for the remainder of the year. We project a near-term pause in the ongoing retrenchment in defense spending because spending cuts budgeted for 1994 were largely realized by the sharp falloff of spending earlier this year and employee buyouts during the second quarter have placed nondefense purchases well within the limits implied by the OBRA-1993 spending caps. A decline of 4-1/4 percent is projected for total real purchases during 1995, entirely accounted for by further cuts in defense.

Real state and local purchases are projected to increase at about a 2-1/2 percent annual rate over the entire projection period. Demands are strong for public services owing to a growing school age population and increased concerns about public safety, and there is a need to repair decaying infrastructure; however, purchases will continue to be restrained by the sector's still large deficit and the desire among many governments to let any improvement in finances show up in lower taxes.

Net exports. After two years of a sharply deteriorating external balance, real net exports of goods and services are expected to be about unchanged over the next six quarters. With economic conditions abroad improving and recent declines in the value of the dollar enhancing the competitiveness of U.S. produced goods, the growth of real exports is projected to increase to around 7-3/4 percent, average annual rate, over the projection period. The growth of real imports is projected to decline from the double-digit pace of the last few quarters to 6-1/4 percent over the next year and a half, reflecting the slowdown in U.S. output growth and the effect of recent declines in the value of the dollar on the price of imports. (A discussion of these developments is contained in the International Developments section.)

Labor markets. Employment growth is projected to moderate over coming quarters. The drop-off in payroll growth is less marked than that of output, however, for two reasons. First, the larger cyclical gains in productivity are likely behind us. Second, it seems unlikely that average workweeks will rise from recent levels on a sustained basis.

We have continued to be surprised by the weakness in labor force growth. The participation rate inched up to 66.3 percent in July but remains well below rates seen earlier this year. The shortfall in participation rates in recent years relative to the trends of the 1980s has been fairly widespread across various demographic classifications. In particular the earlier steady uptrend among adult women has slowed noticeably. We had thought for some time that these phenomena were largely of a cyclical nature, but their persistence suggests that the explanation may be more secular. Labor force participation, after advancing sharply for more than two decades, may be on a slower trend growth path.

STAFF LABOR MARKET PROJECTIONS
(Percent, end-quarter average, except as noted)

	1993	1994		1995
		H1	H2	
Nonfarm payroll employment[1]	2.0	2.9	2.4	1.3
Previous	2.0	2.7	1.7	1.4
Output per hour, nonfarm business[2]	1.9	.9	.8	1.3
Previous	1.7	.1	1.7	1.1
Civilian participation rate	66.2	66.5	66.5	66.8
Previous	66.2	66.6	66.9	67.2
Civilian unemployment rate	6.5	6.4	6.2	6.3
Previous	6.5	6.4	6.3	6.4

1 Percent change from final quarter of previous period to final quarter of period indicated.
2 Average for indicated period.

Accordingly, we have reduced our estimate of the trend rate of growth in the participation rate for the 1990s to less than 0.1 percent per year. However, the rate rises somewhat more rapidly than this over the projection period because we expect the gap between the current rate and our estimate of the trend level to narrow.

With output and employment growth about the same in this forecast as in the last, the lower trajectory of labor force participation is mirrored in a 0.1 percentage point reduction in the unemployment rate path from the previous projection. We do not interpret this as implying any greater tightness in the labor market, however, because we have once again lowered our estimate of the degree to which the new CPS has elevated the measured unemployment rate relative to that produced by the old survey--from about 1/3 percentage point to 0.2 percentage point. Technically, we have lowered our estimate of the NAIRU by roughly the same amount as the projected unemployment rate.

Wages and prices. With the labor market in reasonable balance and prices rising at about the same pace as in recent years, there appears to be little reason to anticipate much acceleration or deceleration of compensation rates in the near term. The ECI is projected to continue increasing at about a 3-1/2 percent rate through next year, with increases in benefit costs remaining more rapid than increments to wages. Firms undoubtedly will maintain their efforts to trim health insurance expenses, but pension funding costs are expected to continue increasing rapidly. (Indeed, two large cash payments by General Motors to its pension plan show up as bulges in the growth of compensation in the third quarters of 1994 and 1995.) Combined with an assumed cyclically adjusted trend growth of productivity of close to 1-1/2 percent per year, the compensation forecast translates into increases in trend unit labor costs of around 2 percent per year.

CPI inflation is expected to average about 3-3/4 percent in the second half of this year up considerably from the average pace of recent quarters Food and energy prices registered little change in the first half of 1994 and have turned up sharply this quarter:

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

	1993	1994	1995
Consumer price index	2.7	3.1	3.0
Previous	2.7	3.0	3.1
Excluding food and energy	3.1	3.1	3.1
Previous	3.1	3.1	3.1
ECI for compensation of private industry workers[1]	3.6	3.4	3.5
Previous	3.6	3.4	3.5

1 December to December

the food price surge is expected to abate soon, but the pass-through of higher crude oil costs to retail energy prices is likely to continue through year-end The rise in the cost of energy and petroleum-based materials will also have a modest effect on the core CPI In addition, the recent depreciation of the dollar is likely to result in an acceleration of non-oil import prices, which will put some additional pressure on materials costs and finished goods prices--thereby affecting core CPI inflation. After the adjustment to these one-time shocks, the core inflation rate returns close to the recent trend, running at just above 3 percent in 1995; the overall CPI runs a shade lower because of the anticipated favorable behavior of food and energy prices.

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

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	6/29/94	8/12/94	6/29/94	8/12/94	6/29/94	8/12/94	6/29/94	8/12/94	6/29/94	8/12/94
ANNUAL										
1991[2]	3.2	3.2	-.7	-.6	4.1	4.0	4.3	4.3	6.7	6.7
1992[2]	5.5	5.2	2.6	2.3	3.3	3.2	3.0	3.0	7.4	7.4
1993[2]	5.6	5.4	3.0	3.1	3.1	3.0	3.0	3.0	6.8	6.8
1994	5.9	5.8	3.7	3.7	2.7	2.7	2.7	2.7	6.4	6.3
1995	4.8	4.6	2.4	2.3	2.9	2.9	3.3	3.2	6.4	6.3
QUARTERLY										
1992 Q1[2]	7.4	7.1	3.5	3.1	4.2	3.9	2.6	2.6	7.3	7.3
Q2[2]	5.7	5.2	2.8	2.4	3.4	3.3	3.5	3.5	7.5	7.5
Q3[2]	4.6	4.9	3.4	3.5	2.5	2.7	2.9	2.9	7.5	7.5
Q4[2]	9.2	8.6	5.7	5.7	3.1	2.8	3.5	3.5	7.3	7.3
1993 Q1[2]	4.4	4.4	.8	1.2	4.3	4.2	2.8	2.8	7.0	7.0
Q2[2]	4.3	4.2	1.9	2.4	2.8	2.4	3.1	3.1	7.0	7.0
Q3[2]	4.4	3.8	2.9	2.7	2.1	2.0	2.0	2.0	6.7	6.7
Q4[2]	8.4	7.7	7.0	6.3	2.3	2.4	3.1	3.1	6.5	6.5
1994 Q1[2]	5.7	6.1	3.0	3.3	3.1	3.1	1.9	1.9	6.6	6.6
Q2[2]	5.9	6.8	3.5	3.7	2.5	2.9	2.7	2.8	6.3	6.2
Q3	5.2	4.4	2.9	2.8	2.7	2.6	3.7	4.0	6.3	6.2
Q4	4.8	4.9	2.4	2.3	3.0	3.1	3.6	3.5	6.3	6.2
1995 Q1	4.8	4.6	2.0	1.9	3.4	3.2	3.4	3.3	6.3	6.2
Q2	4.5	4.3	2.2	2.1	2.8	2.7	3.1	2.9	6.4	6.2
Q3	4.5	4.3	2.3	2.2	2.7	2.7	3.0	2.9	6.4	6.3
Q4	4.5	4.4	2.4	2.3	2.7	2.7	2.9	2.9	6.4	6.3
TWO-QUARTER[3]										
1992 Q2[2]	6.6	6.1	3.2	2.8	3.9	3.5	3.0	3.0	.5	.5
Q4[2]	6.9	6.7	4.6	4.6	2.8	2.8	3.2	3.2	-.2	-.2
1993 Q2[2]	4.3	4.3	1.3	1.8	3.4	3.3	3.1	3.1	-.3	-.3
Q4[2]	6.4	5.7	4.9	4.5	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2[2]	5.8	6.4	3.2	3.5	2.8	3.0	2.4	2.4	-.2	-.3
Q4	5.0	4.6	2.6	2.6	2.8	2.8	3.6	3.8	.0	.0
1995 Q2	4.7	4.4	2.1	2.0	3.1	3.0	3.3	3.1	.1	.0
Q4	4.5	4.4	2.3	2.3	2.7	2.7	3.0	2.9	.0	.1
FOUR-QUARTER[4]										
1991 Q4[2]	3.7	3.5	.3	.3	3.6	3.6	3.0	3.0	1.0	1.0
1992 Q4[2]	6.7	6.4	3.9	3.7	3.3	3.2	3.1	3.1	.3	.3
1993 Q4[2]	5.4	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.4	5.5	2.9	3.0	2.8	2.9	3.0	3.1	-.2	-.3
1995 Q4	4.6	4.4	2.2	2.1	2.9	2.9	3.1	3.0	.1	.1

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.

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

August 12, 1994

Item	Unit[1]	1987	1988	1989	1990	1991	1992	1993	Projected 1994	1995
EXPENDITURES										
Nominal GDP	Bill. $	4539.9	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6713.0	7025.0
Real GDP	Bill. 87$	4540.0	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5323.4	5445.6
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.7	3.1	3.0	2.1
Gross domestic purchases		3.9	2.5	.9	-.4	-.1	4.1	3.9	3.5	2.1
Final sales		2.7	4.2	1.5	1.2	-.4	3.8	3.0	2.6	2.3
Private dom. final purch.		1.9	4.2	.5	-.1	-.8	5.1	5.0	3.8	2.8
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.2	3.0	2.7	2.0
Durables		-2.6	8.5	-.5	-.8	-1.3	9.6	9.0	4.7	2.9
Nondurables		1.4	3.2	1.2	-.1	-1.6	3.2	1.3	1.9	1.5
Services		3.7	3.7	1.7	1.7	1.2	3.5	2.5	2.7	2.0
Business fixed invest.		3.0	5.5	-.4	.7	-6.2	6.7	16.0	11.1	7.6
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.2	11.0	21.3	13.1	8.0
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.4	-3.4	1.6	4.6	6.2
Res. structures		-3.1	.9	-7.7	-15.2	.7	17.0	8.1	.3	1.2
Exports		12.6	13.5	11.3	6.7	8.1	5.0	5.8	5.9	7.5
Imports		4.7	3.6	2.6	.4	4.0	8.6	12.4	8.7	6.9
Government purchases		3.3	.2	2.0	3.3	-.8	.7	-1.0	-.6	-.1
Federal		3.7	-3.4	-.6	2.8	-3.2	.8	-6.9	-4.2	-4.2
Defense		4.5	-3.2	-1.5	1.5	-7.0	-1.3	-9.0	-5.7	-6.4
State and local		2.9	2.9	4.0	3.6	.8	.6	3.0	1.6	2.3
Change in bus. invent.	Bill. 87$	26.3	19.9	29.8	5.7	-1.1	2.5	15.3	38.2	27.5
Nonfarm		32.7	26.9	29.9	3.2	-1.3	-2.0	18.5	33.0	24.3
Net exports		-143.0	-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-108.8	-109.1
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.5	6.4	5.0	5.5	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.6	110.5	113.3	115.2
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.3	6.3
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.2	4.9	2.7
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.6	80.6	82.9	82.7
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.29	1.36	1.35
Light Motor Vehicle Sales		14.84	15.43	14.53	13.85	12.31	12.80	13.89	15.00	15.13
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.35	8.72	9.24	9.16
North American prod.		7.07	7.54	7.08	6.90	6.14	6.26	6.75	7.29	7.35
Other		3.18	3.10	2.83	2.60	2.25	2.10	1.97	1.95	1.81
INCOME AND SAVING										
Nominal GNP	Bill. $	4544.5	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6710.1	7015.5
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.2	6.1	5.0	5.5	4.3
Nominal personal income		7.4	7.1	6.5	6.5	3.7	8.1	2.8	5.8	5.4
Real disposable income		2.1	3.2	1.1	1.1	.9	5.0	.5	2.9	2.4
Personal saving rate	%	4.3	4.4	4.0	4.2	5.0	5.5	4.1	3.9	4.2
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	8.8	9.6	23.4	6.0	1.2
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.8	6.7	7.7	8.2	8.1
Federal surpl./def.	Bill. $	-151.8	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-155.5	-166.8
State/local surpl./def.		40.1	38.4	44.8	25.1	17.0	24.8	26.3	27.8	36.2
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-37.8	-28.3
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.3	2.6	1.8	2.4	2.2
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.2	2.8	2.9	2.9
Gross domestic purchases fixed-wt. price index		3.9	4.1	4.4	5.2	2.9	3.2	2.5	3.0	2.8
CPI		4.5	4.3	4.6	6.3	3.0	3.1	2.7	3.1	3.0
Ex. food and energy		4.3	4.5	4.4	5.3	4.4	3.5	3.1	3.1	3.1
ECI, hourly compensation[2]		3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.4	3.5
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.3	3.2	1.9	.8	1.3
Compensation per hour		3.9	3.8	3.1	6.2	4.7	5.2	2.5	3.5	3.6
Unit labor cost		1.9	3.3	4.6	5.7	2.3	1.9	.6	2.7	2.3

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

Strictly Confidential (FR)
Class II FOMC

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

August 12, 1994

Item	Units	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3 (Projected)	1994 Q4 (Projected)	1995 Q1 (Projected)	1995 Q2 (Projected)	1995 Q3 (Projected)	1995 Q4 (Projected)
EXPENDITURES											
Nominal GDP	Bill. $	6359.2	6478.1	6574.7	6683.6	6756.4	6837.1	6914.0	6986.8	7061.2	7138.1
Real GDP	Bill. 87$	5139.4	5218.0	5261.1	5309.2	5346.6	5376.6	5401.8	5430.2	5459.4	5491.1
Real GDP	% change	2.7	6.3	3.3	3.7	2.8	2.3	1.9	2.1	2.2	2.3
Gross domestic purchases		4.0	5.8	5.0	4.4	2.6	1.9	2.0	2.1	2.2	2.3
Final sales		3.2	6.4	2.2	1.5	4.0	2.8	2.1	2.3	2.3	2.5
Private dom. final purch.		5.3	7.4	5.8	2.8	3.9	2.8	2.8	2.7	2.8	2.9
Personal cons. expend.		3.9	4.0	4.7	1.2	2.8	2.4	2.2	1.8	1.9	2.0
Durables		7.7	15.5	8.8	.8	5.2	3.9	2.8	2.6	3.0	3.3
Nondurables		2.8	2.4	3.8	.7	.9	2.3	2.0	1.3	1.4	1.4
Services		3.6	2.0	4.0	1.6	3.2	2.0	2.2	1.9	1.9	2.0
Business fixed invest.		12.2	21.1	10.9	10.0	13.1	10.3	8.0	7.9	7.4	7.2
Producers' dur. equip.		16.2	27.5	18.6	7.7	15.0	11.3	8.5	8.3	7.8	7.5
Nonres. structures		.5	3.3	-11.8	18.4	7.3	7.1	6.1	6.7	6.1	6.0
Res. structures		9.4	28.2	10.0	7.0	-4.0	-10.3	-3.9	1.2	2.9	4.8
Exports		-3.2	21.7	-3.5	11.1	9.5	7.0	7.1	7.3	7.6	8.1
Imports		7.4	16.0	9.5	15.1	6.5	4.0	6.9	6.2	7.2	7.2
Government purchases		1.1	-.1	-4.9	-.5	2.5	.7	-.5	.1	.2	.3
Federal		-3.0	-5.0	-10.3	-4.8	1.2	-2.6	-4.6	-4.1	-4.4	-3.8
Defense		-9.2	-3.6	-16.0	-3.8	.9	-3.0	-7.1	-6.4	-6.6	-5.7
State and local		3.7	2.9	-1.4	2.0	3.2	2.6	1.9	2.2	2.2	2.6
Change in bus. invent.	Bill. 87$	13.0	10.8	25.4	54.0	40.2	33.3	30.1	28.1	27.0	24.7
Nonfarm		20.9	10.7	22.1	50.0	33.2	26.5	25.3	24.6	24.8	22.4
Net exports		-86.3	-82.2	-104.0	-113.4	-110.7	-107.0	-108.4	-108.3	-109.5	-110.0
Nominal GDP	% change	3.8	7.7	6.1	6.8	4.4	4.9	4.6	4.3	4.3	4.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	110.8	111.4	112.0	113.0	113.8	114.3	114.7	115.0	115.4	115.8
Unemployment rate[1]	%	6.7	6.5	6.6	6.2	6.2	6.2	6.2	6.2	6.3	6.3
Industrial prod. index	% change	2.8	6.7	8.3	4.4	3.9	3.0	2.5	2.6	2.8	3.0
Capacity util. rate-mfg[1]	%	80.3	81.5	82.5	82.9	83.0	82.9	82.8	82.7	82.6	82.6
Housing starts	Millions	1.31	1.48	1.37	1.44	1.33	1.31	1.32	1.33	1.36	1.38
Light Motor Vehicle Sales		13.69	14.53	15.45	14.75	14.73	15.08	15.05	15.10	15.15	15.22
Auto sales in U.S.		8.65	8.97	9.45	9.15	9.10	9.25	9.15	9.15	9.15	9.17
North American prod.		6.68	7.08	7.44	7.16	7.16	7.40	7.32	7.34	7.36	7.38
Other		1.97	1.89	2.00	1.99	1.94	1.85	1.83	1.81	1.79	1.79
INCOME AND SAVING											
Nominal GNP	Bill. $	6367.8	6476.2	6574.0	6680.7	6754.6	6831.2	6908.7	6975.9	7052.4	7124.8
Nominal GNP	% change	4.2	7.0	6.2	6.7	4.5	4.6	4.6	3.9	4.5	4.2
Nominal personal income		2.4	6.7	5.3	7.2	4.4	6.5	6.6	5.2	4.1	5.7
Real disposable income		.8	4.3	3.4	3.0	2.0	3.2	3.4	1.2	2.1	2.8
Personal saving rate[1]	%	3.9	4.0	3.6	4.0	3.8	4.0	4.3	4.1	4.2	4.3
Corp. profits, IVA&CCAdj	% change	18.4	37.0	-17.9	49.2	2.8	.1	-2.5	-2.3	7.2	2.7
Profit share of GNP[1]	%	7.7	8.2	7.7	8.4	8.4	8.3	8.1	8.0	8.1	8.0
Federal govt. surpl./def.	Bill. $	-224.9	-220.1	-176.2	-135.5	-143.8	-166.5	-170.1	-158.4	-159.6	-178.9
State/local surpl./def.		23.9	34.5	25.2	24.4	30.0	31.7	33.2	33.6	38.5	39.5
Ex. social ins. funds		-42.4	-31.7	-40.7	-41.4	-35.5	-33.5	-31.7	-31.0	-25.8	-24.7
PRICES AND COSTS											
GDP implicit deflator	% change	1.1	1.3	2.7	3.0	1.5	2.5	2.6	2.1	2.1	2.0
GDP fixed-wt. price index		2.0	2.4	3.1	2.9	2.6	3.1	3.2	2.7	2.7	2.7
Gross domestic purchases fixed-wt. price index		1.6	2.4	2.5	3.2	3.1	3.1	3.2	2.7	2.6	2.6
CPI		2.0	3.1	1.9	2.8	4.0	3.5	3.3	2.9	2.9	2.9
Ex. food and energy		2.4	2.9	2.6	3.4	3.1	3.3	3.3	3.1	3.1	3.1
ECI, hourly compensation[2]		3.4	3.4	2.7	3.7	4.5	2.7	3.5	3.5	4.0	2.9
Nonfarm business sector											
Output per hour		4.1	4.9	2.9	-1.2	1.1	.5	1.2	1.3	1.3	1.3
Compensation per hour		2.8	2.4	6.1	.8	3.7	3.6	3.8	3.5	3.5	3.5
Unit labor cost		-1.2	-2.4	3.1	2.0	2.6	3.1	2.6	2.2	2.1	2.1

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

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

August 12, 1994

Item	1993		Projected 1994				Projected 1995						Projected	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994	1995
Real GDP	34.0	78.6	43.1	48.1	37.4	30.0	25.2	28.4	29.2	31.7	179.9	157.3	158.6	114.5
Gross domestic purchases	51.1	74.4	64.9	57.5	34.7	26.4	26.6	28.2	30.4	32.1	201.6	201.0	183.4	117.5
Final sales	40.0	80.7	28.5	19.5	51.2	36.9	28.4	30.4	30.2	34.0	186.8	153.1	136.1	123.1
Private dom. final purch.	54.5	76.9	61.9	30.1	42.8	31.7	30.9	30.5	31.9	33.6	202.2	205.9	166.5	127.0
Personal cons. expend.	33.0	34.0	40.1	-10.8	24.4	21.0	19.7	16.2	17.2	18.1	138.1	102.8	96.3	71.2
Durables	9.0	18.1	10.9	1.1	6.7	5.1	3.7	3.4	4.0	4.4	41.1	42.0	23.8	15.5
Nondurables	7.4	6.3	10.3	1.9	2.5	6.2	5.5	3.5	3.9	3.9	33.8	13.8	20.9	16.7
Services	16.6	9.6	18.9	7.8	15.2	9.7	10.5	9.3	9.3	9.9	63.1	47.0	51.6	39.0
Business fixed invest.	16.9	29.3	16.4	15.5	20.7	16.9	13.5	13.7	13.1	12.9	34.0	86.3	69.4	53.1
Producers' dur. equip.	16.6	28.2	20.9	9.3	18.1	14.2	11.1	11.1	10.7	10.5	39.1	83.9	62.5	43.4
Nonres. structures	.2	1.2	-4.6	6.2	2.7	2.6	2.3	2.6	2.4	2.4	-5.1	2.4	6.9	9.7
Res. structures	4.7	13.5	5.4	3.9	-2.4	-6.2	-2.2	.6	1.6	2.6	30.2	16.8	.7	2.7
Change in bus. invent.	-5.9	-2.2	14.6	28.6	-13.8	-6.9	-3.2	-2.1	-1.0	-2.3	-6.9	4.2	22.5	-8.6
Nonfarm	-1.9	-10.2	11.4	27.9	-16.8	-6.7	-1.2	-.8	.3	-2.4	-8.3	4.4	15.8	-4.1
Farm	-4.0	8.0	3.2	.8	2.9	.2	-2.0	-1.3	-1.3	.1	1.4	.2	6.7	-4.5
Net exports	-17.0	4.1	-21.8	-9.4	2.7	3.6	-1.4	.1	-1.2	.4	-21.6	-43.7	-24.8	-2.9
Exports	-4.9	29.9	-5.6	16.5	14.7	11.1	11.5	12.0	12.7	13.7	28.1	34.5	36.7	49.9
Imports	12.0	25.8	16.2	25.9	11.9	7.5	12.9	11.9	13.9	14.1	49.9	78.1	61.5	52.8
Government purchases	2.5	-.3	-11.6	-1.2	5.6	1.6	-1.1	.2	.4	.8	6.2	-9.1	-5.6	.9
Federal	-2.7	-4.5	-9.4	-4.2	1.0	-2.2	-3.9	-3.5	-3.7	-3.1	2.9	-25.9	-14.8	-14.2
Defense	-5.9	-2.2	-10.2	-2.2	.5	-1.7	-4.1	-3.6	-3.7	-3.1	-3.4	-23.7	-13.6	-14.5
Nondefense	3.2	-2.3	.8	-2.0	.5	.5	.2	.1	.0	.0	6.4	-2.2	-1.2	.3
State and local	5.2	4.2	-2.1	2.9	4.6	3.8	2.8	3.3	3.3	3.9	3.2	16.8	9.2	13.3

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

August 12, 1994

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

Item	Fiscal year				1993				1994				1995			
	1992[a]	1993[a]	1994	1995	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1[a]	Q2[b]	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1090	1153	1258	1333	262	331	295	287	289	363	319	305	290	409	330	314
Outlays[1]	1381	1408	1464	1530	325	349	349	379	348	362	375	380	391	376	383	399
Surplus/deficit[1]	-290	-255	-206	-197	-63	-18	-54	-92	-59	1	-56	-75	-101	33	-54	-85
On-budget	-340	-301	-263	-257	-90	-49	-54	-105	-66	-33	-59	-82	-110	-6	-60	-90
Off-budget	50	46	56	60	27	31	0	13	8	33	2	7	8	39	6	5
Surplus excluding deposit insurance[2]	-287	-283	-212	-208	-68	-25	-61	-92	-65	4	-58	-76	-106	32	-58	-86
Means of financing																
Borrowing	311	249	188	217	60	61	46	89	51	8	39	68	81	20	49	69
Cash decrease	-17	6	4	-12	8	-39	8	3	5	-6	3	10	24	-45	0	25
Other[3]	-4	0	14	-8	-6	-4	0	0	2	-2	14	-3	-3	-7	5	-9
Cash operating balance, end of period	59	53	48	60	22	61	53	50	45	51	48	39	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1158	1242	1357	1437	1213	1264	1273	1314	1338	1386	1391	1409	1427	1454	1459	1477
Expenditures	1435	1497	1526	1601	1496	1501	1498	1534	1514	1522	1535	1575	1597	1612	1619	1656
Purchases	445	447	439	438	447	445	443	440	438	439	438	439	440	437	435	433
Defense	313	307	294	290	307	306	299	299	292	291	293	292	292	289	286	283
Nondefense	132	140	145	148	140	139	144	141	146	148	145	146	148	148	149	149
Other expenditures	990	1049	1087	1163	1049	1055	1055	1094	1076	1083	1097	1137	1157	1175	1184	1223
Surplus/deficit	-276	-254	-169	-164	-283	-237	-225	-220	-176	-135	-144	-167	-170	-158	-160	-179
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-218	-210	-156	-161	-237	-192	-184	-195	-158	-130	-142	-166	-168	-155	-155	-174
Change in HEB, percent of potential GDP	1	-.1	-.8	.1	.2	-.7	-.1	.2	-.6	-.4	.2	.4	0	-.2	0	.3
Fiscal impetus (FI), percent, cal. year	-4.4	-4.1	-7.8	-5.1	-4.7	0	0	-1.1	-4.4	-4.1	.9	-.7	-2.2	-1.9	-.4	-.8

1. OMB's July 1994 deficit estimates are $220 billion in FY94 and $167 billion in FY95(excluding health reform). CBO's April 1994 deficit estimates of the budget are $227 billion in FY94 and $182 billion in FY95. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's July 1994 deficit estimates, excluding deposit insurance spending, are $224 billion in FY94 and $185 billion in FY95. CBO's April 1994 deficit estimates, excluding deposit insurance spending, are $230 billion in FY94, and $194 billion in FY95.

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 2.3 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 accrual which is a staff projection.

Recent Developments

Interest rates edged lower after the July FOMC meeting, as economic activity appeared to be moderating. However they subsequently moved back up when economic reports issued in August rekindled concerns about an economy pressing against capacity and expectations of a further tightening of policy in the near term. On balance, short-term Treasury rates are now up as much as 25 basis points over the intermeeting period, and longer-term rates are about unchanged. Meanwhile, stock prices have risen about 2-1/2 to 3-1/2 percent amid generally favorable earnings reports for the second quarter.

The monetary aggregates strengthened in July. After declining in June, M2 grew at an annual rate of 5 percent, the growth fueled in substantial measure by a sharp turnaround in money market mutual funds. Investors apparently resumed shifting out of bond funds, presumably to avoid possible further capital losses. A pickup in demand and Eurodollar deposits, as well as slower runoffs of savings deposits, also contributed to the advance in M2. M3 growth rebounded to a 6 percent rate, lifted both by its M2 components and by a jump in large time deposits prompted by stepped-up loan demand. Growth in M2 and M3 from the fourth quarter left both aggregates just above the lower bounds of their target ranges.

Bank credit expanded sharply in July, paced by the strong loan growth; business loans climbed at a 17 percent annual rate and consumer loans at a 23 percent rate. The strength in business loans was attributable partly to a shift by firms away from stock and bond issuance and partly to a sizable volume of financing for mergers and acquisitions. In a recent Federal Reserve survey, loan officers at large domestic banks reported a further easing of standards and terms for businesses of all sizes. The strength in consumer loans at banks probably reflected some gain in market share as well as relatively heavy borrowing by consumers overall Banks are the largest factor in the rapidly growing credit card area and have lately been competing aggressively for auto loans. In July, they also kept more of their consumer loans on their own books instead of securitizing them.

Aggregate net borrowing by nonfinancial businesses apparently picked up somewhat in July, with new debt continuing to be concentrated in the short-to-intermediate range of the maturity spectrum. Besides the sharp rise in bank loans to businesses, there was also an increase in commercial paper outstanding after two quarters of run-off. Because of a slide in junk bond offerings, however, public bond issuance slowed in July to a relatively sluggish pace. Gross equity issuance also was weak, and with an increased volume of share repurchases, net equity issuance probably was negative.

Few direct indications of household borrowing are available beyond the second quarter Consumer credit growth was quite strong in June and in the second quarter as a whole, as auto loans and revolving credit both increased rapidly. The bank data suggest that the overall pace of consumer borrowing has remained brisk, despite slower sales of motor vehicles in July. Growth in home mortgage debt in the second quarter remained below the pace in the latter half of 1993, as sales of new and existing homes have leveled off and mortgage refinancing activity has dropped substantially. The pace of mortgage borrowing probably changed little in July, notwithstanding a solid increase in real estate loans at banks. This rise was attributable partly to transfers of thrift assets to the banking sector and perhaps partly to a continuing shift by mortgage borrowers to adjustable-rate loans. Compared with fixed-rate loans, ARMs are more often held in portfolio and less often securitized.

In the municipal securities market, gross issuance of long-term tax-exempt bonds in July stayed around the relatively low second-quarter volume. Bond issuance continues to be depressed by a shortage of securities eligible for refunding. In contrast, short-term borrowing, bolstered by a large amount of revenue anticipation notes from California, was fairly strong.

After a respite in the second quarter, the Treasury is borrowing a larger volume of funds this quarter, about in line with the anticipated seasonal swing in the federal deficit. Bill auctions have been enlarged to accommodate the Treasury's heavier borrowing needs.

Outlook

The staff's economic projection is based on an assumed firming in money market conditions over the coming months, as the System's efforts to check inflationary pressures continue. The tightening ends sooner than the markets currently appear to be anticipating, however, and that difference is consistent with the staff's expectation that long-term rates are not far from their peaks and will retreat next year.

Total debt of the domestic nonfinancial sectors is expected to grow about 5 percent in both 1994 and 1995. Debt of the nonfederal sectors is expected to grow at a 5 percent rate in the current quarter and average about 4-1/2 percent over the rest of the projection period. After dropping sharply in the first half of 1994, federal borrowing is expected to pick up somewhat in the second half and to grow a bit faster next year as well.

In the household sector growth in consumer credit should back off in the second half of this year from its very rapid second-quarter pace and slow further next year, partly because of an expected deceleration in spending on durable goods. Home mortgage debt is expected to decelerate a bit in the near term but to pick up in line with home sales late next year.

Debt of nonfinancial businesses is projected to grow 2-3/4 percent this year and a shade more than 3 percent next year Although growth at this pace is slow by historical standards, it represents a pickup from the very low rates of 1992 and 1993. Corporations will face a growing need for external funds to finance projected increases in capital expenditures, as internal funds are expected to level out. We expect the external needs to be met almost entirely through borrowing. Little, if any, net issuance of equity is anticipated this year or next, as a quickened pace of mergers and share repurchases involving cash for equity retire a sizable volume of shares. Banks and finance companies will provide a major share of business financing in 1994, but as long rates come down next year bond financing should strengthen.

In the state and local government sector, debt growth is projected to slow through 1995, as a large number of pre-refunded securities reach their call dates and are retired, and as further advance refunding volume is depressed by a lack of eligible issues. These factors outweigh a probable increase in borrowing to finance rising outlays for infrastructure.

.onfidential FR Class II
August 12, 1994

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										
1981	9.7	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.3	9.3
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	9.6	3.2
1983	11.9	18.9	10.1	11.1	10.8	12.6	9.3	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.8	11.7	18.7	15.6	9.1	12.6	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.3	12.1	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.3	4.7
1987	9.5	8.0	9.9	12.4	14.9	5.0	7.1	13.4	8.4	8.0
1988	8.8	8.0	9.0	10.8	11.8	7.2	7.9	7.0	8.0	7.7
1989	7.7	7.0	7.9	8.8	10.2	6.2	7.0	8.4	5.0	6.0
1990	6.3	11.0	5.0	6.2	7.7	2.0	3.4	6.7	4.4	4.7
1991	4.4	11.1	2.4	4.6	6.7	-1.8	-0.9	7.2	-0.6	3.5
1992	5.1	10.9	3.2	5.6	6.6	0.7	0.0	6.4	0.8	6.4
1993	5.2	8.3	4.1	6.6	6.6	8.0	0.8	6.6	-1.0	5.0
1994	4.9	5.0	4.9	6.8	6.4	10.6	2.8	4.8	2.7	5.5
1995	5.1	6.2	4.7	6.2	6.0	8.0	3.1	4.0	1.0	4.4
Quarter (seasonally adjusted annual rates)										
1993:1	3.4	7.5	1.9	2.8	3.4	2.4	-0.4	7.2	-5.0	4.4
2	6.3	11.1	4.6	6.8	7.4	5.3	1.6	6.8	1.1	4.2
3	5.0	5.5	4.8	8.3	7.9	9.6	0.8	5.1	-1.8	3.8
4	5.8	8.2	4.9	7.7	7.0	13.7	1.2	6.6	1.8	7.7
1994:1	5.1	5.9	4.8	6.2	6.1	8.4	2.5	6.8	5.6	6.1
2	4.8	4.1	5.1	7.3	6.6	12.4	2.6	4.7	1.2	6.8
3	4.8	4.4	5.0	6.7	6.3	10.4	3.2	3.8	1.9	4.4
4	4.7	5.3	4.5	6.4	6.0	9.6	2.7	3.6	1.8	4.9
1995:1	5.8	9.0	4.7	6.3	5.8	8.8	3.0	4.1	1.5	4.6
2	4.8	5.3	4.6	6.0	5.8	8.1	3.0	4.2	0.6	4.3
3	4.7	5.0	4.5	6.0	5.9	7.5	3.0	3.8	0.8	4.3
4	4.6	5.0	4.5	5.8	6.1	6.8	3.1	3.7	1.1	4.4

1. Data after 1994:1 are staff projections. Year-to-year changes in nominal GDP are measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes are measured from end of preceding period to end of period indicated.
2. On a quarterly average basis, total debt growth is projected to be 5.2 in 1994 and 5.1 in 1995.

2.6.3 FOF

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

	Calendar year 1993	1994	1995	1993-Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4
				Seasonally Adjusted Annual Rates								
Net funds raised by domestic nonfinancial sectors												
1 Total	635.6	604.0	656.0	734.7	628.1	612.6	579.3	595.9	755.2	627.3	618.7	622.7
2 Net equity issuance	22.9	-7.0	-2.0	29.5	2.0	12.0	-29.0	-13.0	-2.0	-2.0	-2.0	-2.0
3 Net debt issuance	612.7	611.0	658.0	705.2	626.1	600.6	608.3	608.9	757.2	629.3	620.7	624.7
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	33.5	64.2	99.2	20.3	21.6	79.2	74.8	81.0	90.0	100.0	102.1	104.6
5 Net equity issuance	22.9	-7.0	-2.0	29.5	2.0	12.0	-29.0	-13.0	-2.0	-2.0	-2.0	-2.0
6 Credit market borrowing	29.6	103.9	117.0	45.5	93.4	98.8	122.0	101.5	113.4	115.4	116.5	122.6
Households												
7 Net borrowing, of which:	261.5	289.3	279.2	321.3	264.6	313.2	295.7	283.8	284.5	276.8	280.2	275.1
8 Home mortgages	181.4	188.0	188.4	200.9	180.0	196.9	190.0	185.0	181.1	183.1	191.1	198.2
9 Consumer credit	64.4	92.1	77.5	115.7	72.9	110.4	95.0	90.0	85.0	80.0	75.0	70.0
10 Debt/DPI (percent)[3]	87.6	88.8	89.6	88.8	89.2	89.4	89.7	89.8	89.7	90.2	90.5	90.6
State and local governments												
11 Net borrowing	65.4	51.1	44.2	68.8	72.2	50.6	41.8	39.8	45.0	47.0	42.5	42.5
12 Current surplus[4]	-32.9	-29.2	-22.8	-30.6	-25.8	-34.0	-29.4	-27.8	-25.1	-25.2	-20.8	-20.3
U.S.government												
13 Net borrowing	256.1	166.6	217.6	269.6	195.9	138.0	148.8	183.8	314.2	190.0	181.5	184.6
14 Net borrowing;quarterly, nsa	256.1	166.6	217.6	89.2	51.2	7.7	39.5	68.2	80.8	19.6	48.5	68.7
15 Unified deficit;quarterly, nsa	226.3	189.2	206.7	92.1	58.6	-0.6	56.1	75.0	101.3	-32.8	53.5	84.7
Funds supplied by												
16 depository institutions	141.5	186.0	167.1	186.9	187.6	184.5	195.0	176.9	173.7	166.3	166.9	161.6
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	190.0	188.7	189.4	190.8	190.4	189.5	189.8	189.7	190.4	190.6	190.8	191.0
18 Dom. nonfinancial borrowing	9.7	9.1	9.4	10.9	9.5	9.0	9.0	8.9	11.0	9.0	8.8	8.8
19 U.S. government[5]	4.0	2.5	3.1	4.2	3.0	2.1	2.2	2.7	4.5	2.7	2.6	2.6
20 Private	5.6	6.6	6.3	6.7	6.5	6.9	6.8	6.2	6.4	6.3	6.2	6.2

1. Data after 1994:1 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.

Recent Developments

Since the July FOMC meeting, the weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has changed little on balance. The dollar declined in early July, apparently reflecting market perceptions following the G-7 meeting that U.S. officials were not concerned about the dollar's value and were perhaps willing to use dollar weakness as a tool in trade negotiations. Statements of concern about the dollar by Treasury officials and Chairman Greenspan coincided with a rebound in its value in mid-July. Over the intermeeting period, the dollar depreciated about 2 percent in terms of the mark but has appreciated about 1 percent in terms of the yen to trade around the 100 yen/dollar rate.

Long-term interest rates in Japan have risen about 25 basis points over the intermeeting period while rates in the United States have remained about unchanged. The higher rates appear to reflect market expectations that the Japanese economy is beginning to recover and that the Bank of Japan may soon act to move short-term rates higher. In fact, three-month market rates in Japan rose 20 basis points over the period while such rates in the United States showed little change.

In continental Europe, long-term interest rates generally moved higher following the August 11 announcements by the central banks of Italy and Sweden of higher official rates. The long-term rate in Germany rose about 25 basis points, on balance, over the intermeeting period, with almost all of that increase since August 11. Although the moves by Italian and Swedish officials were largely intended to support their respective currencies, they appear to have reinforced market perceptions that a relatively early shift to monetary tightening may be more likely in many European countries. Italian short-term rates rose more than 125 basis points over the intermeeting period, with most of this increase coming after the announcement of the official rate increase. German short-term rates have shown almost no net change since the July FOMC meeting. In the United Kingdom, short-term rates increased about 50 basis points as signs of continuing strength in the U.K. economy have contributed to expectations of tightening by the Bank of England. In Canada, rates dropped 75 basis points in response to an easing of pressure on the Canadian dollar.

. The Desk did not intervene.

Economic indicators suggest that during the second quarter growth remained positive in every foreign G-7 country. In Japan, however, signs of recovery continued to be tentative. Industrial production and housing starts moved up moderately on average in the quarter, and the index of leading indicators remained positive. However, new machinery orders fell sharply, and labor market conditions deteriorated further through June. In western Germany, recovery apparently continued in the second quarter, with industrial production and manufacturing orders both rising. Capacity utilization moved above 80 percent for the first time since the end of 1992 but remained somewhat below its average for the past decade of 84. In the United Kingdom, preliminary data show total real GDP growth strengthened further in the second quarter, with non-oil real GDP expanding rapidly as well.

Consumer price inflation remains low in the major foreign industrial countries, particularly in Japan and Canada where the latest data show a decline in prices over the preceding twelve months. In Canada, cuts in excise taxes have contributed to the fall in prices. In Japan, the strength of the yen has helped to lower inflation below zero.

In May, the U.S. nominal trade deficit for goods and services widened slightly from the April figure: for April and May combined, the deficit was $9 billion larger, annual rate, than in the first quarter. Exports rose sharply on average in the two months, particularly exports of machinery, automotive products to Canada and Mexico, industrial supplies, and travel and transportation receipts from foreigners. Imports also rose significantly in April/May, with all major merchandise categories increasing. The quantity of oil imports in April and May averaged a bit above the first-quarter quantity; preliminary data suggest that oil consumption rose sharply in June with the onset of the driving season, likely increasing imports further

In the second quarter, prices of U.S. non-oil imports rose 3 percent at an annual rate, somewhat faster than the average over the preceding four quarters. Prices of nonagricultural exports also rose about the same percent. The price of imported oil rose more than $1 per barrel in May as supply remained roughly unchanged while oil demand increased with the pace of industrial-country activity; for April/May on average, the price of imported oil was 11 percent higher than in the first quarter. Since June, spot WTI prices have fluctuated between $18.50 and almost $21.00 per barrel, largely in response to unrest in Nigeria. Currently, spot WTI is trading at $18.55 per barrel.

Outlook

The staff projects that the growth rate of real GDP in foreign industrial and developing countries will remain strong over the forecast period, averaging 3-1/2 percent over the next six quarters, well above the projected rate of U.S. growth. We project that the dollar will remain about unchanged from recent levels. As a result real exports of goods and services will grow somewhat faster than real imports over the forecast period. With imports currently exceeding exports, the projected growth rates imply that real net exports of goods and services will fluctuate slightly but be about unchanged at the end of the forecast period from its second-quarter rate. As a consequence, real net exports will have a negligible impact on real GDP growth through the end of 1995.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain near its current level throughout the forecast period. This projection is unchanged from that in the June Greenbook. Against the currencies of key developing countries, we expect the CPI-adjusted value of the dollar to show a moderate depreciation on average through the end of the forecast period, also essentially unchanged from the June Greenbook.

Foreign industrial countries. Real GDP growth in the foreign G-7 countries (weighted by U.S. exports) is projected to average 3 percent during the remainder of this year and then to rise to 3-1/4 percent in 1995. For 1994, the growth outlook for France and the United Kingdom has been revised upward since the June Greenbook.

Real GDP growth in Japan is expected to average 1-3/4 percent, annual rate, during the last two quarters of this year and then to rise somewhat next year as domestic demand strengthens. In Germany, recovery is projected to become more firmly established, with real output growth averaging about 2-1/2 percent, annual rate, during the remaining six quarters of the forecast period, led by strong domestic fixed investment and continued growth of exports. In the

United Kingdom, output growth is expected to ease back somewhat from the very rapid pace in the second quarter but to remain strong over the forecast period. Output growth in Canada is also projected to slow a bit from the rapid pace of the first half of this year but still to average more than 3-1/2 percent, annual rate, through the end of 1995.

Consumer price inflation in the foreign G-7 countries is again projected to remain quite low over the forecast period, with a slight downward revision to the inflation outlook for the United Kingdom being the only change since the June Greenbook.[1] Average inflation for the these countries is forecast to be about 1 percent (weighted by U.S. imports) in 1994 and to rise slightly to 1-1/2 percent in 1995.

Through the end of this year, the forecast incorporates the assumption of a slight decline in short-term interest rates on average; short-term rates are expected to move up during 1995 in response to the higher projected pace of economic activity abroad. This assumed path for short-term interest rates is little changed from that in the June Greenbook.

Foreign long-term rates, on average, are expected to decline somewhat through the middle of next year and then to begin to retrace some of that decline by the end of the year as activity continues to strengthen.

Developing countries. The real GDP of developing countries that are major U.S. trading partners (weighted by bilateral nonagricultural export shares) is forecast to increase about 5 percent in both 1994 and 1995. Asian developing economies should benefit from continued strong growth in their external demand as GDP

1 Average consumer price inflation in the foreign G-7 countries continues to be forecast using west German prices.

growth in the foreign G-7 rises. Some Asian economies will also likely benefit somewhat from increased export competitiveness due to the appreciation of the yen.

Since the last Greenbook, the forecast for developing country growth in 1994 has been revised upward about 1/4 percent. The forecast for 1994 Mexican growth was revised upward 1/2 percent to reflect an expected positive revision to the 1994:Q1 growth estimate and evidence of very robust import growth, which suggests some recovery in investment demand. Growth forecasts for 1994 for Argentina and Brazil were also revised upward significantly to reflect incoming data.

U.S. real net exports. Real net exports of goods and services are expected to fluctuate a bit over the remaining six quarters of the forecast period but to be about unchanged at the end of 1995 from the rate recorded for the second quarter.

The quantity of merchandise exports is projected to be supported by the strong pace of foreign output growth. Growth of computer exports is expected to rebound from its pace in the first half of this year and to continue rapid through the end of 1995. Growth of other nonagricultural exports is projected to slow some from the projected pace in the current quarter, averaging just over 4 percent over the subsequent five quarters. Agricultural exports are projected to rebound at the end of the year and then to expand slowly in 1995.

Growth of non-oil imports other than computers is expected to slow some from the rapid pace experienced in the first half of this year and to level off at about 4 percent in 1995, as the rate of GDP growth in the United States diminishes and as the effects of the lower dollar are felt. The growth of computer imports slows a bit in the near term and then rises some in 1995.

We expect that the quantity of oil imports will increase slightly in the current quarter as U.S. stocks continue to be rebuilt. In 1995, imports are projected to resume upward trend as U.S. oil consumption continues to increase in line with economic activity.

TRADE QUANTITIES*
(percent change from end of previous period, saar)

	1993	1994 Q1	1994 Q2	1994 Q3 (Projection)	1994 Q4 (Projection)	1995 (Projection)
Merchandise exports						
Total	6.1	-3.1	12.0	10.1	7.6	8.3
Agricultural	-5.3	-23.2	7.9	2.1	14.5	1.5
Computers	23.1	16.6	6.4	23.8	21.5	28.6
Other nonag.	4.5	-4.6	13.5	8.2	3.9	4.3
Merchandise imports						
Total	13.1	10.6	19.0	7.5	4.6	7.7
Oil	10.0	-10.6	19.7	2.0	-14.2	5.3
Computers	38.3	23.4	32.7	21.5	21.5	24.7
Other non-oil	9.3	10.9	16.1	5.2	3.3	3.9

* NIPA basis, 1987 dollars.

Oil prices. Owing to the unrest in Nigeria, spot oil prices in July and early August were well above the levels anticipated at the time of the June Greenbook. Accordingly, our assumption for the oil import unit value in the current quarter has been increased $0.66 per barrel. We expect the spot price for WTI to fall to $18.50 per barrel by October, as unrest in Nigeria subsides.

Over the longer term, world oil consumption should continue to increase with gains in foreign economic activity. OPEC production is likely to increase only marginally through year-end, although in 1995 Saudi Arabian production should increase to offset gains in oil consumption. We continue to expect Iraq to remain off the world oil market through 1995, perhaps exporting in 1996. Thus, by early 1995 we anticipate a WTI price of $18.50 per barrel, consistent with an import unit value of $16.00 per barrel.

Prices of non-oil imports and exports. We expect that the prices of non-oil imports excluding computers will accelerate markedly during the second half of this year in response to the recent substantial rise of non-oil commodity prices and the lagged effect of the lower dollar. Next year, the increase in these prices will fall back to about 2 percent as the effects of these factors wane. Prices of U.S. nonagricultural exports are expected to move with U.S. producer prices, increasing about 2-1/2 percent on average over the forecast period.

SELECTED PRICE INDICATORS
(percent change from end of previous period except as noted, ar)

	1993	1994		-Projection-		
		Q1	Q2	Q3	Q4	1995
PPI (export, wts.)	0.9	1.5	3.7	5.7	2.6	2.3
Nonag. exports*	0.7	2.9	3.9	4.0	2.3	2.1
Non-oil imports*	1.3	0.5	3.3	5.6	4.8	2.1
Oil imports (Q4 level, $/bl.)	14.09	12.66	14.74	16.82	16.11	16.00

* Excluding computers.

Nominal trade and current account balances. The merchandise trade deficit is projected to increase to $180 billion (AR) by the end of 1994 and to rise a bit further in 1995. Net service receipts will continue to expand, to an annual rate of about $65 billion at the end of this year and to about $75 billion by the end of 1995. The deficit on net investment income is projected to reach about $15 billion by the end of 1995, reflecting higher interest rates and rising net indebtedness. We expect that, as a result of these developments, the current account deficit will rise to nearly $170 billion by the end of 1995, 2.3 percent of GDP.

August 12, 1994

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1991-95
(Percent change from fourth quarter to fourth quarter)

Measure and country	1991	1992	1993	Projection 1994	Projection 1995
REAL GDP					
Canada	-0.2	0.5	3.2	3.9	3.6
France	1.3	0.6	-0.5	2.8	2.7
Germany	2.2	0.7	-0.2	2.3	2.5
W. Germany	2.8	0.1	-0.8	1.6	2.3
Italy	1.8	-0.6	0.3	1.7	2.3
Japan	3.6	-0.3	-0.1	2.1	2.8
United Kingdom	-1.6	0.3	2.6	3.1	3.0
Average, weighted by 1987-89 GDP	1.7	0.1	0.5	2.5	2.8
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	2.2	1.6	2.7	3.5	3.6
G-6	0.8	0.3	1.7	3.1	3.2
Developing countries	5.0	3.9	4.6	4.8	4.8
CONSUMER PRICES					
Canada	4.1	1.8	1.8	-0.2	1.8
France	2.9	1.8	2.1	1.7	1.5
Western Germany	3.9	3.7	3.7	2.8	2.1
Italy	6.1	4.8	4.1	3.4	3.0
Japan	3.2	0.9	1.2	1.0	0.8
United Kingdom	4.2	3.1	1.6	3.0	3.7
Average, weighted by 1987-89 GDP	3.9	2.4	2.2	1.9	1.9
Average, weighted by share of U.S. non-oil imports	3.8	1.9	1.9	1.1	1.6

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U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
NIPA Real Net Exports of Goods & Services (87$)	-20.4	-13.8	-27.1	-16.9	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-54.7	-19.5	-32.3
Exports of G&S	519.0	544.0	544.8	562.6	571.0	573.1	580.5	590.7	589.2	600.2	510.5	542.6	578.8
Goods	382.2	398.5	397.9	409.8	416.0	421.5	427.4	441.1	433.9	443.3	368.9	397.1	426.5
Agricultural	34.8	34.0	35.4	37.7	38.9	38.4	40.5	41.3	39.1	39.3	35.1	35.5	39.8
Computers	38.5	40.2	42.4	44.6	47.1	52.3	56.2	60.1	60.9	62.9	33.7	41.4	53.9
Other Goods	308.9	324.3	320.1	327.5	330.0	330.8	330.7	339.8	333.9	341.1	300.1	320.2	332.8
Services	136.7	145.5	146.9	152.7	154.9	151.6	153.1	149.6	155.3	156.9	141.6	145.5	152.3
Imports of G&S	539.4	557.8	571.8	579.4	588.8	607.1	619.4	629.3	646.8	669.6	565.1	562.1	611.1
Goods	441.5	459.0	475.3	481.8	489.5	509.7	521.7	530.2	546.6	567.4	461.4	464.4	512.8
Oil	44.7	52.0	52.9	47.1	47.2	51.6	53.1	52.8	53.4	57.7	52.1	49.2	51.2
Computers	36.3	39.7	44.4	46.0	51.2	57.5	64.7	68.4	73.3	80.0	29.8	41.6	60.5
Other Goods	360.5	367.3	378.0	388.8	391.1	400.6	403.9	409.0	419.9	429.7	379.6	373.7	401.2
Services	97.9	98.7	96.5	97.6	99.3	97.4	97.7	99.0	100.1	102.2	103.7	97.7	98.3
Memo:(Percent change 1/)													
Exports of G&S	-1.1	20.7	0.6	13.7	6.1	1.5	5.3	7.2	-1.0	7.7	6.7	8.1	5.0
Agricultural	9.7	-8.9	17.5	28.6	13.4	-5.0	23.7	8.1	-19.7	2.1	-6.3	10.9	9.5
Computers	43.1	18.9	23.8	22.4	24.4	52.0	33.3	30.8	5.4	13.8	16.2	26.7	34.8
Other Goods	4.7	21.5	-5.1	9.6	3.1	1.0	-0.1	11.5	-6.8	8.9	6.0	7.2	3.8
Services	-22.7	28.3	3.9	16.8	5.9	-8.3	4.0	-8.8	16.1	4.2	9.7	4.7	-2.0
Imports of G&S	-12.2	14.4	10.4	5.4	6.6	13.0	8.4	6.5	11.6	14.9	0.4	4.0	8.6
Oil	11.5	83.1	7.1	-37.2	0.9	42.8	12.1	-2.2	4.6	36.3	-15.7	8.3	12.1
Computers	74.1	43.1	56.4	15.2	53.5	59.1	60.3	24.9	31.9	41.9	9.3	45.6	48.7
Other Goods	-17.3	7.8	12.2	11.9	2.4	10.1	3.3	5.1	11.1	9.7	0.0	2.9	5.2
Services	-21.8	3.3	-8.6	4.6	7.2	-7.4	1.2	5.4	4.5	8.7	7.9	-6.2	1.4
Current Account Balance	40.1	7.0	-46.3	-28.6	-33.4	-66.2	-74.4	-97.5	-79.4	-102.4	-91.7	-6.9	-67.9
Goods & Serv (BOP), net	-42.6	-20.7	-28.5	-22.1	-15.5	-41.5	-51.1	-53.4	-57.7	-76.3	-78.8	-28.5	-40.4
Goods (BOP), net	-75.2	-64.7	-79.0	-77.4	-72.3	-97.3	-109.4	-105.3	-116.8	-134.9	-109.0	-74.1	-96.1
Services (BOP), net	32.6	44.0	50.5	55.3	56.8	55.8	58.3	52.0	59.1	58.6	30.2	45.6	55.7
Investment Income, net	26.1	11.9	8.3	13.1	9.7	6.5	4.9	-2.9	7.4	2.7	20.7	14.8	4.5
Direct, net	63.2	53.9	48.0	56.4	50.8	51.0	47.1	42.0	54.6	50.8	55.9	55.4	47.7
Portfolio, net	-37.1	-42.0	-39.8	-43.3	-41.1	-44.5	-42.2	-44.9	-47.2	-48.1	-35.1	-40.5	-43.2
Unilateral Transfers, net	56.6	15.8	-26.1	-19.6	-27.7	-31.1	-28.2	-41.2	-29.1	-28.8	-33.7	6.7	-32.0

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

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1993		1994				1995				ANNUAL		
				Projection							Projection		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995
NIPA Real Net Exports of Goods & Services (87$)	-86.3	-82.2	-104.0	-113.4	-110.7	-107.0	-108.4	-108.3	-109.5	-110.0	-73.9	-108.8	-109.1
Exports of G&S	595.3	625.2	619.6	636.1	650.8	661.9	673.4	685.4	698.1	711.8	602.5	642.1	692.2
Goods	438.5	468.1	464.4	477.7	489.4	498.4	507.9	517.8	528.3	539.8	445.9	482.5	523.4
Agricultural	36.9	39.1	36.6	37.3	37.5	38.8	38.9	39.0	39.1	39.4	38.6	37.5	39.1
Computers	68.5	74.0	76.9	78.1	82.4	86.5	92.1	98.1	104.5	111.2	66.6	81.0	101.5
Other Goods	333.1	355.1	350.9	362.2	369.4	373.0	376.7	380.5	384.6	389.1	340.8	363.9	382.7
Services	156.7	157.1	155.2	158.4	161.4	163.5	165.5	167.6	169.8	172.0	156.5	159.6	168.7
Imports of G&S	681.6	707.4	723.6	749.5	761.4	768.9	781.8	793.7	807.6	821.7	676.3	750.9	801.2
Goods	577.1	599.9	615.2	642.5	654.3	661.6	674.1	685.6	699.0	712.5	572.8	643.4	692.8
Oil	56.7	58.1	56.5	59.1	59.4	57.2	58.5	58.8	60.0	60.2	56.5	58.0	59.4
Computers	87.8	94.6	99.7	107.0	112.3	117.9	125.1	132.3	139.5	147.1	83.9	109.2	136.0
Other Goods	432.6	447.2	458.9	476.3	482.4	486.4	490.4	494.5	499.3	505.1	432.4	476.0	497.3
Services	104.5	107.6	108.5	107.0	107.2	107.3	107.7	108.1	108.6	109.2	103.6	107.5	108.4
Memo: (Percent change 1/)													
Exports of G&S	-3.2	21.7	-3.5	11.1	9.5	7.0	7.1	7.3	7.6	8.1	5.8	5.9	7.5
Agricultural	-22.3	26.1	-23.2	7.9	2.1	14.5	1.6	1.0	1.1	2.2	-5.3	-0.8	1.5
Computers	40.7	36.2	16.6	6.4	23.8	21.5	28.6	28.6	28.6	28.6	23.1	16.9	28.6
Other Goods	-9.1	29.2	-4.6	13.5	8.2	3.9	4.0	4.1	4.4	4.7	4.5	5.0	4.3
Services	-0.5	1.0	-4.8	8.5	7.8	5.4	5.0	5.1	5.3	5.3	5.0	4.1	5.2
Imports of G&S	7.4	16.0	9.5	15.1	6.5	4.0	6.9	6.2	7.2	7.2	12.4	8.7	6.9
Oil	-6.8	10.2	-10.6	19.7	2.0	-14.2	9.4	2.1	9.0	1.0	10.0	-1.6	5.3
Computers	45.1	34.8	23.4	32.7	21.5	21.5	26.7	24.8	23.9	23.4	38.3	24.7	24.7
Other Goods	2.7	14.2	10.9	16.1	5.2	3.3	3.3	3.3	4.0	4.7	9.3	8.8	3.9
Services	9.3	12.4	3.4	-5.4	0.6	0.6	1.5	1.5	1.9	2.2	8.7	-0.3	1.8
Current Account Balance	-111.4	-122.3	-127.6	-145.5	-152.5	-162.4	-154.1	-158.1	-154.8	-167.1	-103.9	-147.0	-158.5
Goods & Serv (BOP), net	-89.0	-79.9	-97.1	-110.9	-118.9	-115.7	-116.0	-114.4	-113.3	-112.0	-75.7	-110.6	-113.9
Goods (BOP), net	-145.9	-132.7	-147.9	-169.0	-180.0	-179.4	-182.2	-183.1	-184.5	-185.9	-132.6	-169.1	-183.9
Services (BOP), net	56.9	52.8	50.8	58.1	61.1	63.7	66.1	68.7	71.2	73.8	56.8	58.4	70.0
Investment Income, net	8.1	-2.4	-1.5	-3.7	-2.6	-6.7	-6.1	-11.7	-9.5	-14.0	4.0	-3.6	-10.4
Direct, net	55.9	48.4	47.7	49.5	50.3	52.2	53.1	52.9	52.6	54.0	52.4	50.0	53.1
Portfolio, net	-47.8	-50.8	-49.2	-53.2	-52.9	-59.0	-59.2	-64.6	-62.2	-68.0	-48.5	-53.6	-63.5
Unilateral Transfers, net	-30.5	-40.1	-29.1	-31.0	-31.0	-40.0	-32.0	-32.0	-32.0	-41.0	-32.1	-32.8	-34.2

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