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Strictly Confidential (FR) Class II FOMC

June 28, 1995

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 tenor of news on the economy since the last FOMC meeting has been appreciably weaker than we had anticipated. Many key data for the current quarter are still to come, but at this juncture it is our judgment that real GDP has probably declined slightly. Moreover, the near-term prospects for output and employment growth now seem less favorable because the recent weakness in final demand appears to be necessitating a more extensive inventory correction than we previously envisioned. Thus, we are now looking for only a modest increase in economic activity in the third quarter.

By this fall, we expect that the economy will be on a more solid footing and that a moderate growth trend will be established. The prediction of a brief and relatively benign pause in the expansion is based in part on our belief that the aggregate inventory overhang is still not very large and that several important forces will sustain growth in spending--even in the face of a restrictive fiscal policy. Those forces include the developments in the capital markets since last fall: Bond yields have reversed most of their 1993-94 run-up, and the stock market has rallied strongly; both factors should bolster private demand in coming quarters. In addition, we expect that foreign economic growth, though disappointing of late, will be sufficient to restore a brisk uptrend in exports, particularly because this year's dollar depreciation has left U.S. industry in a very favorable competitive position.

Owing to the current weakness of the economy, inflationary pressures are likely to be more subdued than previously projected. Falling capacity utilization has already led to a softening in some materials prices, and the concerns of workers and managers regarding the outlook for business activity are probably helping to put a damper on wage gains. As in recent Greenbooks, we expect that price increases will slow in the second half of this year, but--in contrast to earlier projections--we are now looking for core CPI inflation to edge back below 3 percent in 1996, as the unemployment rate runs just above 6 percent.

Key Assumptions

The features of the prospective fiscal landscape remain unclear in many respects. The GOP leadership has now agreed on the terms of the congressional budget resolution, aimed at balance in fiscal year 2002. The President has also offered a multiyear plan to achieve a balanced budget, but with a longer timetable and with much milder actions (based on a more favorable baseline). It is thus far from certain that, in the end, after the painful specifics are addressed, the program enacted will call for quite the degree of near-term deficit reduction that is contemplated by the conference committee report; moreover, precedents abound for actual budget savings falling short of those anticipated in legislation. All things considered, we have raised our assumption of the deficit cut in fiscal year 1996 from $20 billion to $30 billion, and we have retained a further $25 billion reduction in fiscal 1997. While we have kept our earlier assumptions of a modest "middle class" tax cut and noticeable reductions in medical spending, we have deepened the cuts in nondefense purchases and in grants to state and local governments.[1] In sum, we have incorporated a fiscal path that

1. Our assumptions depart from the proposed budget resolution by, among other things, failing to include a tax cut on capital gains. This reduces our overall estimate of deficit reduction in fiscal 1996 by around $10 billion because we miss the revenue "windfall" projected to be collected from taxpayers who shift forward the timing of their realizations. On balance, we would not expect such shifts to have significant effects on aggregate demand.

will impose some restraint on aggregate demand but that will also leave plenty of room for continued skepticism on the part of financial market participants regarding the ultimate achievement of budgetary balance.

Despite this skepticism, the perception that the odds of major deficit reduction have risen undoubtedly has contributed to the recent bond rally; because the legislative issues will probably not be resolved until well into the fall, the ongoing negotiations may well be a source of market volatility in the months ahead. However, a more important influence on the bond market recently has been the weakness of the economy and anticipations of Federal Reserve easing. On our assumption that the federal funds rate will be held at 6 percent for some time, those expectations will be disappointed. And, as signs of a pickup in economic activity materialize in coming months, we expect that bond yields will experience further upward pressure. Thus, we are projecting that intermediate- and long-term rates will rise appreciably by year-end.

Looking to 1996, however, we believe that the movement toward smaller structural deficits points, ceteris paribus, to a reduction in equilibrium real rates of interest over time, and we therefore have built a downward tilt into our funds rate path. This decline in rates, though, should not be interpreted as implying any impetus to aggregate demand. Long-term rates should benefit from the decline in short rates, as well as from the relatively moderate inflation. In addition, we still expect that banks and other creditors will tend to move toward less aggressive lending postures--gradually removing what has been a source of effective financial stimulus over the past couple of years.

For the external sector, the foreign exchange value of the dollar against other G-10 currencies is expected to rise slightly in the near term along with U.S. interest rates and to remain little changed thereafter. Economic growth in two of our major trading partners, Japan and Canada, appears to have been considerably weaker than anticipated earlier. As a result, foreign real GDP has probably decelerated sharply, from 4-1/2 percent during 1994 to less than 2 percent (annual rate) during the first half of this year. We expect growth abroad to rebound during the second half and to average 3-1/2 percent during 1996. A final change in our assumptions relating to the external sector is a postponement in the return of Iraqi crude oil to the world market. Although oil prices have come in unexpectedly low of late, we assume that they will rise to $19.50 per barrel in 1996--$1 per barrel above the level in the May Greenbook.

The Second-Quarter Forecast

Since the May Greenbook was prepared, the incoming information on both employment and spending has been noticeably weaker than expected. The substantial gaps in the available expenditure data at this point make it possible to construct a case for a modestly positive current-quarter GDP change--as many, if not most, private forecasters have done. But, as we see it, the appreciable decline in industrial output since February, a two-month decline in nonfarm payrolls, a sizable drop in hours worked, and a substantial rise in initial claims for unemployment compensation argue for a weaker outcome. We are predicting a dip in real GDP of 1/2 percent at an annual rate.

Final sales are now expected to grow at only a 1-1/4 percent annual rate during the second quarter, with household spending a notable area of weakness. Much of the shortfall from our previous forecast has developed in personal consumption expenditures. Because of sluggish retail sales through May, we are now looking for growth in real consumer spending to slip a bit further in the second quarter, to about a 1-1/2 percent annual rate. In addition to the slump in sales of motor vehicles and the sharp slowing in outlays for home goods, the recent data show a surprising downturn in spending on nondurables. With housing starts remaining in the doldrums through May, we continue to expect declining outlays for residential building to exert a big drag on second-quarter GDP.

Government purchases are now projected to decline slightly this quarter. Construction data for April point to some pickup in state and local purchases, after very weak growth in purchases earlier this year. However, this rise is expected to be offset by a sizable drop in purchases at the federal level--especially for defense.

The available indicators for business fixed investment are consistent with the moderation that we had been anticipating in the current quarter--although growth is still forecast at close to a 10 percent annual rate. For producers' durable equipment, figures on domestic shipments and merchandise trade suggest that real investment in computers will post a huge advance, but outlays for other equipment look soft, and sales of motor vehicles to businesses are down. Meanwhile, the signs are that nonresidential construction has remained on a solid uptrend.

The trade deficit for April was surprisingly large. However, our assessment of the underlying trends and our belief that the negative effects from the Mexican crisis should be ebbing have led us to assume a narrowing of the trade gap in the May-June period, resulting in essentially no change from our earlier projection of a small decline in real net exports for the second quarter.

Our projection foresees a substantial slowing in the pace of inventory accumulation--from \$52 billion (annual rate) in the first quarter to \$29 billion in the second. We are anticipating that the reductions in motor vehicle assemblies in recent months left dealer stocks of light motor vehicles little changed over the quarter. Outside of motor vehicles, manufacturing and trade inventories did grow a bit less rapidly on a book-value basis in April than, on average, in the first quarter, and production cutbacks suggest some further slowing during May. The recent deceleration in shorter-term business credit may also be a sign of a reduction in inventory accumulation, although the shift to longer-term debt issuance could be distorting that relationship.

As anticipated, the pace of inflation has picked up in 1995, and the rise in the CPI excluding food and energy will likely average about 3-1/2 percent for the first half, up from 2-3/4 percent last year. The adverse effects of higher materials costs and rising prices of non-oil imports have shown through in some areas, but labor costs remain under control. Average hourly earnings in May retraced some of the run-up that was recorded in April; basically, wage inflation as measured by this series has been moving sideways so far this year, in line with anecdotal evidence in the Beige Book and elsewhere.

The Outlook for the Second Half of 1995 and for 1996

The central question at this point is whether the recent hesitation in economic activity is just another of the mid-cycle dips that have characterized postwar expansions, or whether it marks the first stage of a true recession. The recent sequences of monthly declines in employment, industrial production, and the leading indicators obviously conjure up notions of recession. But the behavior of other variables argues against a full-fledged cyclical downturn--for example, the persistent climb in the stock market and the still upward-sloping Treasury yield curve.

The predominant view of outside forecasters is that the recent weakness will turn out to be only a brief pause. Indeed, some see it as a pause that will refresh and set the stage for a resumption of above-trend growth in real GDP through 1996--with inflation and interest rates moving to appreciably higher levels than we are anticipating. As noted earlier, we subscribe to the view that this is not a recession; but, at the same time, we do not see robust growth in the cards over the forecast period, absent a substantial near-term easing of monetary policy.

This is not to say, however, that the probability of at least a modest recession is negligible. In particular, we sense that the manufacturing sector is entering the third quarter with little, if any, upward thrust, and under the circumstances, the current inventory adjustment conceivably could involve a more serious destruction of jobs and income than we are anticipating. The Conference Board consumer confidence index for June, released yesterday, while still fairly high, was off sharply from the month earlier and could be signaling an incipient erosion of household sentiment. And should businesses become sufficiently worried about the prospects for sales that they decide to put their capital spending plans on hold, they could undermine one of the major drivers of the expansion.

At this point, though, we believe it more likely that neither household nor business demand will collapse. The marked decline in intermediate- and long-term interest rates since late last year has lowered the cost of borrowing and created opportunities for households and firms to improve their balance sheets. The rise in stock prices likewise should help buoy demand. These developments bode well for a near-term step-up in homebuilding--which, in turn, should bolster spending on consumer durables--and for the sustained rise of spending on plant and equipment. Growth should pick up abroad, generating a brisk demand for U.S. exports, although our propensity to import will inhibit any meaningful improvement in our current account. The government sector will remain a drag on demand, but the lift to final sales from these other sectors should be sufficient to accommodate the further adjustment of inventories without another quarter of declining GDP. And a few months from now, once that inventory adjustment is behind us, the momentum of expansion should be restored.

SUMMARY OF STAFF REAL GDP PROJECTION
(Percent change, at annual rates)

	1995				
	Q1	Q2	Q3	Q4	1996
Real GDP	2.7	-.5	1.1	3.4	2.2
Previous	2.8	.9	1.9	2.8	2.4
Final sales	2.5	1.3	3.0	2.3	2.2
Previous	1.8	2.1	3.4	2.4	2.5
Personal consumption expenditures	1.8	1.6	2.1	2.0	2.1
Previous	1.4	2.3	3.0	2.1	2.1
Business fixed investment	20.7	9.8	7.2	2.9	4.8
Previous	19.3	10.4	9.7	6.1	5.3
Residential investment	-2.6	-18.6	-.4	8.7	3.6
Previous	-6.6	-17.9	-.6	3.8	2.8
Government purchases	-1.2	-.9	1.1	-.6	-1.3
Previous	-1.6	.9	-.2	-1.2	-.1

Personal consumption expenditures. We might be more confident about the projection for PCE were we able to pinpoint more clearly why spending has fallen short of expectations thus far this year. The list of possible culprits is by now familiar: the exhaustion of pent-up demands, the secondary effects of the decline in homebuilding, the perceived run-up in the price of motor vehicles, the first-quarter delay in tax refunds and the second-quarter surge in tax payments, higher consumer loan rates, rising household debt burdens, and, very recently, the slippage in job prospects and labor income. We would rule out none of these factors as having played a role recently, but we expect enough of them will turn around to generate a modest step-up in the pace of spending in the period ahead.

For durables, we certainly would not expect to see a marked resurgence of spending to rates that prevailed in the past couple of years; at that time, rapidly growing employment had restored consumer confidence, and households proceeded to catch up on big-ticket purchases they had forgone during the recession and slow early recovery. However, the stock of motor vehicles is old, and replacement demand could be substantial; if nothing else, automakers probably will employ incentives aggressively enough in the near term to keep sales of cars and light trucks close to the improved pace recorded in May--that is, a little under 15 million units at an annual rate. If, as we anticipate, home sales rise in the coming months, demand for appliances and furnishings should strengthen. And, the desire to upgrade to new and better home electronics likely will remain strong.

Regarding financial conditions, the decline in mortgage rates has spawned another spate of refinancings; although our assumed interest rate path should not produce a refinancing wave of the dimensions seen earlier in this cycle, a sizable number of households should be able to cut their payment obligations a bit or at least eliminate interest-rate risks that may be a source of discomfort. At the same time, many households have enjoyed hefty capital gains on investments in stocks and bonds this year or are receiving increased interest income from their money funds or short-term deposits. We believe that these factors should more than outweigh any drag on spending associated with the rise in household debt service burdens that is occurring.

Overall, we are projecting moderate growth in real personal consumption expenditures over the next six quarters, averaging about 2 percent at an annual rate. Even this rather subdued pace of spending involves a slight decline in the personal saving rate, which is attributable in part to the favorable financial factors noted above. The lower saving rate also reflects our expectation that some households affected by the assumed reductions in federal transfer payments will not cut their spending commensurately, at least in the short run.[2]

Residential investment. Housing starts have drifted sideways over the past few months, as have home sales, but there are signs that an upturn in these series is at hand. Housing affordability is again close to the most favorable levels of this cycle, and mortgage applications, consumers' perceptions of buying conditions, and builders' views of sales prospects are all pointing in a positive direction. Although the overhang of unsold single-family units may damp builder enthusiasm a bit, this should be only a mild impediment to a pickup in construction as sales begin to rise.

Our expectation is that housing starts will trend upward over the forecast period, with much of the advance occurring in the next several months. Single-family starts, which averaged just 980,000 (annual rate) in recent months, are projected to climb to 1.07 million units by this fall. The projected backup in longer-term

2. Obviously, much will depend in this regard on the specifics of the programmatic changes. One can envision, for example, cuts in the Medicaid program that would result in almost one-for-one reductions in the use of medical services; but one can also envision changes in the Medicare program (such as higher payments by upper-income beneficiaries) that might instead involve reduced personal saving (and ultimately smaller bequests). This suggests a good deal of uncertainty--but there clearly are more crucial uncertainties in our forecast.

interest rates limits the further advance in 1996. At 1.1 million units in 1996, single-family starts would be well short of the 1.2 million registered in 1994, but it would be a healthy pace by historical standards. We continue to view the demographic trends as providing support to this segment of the market, with homeownership rates still running relatively low among those in their twenties through mid-forties.

Rental markets for multifamily units, on the whole, continue to improve. The faster rate of job growth last year appears to have spurred household formation, and we suspect that many of these new households occupied apartment units, helping to absorb oncoming supply and trimming overall rental vacancy rates a bit. We foresee a gradual rise in multifamily starts into 1996, although the level is expected to remain relatively low.

Business fixed investment. The dynamic element in the BFI outlook is equipment spending, which accounts for about four-fifths of the total. The recent zigzag pattern of orders for nondefense capital goods can be interpreted variously: Viewed narrowly, the data may be indicating a flattening of demand; from a broader perspective, they are still fluctuating around a solid uptrend, with backlogs rising. We have leaned toward the more positive reading at this point, although, as noted earlier, we recognize the risks of a sharper cyclical retrenchment in investment. We think that the fundamentals, on balance, suggest that growth in equipment spending should be moderating from the brisk pace of the past few years, but not stalling out.

With sales and output growth slowing and capacity utilization falling, "accelerator" effects are turning negative. Profits probably have declined since the first quarter, and businesses will find it difficult to rebuild margins in an environment of only moderate growth in volume; slower growth of cash flow is now necessitating a substantial use of external funds to cover capital expenditures. On the plus side, though, the decline in interest rates has reduced the cost of long-term capital. Moreover, external financing is still readily available, even for firms with ratings that are less than prime. Many businesses are taking advantage of the lower bond yields to fund out shorter-term debt acquired over the past year and a half--thereby enhancing balance sheet liquidity.

We are forecasting that growth of real PDE will slow from a 10 percent rate this quarter to a 2-1/2 percent rate in the fourth quarter and then average 5 percent during 1996--a pattern broadly consistent with the effects of the accelerator and interest rates. Computer outlays should account for the bulk of this growth, with further impetus from the ongoing declines in the user cost of such capital goods and from the introduction of attractive new technologies.

For nonresidential structures, trends in contracts and permits remain quite positive, but we are expecting a moderation in the pace of expenditure growth over the next few quarters. The indications are that prices of properties are firming and that financing has become more readily available. Nonetheless, the economics of office construction, though improved, are not favorable enough to support a surge in new projects. Moreover, retail space is abundant, and the decline in factory capacity utilization will likely curb the desire to build new facilities (outside of a few relatively rapidly growing industries, such as semiconductors).

Government purchases. Under our revised set of fiscal policy assumptions, real federal government purchases fall faster in 1996 than in 1995. Nondefense purchases are slated for cuts totaling about 10-1/4 percent over the four quarters of 1996 after having dropped 3-1/4 percent during 1995. Defense purchases are expected to decline 4-1/2 percent in both years.

Our projections for the federal deficit have been adjusted to reflect the larger cuts in outlays as well as lower receipts resulting from the weaker pace of economic activity. On a unified basis, the federal deficit in fiscal year 1995 is expected to be $159 billion. It is projected to increase to $194 billion in fiscal 1996. Although changes in economic assumptions led to lower estimates of receipts in fiscal 1996 than in the last forecast, these changes were offset by lower estimated interest payments and the additional outlay restraint.

In addition to deeper cuts in federal nondefense purchases, the fiscal package we are now assuming entails significantly larger reductions in grants to state and local governments than we previously anticipated. These jurisdictions are also expected to feel the effects of slower economic growth on their tax receipts. Although pressures to maintain or increase public services are likely to be strong, opposition to tax hikes also is intense. Therefore, states and localities will have little choice but to curtail some programs, and we have lowered the projected rise in real state and local government purchases to just 1-1/2 percent in 1996 from the moderate 2-1/4 percent gain shown in the last forecast.

Net exports. As foreign economic activity begins to regain some momentum later this year, the effects of the recent depreciation of the dollar are projected to show through more clearly in rising U.S. exports. In 1996, real exports of goods and services are expected to rise a brisk 9 percent. After slowing substantially in the near term from last year's almost 14 percent increase, imports in 1996 rise 6-3/4 percent. (More detail on the staff projections for exports and imports of goods and services is contained in the International Developments section of the Greenbook.)

Inventory investment. The movements in inventory investment are key to the nearer-term variations in projected GDP growth. The current inventory correction is expected to continue in the third quarter, with a reduction in stockbuilding of roughly the same magnitude as during the second quarter; the result is to subtract another 1-3/4 percentage points (annual rate) from GDP growth in the third quarter. We are expecting motor vehicle assemblies to fall well short of the plans initially announced by the manufacturers; dealer stocks should be reduced to comfortable levels by the end of the summer. Non-auto inventory investment, while remaining positive, is projected to drop below the growth of final sales in the third quarter as stocks are realigned in a number of sectors.

Inventory accumulation returns to a moderate rate in the fourth quarter; the swing adds about 1 percentage point to projected growth of real GDP. Inventories are essentially a neutral factor in the overall output projection for 1996. The economy will be operating at a level high enough for firms in some sectors to remain concerned about hedging against stock-outs, but, by and large, we anticipate that trends toward more streamlined operations will reassert themselves and keep aggregate inventory-sales ratios from turning up anew.

Labor markets. Although we find it difficult to square the drop in nonfarm payrolls last month with other labor market indicators, we perceive that businesses are responding fairly quickly to the signs of slackening sales and rising inventories, cutting back both weekly hours and hiring. Thus, we think that labor productivity probably will decline only a little, on net, in the middle quarters of 1995.

The recent level of initial claims appears consistent with rather slow growth in employment, but we think that the five-week period between surveys may boost the reported June payroll gain to 150,000 or so. After that, we are projecting that the increases will average only around 85,000 per month during the third quarter. Hiring should then pick up some, although employers' first response to the acceleration of activity later this year should be to restore productivity, limiting the need for additional labor. In 1996, monthly changes in payroll jobs are projected to average just over 100,000 per month--less than half the 1994 pace.

STAFF LABOR MARKET PROJECTIONS

	1995				
	Q1	Q2	Q3	Q4	1996
Unemployment rate[1]	5.5	5.8	6.0	6.0	6.1
Previous	...	5.7	5.7	5.8	5.8
Change in payroll employment[2]	2.6	.7	.7	1.5	1.0
Previous	2.8	1.4	1.5	1.2	1.3
Nonfarm business productivity[2]	2.7	.3	-.5	2.1	1.3
Previous	.7	-.7	1.0	2.1	1.5

1. Percent.
2. Percent change; annual rate.

A less robust labor market in the near term likely will tend to damp the rise in labor force participation, which still appears to be below trend. Nonetheless, we expect that the unemployment rate will spurt to 6 percent this summer and then generally hover just above that mark in 1996.

Prices and wages. With unemployment rising and with factory utilization retreating to around its long-term average, the odds of a significant rise in inflation have dwindled. In fact, we expect that the acceleration in the CPI excluding food and energy observed thus far this year will reverse and that the core rate will edge back below 3 percent through 1996. Some higher costs of materials are probably still passing through the pipeline to the finished goods level, but that process should be abating soon. Moreover, the recent decline in crude oil prices is expected to keep domestic energy prices rising only slowly into the fall. With the anticipated stability of the dollar, the pressures associated with rising non-oil import prices also should be easing in coming months.

STAFF INFLATION PROJECTIONS
(Percent change, annual rate)

		1995			
	1994	Q1	Q2	H2	1996
Consumer price index	2.6	3.2	3.5	2.9	2.9
Previous	...	...	3.6	3.0	3.0
Excluding food and energy	2.8	3.3	3.6	3.0	2.9
Previous	...	...	3.6	3.0	3.1
ECI for compensation of private industry workers	3.1	2.3	3.4	3.2	3.2
Previous	...	...	3.4	3.3	3.4

In 1996, both the total CPI and the index excluding food and energy are projected to rise 2.9 percent. Consumer energy prices are anticipated to increase slightly faster than core inflation as the price of crude oil moves back up from its recent lows and stabilizes at the higher level now assumed for next year. But food price inflation is still expected to remain relatively moderate; grain prices may well rise this year as a result of weather-related crop losses, but the increases are not large enough to override other factors--such as labor costs--that are working to produce a quite moderate increase in retail food prices.

Contributing to the likelihood of a slowing in price inflation is the favorable behavior of trend unit labor costs. As noted earlier, wage inflation has remained in check thus far, even as the labor markets have tightened. And total compensation rates have been tempered by the decline in health insurance premiums and by other benefits savings. Although we have lowered our compensation forecast in light of the upward revision to our unemployment projection, we do still expect that pay rates will accelerate a bit over the next few quarters. Employers may find it difficult to continue cutting benefit costs to the degree they have been--for example, they can switch only once to managed care programs. Moreover, in what is still a relatively fully employed economy, we think that workers will be able to capture a good share of the gains from increased labor productivity.

Thus, we are projecting that the employment cost index for private industry will bounce back from its below-trend first-quarter pace and rise at an average rate of about 3-1/4 percent over the ensuing seven quarters. Measured against the pace of CPI inflation, this represents only a small gain in real "consumption" wages, but based on the rise in the GDP deflator, real "product" wages are projected to rise about 1 percent.

Alternative Simulations

This month, we have run a set of simulations using the Board's quarterly econometric model based on alternative paths for the federal funds rate. In these scenarios, the federal funds rate is gradually raised or lowered 75 basis points by the first quarter of 1996 and then held unchanged thereafter. As can be seen in the table, neither scenario has perceptible effects this year on the growth of real GDP, the level of the civilian unemployment rate, or the rate of core inflation. Over the four quarters of 1996, however, the lower path for the funds rate--which is probably consistent with one implied currently by forward rates--would add 1/2 percent to real GDP, thereby reducing the unemployment rate about 1/4 percentage point by the end of the year. Under that scenario, however, less progress is made in restoring a downward trend in the CPI less food and energy. The results for the higher funds rate path are symmetrical.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Real GDP			
Baseline	4.1	1.7	2.2
Higher funds rate	...	1.7	1.7
Lower funds rate	...	1.7	2.7
Civilian unemployment rate[1]			
Baseline	5.6	6.0	6.1
Higher funds rate	...	6.0	6.3
Lower funds rate	...	6.0	5.9
CPI excluding food and energy			
Baseline	2.8	3.2	2.9
Higher funds rate	...	3.2	2.8
Lower funds rate	...	3.2	3.0

1. Average for the fourth quarter.

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

Interval	Nominal GDP 5/17/95	Nominal GDP 6/28/95	Real GDP 5/17/95	Real GDP 6/28/95	GDP fixed-weight price index 5/17/95	GDP fixed-weight price index 6/28/95	Consumer price index[1] 5/17/95	Consumer price index[1] 6/28/95	Unemployment rate (level except as noted) 5/17/95	Unemployment rate (level except as noted) 6/28/95
ANNUAL										
1992[2]	5.2	5.2	2.3	2.3	3.2	3.2	3.0	3.0	7.4	7.4
1993[2]	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994[2]	6.2	6.2	4.1	4.1	2.7	2.7	2.6	2.6	6.1	6.1
1995	5.2	4.8	3.0	2.6	3.0	2.9	3.1	3.1	5.7	5.8
1996	4.8	4.5	2.3	2.1	2.9	2.8	3.0	2.9	5.8	6.1
QUARTERLY										
1993 Q1[2]	4.4	4.4	1.2	1.2	4.2	4.2	3.1	3.1	7.0	7.0
Q2[2]	4.2	4.2	2.4	2.4	2.4	2.4	2.8	2.8	7.0	7.0
Q3[2]	3.8	3.8	2.7	2.7	2.0	2.0	1.7	1.7	6.7	6.7
Q4[2]	7.7	7.7	6.3	6.3	2.4	2.4	3.4	3.4	6.5	6.5
1994 Q1[2]	6.1	6.1	3.3	3.3	3.1	3.1	2.2	2.2	6.6	6.6
Q2[2]	7.2	7.2	4.1	4.1	2.9	2.9	2.5	2.5	6.2	6.2
Q3[2]	6.2	6.2	4.0	4.0	3.0	3.0	3.6	3.6	6.0	6.0
Q4[2]	6.4	6.4	5.1	5.1	2.6	2.6	2.2	2.2	5.6	5.6
1995 Q1[2]	5.1	4.9	2.8	2.7	3.1	3.3	3.2	3.2	5.5	5.5
Q2	3.5	1.7	.9	-.5	2.9	2.7	3.6	3.5	5.7	5.8
Q3	4.5	3.9	1.9	1.1	3.0	3.1	3.2	2.8	5.7	6.0
Q4	5.3	5.8	2.8	3.4	2.9	2.8	2.8	2.9	5.8	6.0
1996 Q1	4.8	4.6	2.1	2.1	3.2	3.0	2.9	3.1	5.8	6.0
Q2	4.8	4.4	2.4	2.1	2.8	2.7	3.0	2.9	5.8	6.1
Q3	4.9	4.5	2.5	2.3	2.8	2.7	3.0	2.8	5.8	6.1
Q4	4.8	4.6	2.4	2.4	2.8	2.7	3.0	2.8	5.8	6.1
TWO-QUARTER[3]										
1993 Q2[2]	4.3	4.3	1.8	1.8	3.3	3.3	3.0	3.0	-.3	-.3
Q4[2]	5.7	5.7	4.5	4.5	2.2	2.2	2.5	2.5	-.5	-.5
1994 Q2[2]	6.6	6.6	3.7	3.7	3.0	3.0	2.3	2.3	-.3	-.3
Q4[2]	6.3	6.3	4.6	4.6	2.8	2.8	2.9	2.9	-.6	-.6
1995 Q2	4.3	3.3	1.8	1.1	3.0	2.9	3.3	3.3	.1	.2
Q4	4.9	4.8	2.3	2.2	2.9	2.9	3.0	2.8	.1	.2
1996 Q2	4.8	4.5	2.3	2.1	3.0	2.8	2.9	3.0	0	.1
Q4	4.8	4.6	2.5	2.3	2.8	2.7	3.0	2.8	0	0
FOUR-QUARTER[4]										
1992 Q4[2]	6.4	6.4	3.7	3.7	3.2	3.2	3.1	3.1	.3	.3
1993 Q4[2]	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4[2]	6.5	6.5	4.1	4.1	2.9	2.9	2.6	2.6	-.9	-.9
1995 Q4	4.6	4.1	2.1	1.7	3.0	2.9	3.1	3.0	.2	.4
1996 Q4	4.8	4.5	2.4	2.2	2.9	2.8	3.0	2.9	0	.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.

Strictly Confidential (FR)
Class II FOMC

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

June 28, 1995

Item	Unit[1]	1988	1989	1990	1991	1992	1993	1994	Projected 1995	Projected 1996
EXPENDITURES										
Nominal GDP	Bill. $	4900.4	5250.8	5546.1	5724.8	6020.2	6343.3	6738.4	7060.7	7379.1
Real GDP	Bill. 87$	4718.6	4838.0	4897.3	4867.6	4979.3	5134.5	5344.0	5483.7	5599.8
Real GDP	% change	3.3	1.6	.2	.3	3.7	3.1	4.1	1.7	2.2
Gross domestic purchases		2.5	.9	-.4	-.1	4.1	3.9	4.5	1.7	2.1
Final sales		4.2	1.5	1.2	-.4	3.8	3.0	3.4	2.2	2.2
Private dom. final purch.		4.2	.5	-.1	-.8	5.1	5.0	4.9	2.9	2.6
Personal cons. expend.		4.2	1.2	.7	.0	4.2	3.0	3.5	1.9	2.1
Durables		8.5	-.5	-.8	-1.3	9.6	9.0	8.6	-.3	2.0
Nondurables		3.2	1.2	-.1	-1.6	3.2	1.3	3.1	1.7	1.8
Services		3.7	1.7	1.7	1.2	3.5	2.5	2.4	2.7	2.3
Business fixed invest.		5.5	-.4	.7	-6.2	6.7	16.0	12.9	10.0	4.8
Producers' dur. equip.		9.1	-1.7	2.9	-3.2	11.0	21.3	15.5	10.3	5.1
Nonres. structures		-1.2	2.3	-3.9	-12.4	-3.4	1.6	4.6	8.6	4.0
Res. structures		.9	-7.7	-15.2	.7	17.0	8.1	3.1	-3.7	3.6
Exports		13.5	11.3	6.7	8.1	5.0	5.8	11.6	4.8	9.1
Imports		3.6	2.6	.4	4.0	8.6	12.4	13.8	5.0	6.8
Government purchases		.2	2.0	3.3	-.8	.7	-1.0	-1.0	-.4	-1.3
Federal		-3.4	-.6	2.8	-3.2	.8	-6.9	-5.9	-4.0	-6.4
Defense		-3.2	-1.5	1.5	-7.0	-1.3	-9.0	-8.2	-4.4	-4.5
State and local		2.9	4.0	3.6	.8	.6	3.0	2.0	1.6	1.4
Change in bus. invent.	Bill. 87$	19.9	29.8	5.7	-1.1	2.5	15.3	47.8	25.7	24.9
Nonfarm		26.9	29.9	3.2	-1.3	-2.0	18.5	40.7	25.2	21.9
Net exports		-104.0	-73.7	-54.7	-19.5	-32.3	-73.9	-110.0	-118.3	-111.3
Nominal GDP	% change	7.7	6.0	4.7	3.5	6.4	5.0	6.5	4.1	4.5
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	105.2	107.9	109.4	108.3	108.6	110.7	114.0	116.4	117.7
Unemployment rate	%	5.5	5.3	5.5	6.7	7.4	6.8	6.1	5.8	6.1
Industrial prod. index	% change	3.2	-.1	-.2	.2	4.0	3.6	6.0	1.0	3.0
Capacity util. rate-mfg.	%	83.6	83.2	81.3	78.0	79.2	80.9	83.4	82.9	81.4
Housing starts	Millions	1.49	1.38	1.19	1.01	1.20	1.29	1.46	1.31	1.40
Light Motor Vehicle Sales		15.43	14.53	13.85	12.31	12.80	13.89	15.07	14.59	14.61
Auto sales in U.S.		10.63	9.91	9.50	8.39	8.35	8.72	9.24	8.76	8.69
North American prod.		7.54	7.08	6.90	6.14	6.26	6.75	7.28	7.06	7.06
Other		3.10	2.83	2.60	2.25	2.10	1.97	1.96	1.69	1.63
INCOME AND SAVING										
Nominal GNP	Bill. $	4908.2	5266.8	5567.8	5740.8	6025.8	6347.8	6726.9	7033.0	7344.1
Nominal GNP	% change	7.8	6.1	4.9	3.2	6.1	5.0	6.1	4.0	4.5
Nominal personal income		7.1	6.5	6.5	3.7	8.1	2.8	6.8	5.0	4.5
Real disposable income		3.2	1.1	1.1	.9	5.0	.5	4.4	2.1	1.8
Personal saving rate	%	4.4	4.0	4.2	5.0	5.5	4.1	4.1	4.7	4.5
Corp. profits, IVA&CCAdj	% change	10.2	-6.3	2.3	8.8	9.6	23.4	4.9	.6	5.8
Profit share of GNP	%	7.4	6.9	6.8	6.8	6.7	7.7	8.1	7.9	7.9
Federal surpl./def.	Bill. $	-136.6	-122.3	-163.5	-202.9	-282.7	-241.4	-159.1	-160.6	-150.1
State/local surpl./def.		38.4	44.8	25.1	17.0	24.8	26.3	26.2	25.0	25.6
Ex. social ins. funds		-18.4	-17.5	-35.6	-46.5	-41.6	-40.0	-39.3	-39.7	-38.5
PRICES AND COSTS										
GDP implicit deflator	% change	4.2	4.4	4.5	3.3	2.6	1.8	2.3	2.4	2.2
GDP fixed-wt. price index		4.2	4.4	4.6	3.6	3.2	2.8	2.9	2.9	2.8
Gross domestic purchases fixed-wt. price index		4.1	4.4	5.2	2.9	3.2	2.5	2.9	2.9	2.8
CPI		4.3	4.6	6.3	3.0	3.1	2.7	2.6	3.0	2.9
Ex. food and energy		4.5	4.4	5.3	4.4	3.5	3.1	2.8	3.2	2.9
ECI, hourly compensation[2]		4.8	4.8	4.6	4.4	3.5	3.6	3.1	3.0	3.2
Nonfarm business sector										
Output per hour		.5	-1.4	.4	2.3	3.1	1.3	1.8	1.1	1.3
Compensation per hour		3.8	3.1	6.2	4.7	5.1	1.9	3.2	3.3	3.3
Unit labor cost		3.3	4.6	5.7	2.3	1.9	.5	1.4	2.1	2.0

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

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

June 28, 1995

Item	Unit	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2
EXPENDITURES											
Nominal GDP	Bill $	5896.8	5971.3	6043.6	6169.3	6235.9	6299.9	6359.2	6478.1	6574.7	6689.9
Real GDP	Bill 87$	4918.5	4947.5	4990.5	5060.7	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1
Real GDP	% change	3.1	2.4	3.5	5.7	1.2	2.4	2.7	6.3	3.3	4.1
Gross domestic purchases		3.2	3.7	3.9	5.7	2.7	3.3	4.0	5.8	5.0	4.6
Final sales		4.8	1.5	3.5	5.6	.2	2.4	3.2	6.4	2.2	1.5
Private dom. final purch		5.7	4.2	3.9	6.7	3.5	3.7	5.3	7.4	5.8	2.7
Personal cons expend		5.8	1.7	3.9	5.6	1.6	2.6	3.9	4.0	4.7	1.3
Durables		15.5	.4	10.0	13.2	3.2	9.8	7.7	15.5	8.8	.4
Nondurables		4.2	-.7	2.7	6.9	-1.6	1.6	2.8	2.4	3.8	2.2
Services		4.5	3.4	3.2	3.0	3.1	1.4	3.6	2.0	4.0	1.1
Business fixed invest		-.1	15.0	5.0	7.5	15.1	15.6	12.2	21.1	10.9	9.2
Producers' dur equip		-1.3	22.7	11.0	12.9	20.0	21.6	16.2	27.5	18.6	6.1
Nonres structures		2.9	-1.6	8.9	-5.5	2.5	.3	.5	3.3	-11.8	20.6
Res structures		22.4	22.7	.8	23.8	5.3	-7.6	9.4	28.2	10.0	7.0
Exports		6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6
Imports		6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9
Government purchases		1.5	-3.0	3.4	.9	-5.9	1.2	1.1	-.1	-4.9	-1.2
Federal		-1.3	-4.8	8.6	1.1	-15.4	.6	-3.0	-5.0	-10.3	-7.9
Defense		-7.2	-5.1	11.5	-3.3	-20.0	-2.2	-9.2	-3.6	-16.0	-4.1
State and local		3.3	-1.8	.1	.8	.9	4.4	3.7	2.9	-1.4	2.9
Change in bus. invent	Bill 87$	-6.3	4.2	5.2	6.6	18.5	18.9	13.0	10.8	25.4	59.2
Nonfarm		-14.3	-1.9	1.8	6.3	19.7	22.8	20.9	10.7	22.1	51.7
Net exports		-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8
Nominal GDP	% change	7.1	5.2	4.9	8.6	4.4	4.2	3.8	7.7	6.1	7.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.1	108.4	108.7	109.1	109.7	110.4	111.0	111.8	112.7	113.6
Unemployment rate[1]	%	7.3	7.5	7.5	7.3	7.0	7.0	6.7	6.5	6.6	6.2
Industrial prod. index	% change	.9	5.8	3.4	6.2	5.1	.7	3.3	5.3	7.1	6.0
Capacity util rate-mfg.[1]	%	78.4	79.1	79.4	80.1	80.8	80.6	80.7	81.4	82.3	83.1
Housing starts	Millions	1.24	1.15	1.18	1.23	1.16	1.25	1.31	1.47	1.36	1.44
Light Motor Vehicle Sales		12.46	12.81	12.71	13.22	13.23	14.11	13.69	14.53	15.45	14.76
Auto sales in U.S.		8.33	8.41	8.24	8.43	8.32	8.93	8.65	8.97	9.45	9.15
North American prod.		6.12	6.25	6.25	6.40	6.36	6.87	6.68	7.08	7.44	7.16
Other		2.21	2.16	1.99	2.03	1.96	2.07	1.97	1.89	2.00	1.99
INCOME AND SAVING											
Nominal GNP	Bill. $	5907.7	5979.1	6049.4	6167.0	6243.9	6303.3	6367.8	6476.2	6574.0	6682.5
Nominal GNP	% change	6.8	4.9	4.8	8.0	5.1	3.9	4.2	7.0	6.2	6.8
Nominal personal income		8.2	5.6	3.7	15.3	-5.8	8.6	2.4	6.7	5.3	7.7
Real disposable income		5.9	2.1	1.7	10.6	-7.4	4.7	.8	4.3	3.4	3.5
Personal saving rate[1]	%	5.3	5.5	5.0	6.2	4.0	4.6	3.9	4.0	3.6	4.1
Corp. profits, IVA&CCAdj	% change	18.8	.5	-40.0	101.1	9.6	30.7	18.4	37.0	-17.9	33.6
Profit share of GNP[1]	%	7.0	6.9	6.0	7.0	7.1	7.5	7.7	8.2	7.7	8.2
Federal govt. surpl./def	Bill $	-279.9	-284.8	-293.9	-272.1	-283.5	-237.0	-224.9	-220.1	-176.2	-145.1
State/local surpl./def		19.9	25.9	20.4	33.1	21.6	25.3	23.9	34.5	25.2	27.0
Ex social ins. funds		-45.7	-40.5	-46.3	-33.8	-44.7	-41.1	-42.4	-31.7	-40.7	-38.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.7	1.3	2.7	3.3	1.6	1.0	1.3	2.9	2.9
GDP fixed-wt price index		3.9	3.3	2.7	2.8	4.2	2.4	2.0	2.4	3.1	2.9
Gross domestic purchases fixed-wt price index		3.6	3.4	3.2	2.5	3.3	2.6	1.6	2.4	2.5	3.2
CPI		2.9	2.9	3.2	3.5	3.1	2.8	1.7	3.4	2.2	2.5
Ex food and energy		3.7	3.3	3.3	3.6	3.5	3.5	2.4	2.9	2.9	2.9
ECI, hourly compensation[2]		4.0	2.9	2.8	3.9	4.2	3.5	3.4	3.4	3.0	3.4
Nonfarm business sector											
Output per hour		4.0	2.3	2.4	3.9	-2.2	.4	2.9	4.2	1.7	-1.4
Compensation per hour		5.5	5.0	5.3	4.6	1.9	2.4	1.5	1.6	4.9	1.4
Unit labor cost		1.4	2.7	2.9	.6	4.1	2.0	-1.3	2.5	3.1	2.8

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)

June 28, 1995

Item	Units	1994 Q3	1994 Q4	Projected 1995 Q1	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4
EXPENDITURES											
Nominal GDP	Bill. $	6791.7	6897.2	6979.7	7009.8	7076.9	7176.7	7258.1	7336.9	7418.8	7502.8
Real GDP	Bill. 87$	5367.0	5433.8	5470.0	5463.1	5477.6	5524.0	5553.4	5583.0	5614.6	5648.2
Real GDP	% change	4.0	5.1	2.7	-.5	1.1	3.4	2.1	2.1	2.3	2.4
Gross domestic purchases		4.4	4.2	3.6	-.3	.7	3.1	2.2	2.0	2.1	1.9
Final sales		4.3	5.7	2.5	1.3	3.0	2.3	1.7	2.1	2.2	2.7
Private dom. final purch.		4.1	6.8	4.4	1.8	2.8	2.5	2.6	2.7	2.6	2.6
Personal cons. expend.		3.1	5.1	1.8	1.6	2.1	2.0	2.0	2.2	2.1	2.0
Durables		5.8	20.4	4.0	-.3	2.1	1.2	1.2	2.7	2.2	2.0
Nondurables		3.3	3.1	2.6	-.2	2.5	1.8	2.0	1.8	1.8	1.8
Services		2.2	2.3	3.1	3.3	1.9	2.4	2.3	2.3	2.3	2.2
Business fixed invest.		14.1	17.6	20.7	9.8	7.2	2.9	4.4	4.9	5.0	5.2
Producers' dur. equip.		18.1	19.6	22.5	10.0	7.5	2.4	4.5	5.1	5.2	5.5
Nonres. structures		1.6	11.0	14.3	9.3	6.3	4.9	4.0	4.0	4.0	4.0
Res. structures		-6.0	2.3	-2.6	-18.6	-.4	8.7	5.7	4.2	2.5	1.9
Exports		14.8	20.2	2.5	4.2	1.6	11.3	6.7	11.7	5.6	12.3
Imports		15.6	11.4	8.8	4.6	-.9	7.7	6.5	9.4	4.0	7.6
Government purchases		6.7	-4.1	-1.2	-.9	1.1	-.6	-2.3	-2.2	-1.0	.2
Federal		10.9	-14.4	-4.2	-6.6	-1.4	-4.0	-8.0	-8.9	-6.3	-2.4
Defense		12.8	-21.8	-7.3	-7.2	-1.5	-1.5	-4.7	-5.3	-4.2	-3.7
State and local		4.3	2.3	.5	2.3	2.4	1.3	.8	1.5	1.7	1.5
Change in bus. invent.	Bill. 87$	57.1	49.4	52.3	28.5	3.3	18.6	24.4	25.5	26.5	23.0
Nonfarm		47.4	41.7	49.8	29.5	4.1	17.6	21.9	22.0	22.5	21.0
Net exports		-117.0	-107.1	-120.0	-122.1	-117.4	-113.6	-115.0	-113.6	-111.6	-105.2
Nominal GDP	% change	6.2	6.4	4.9	1.7	3.9	5.8	4.6	4.4	4.5	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	114.5	115.3	116.1	116.3	116.5	116.9	117.2	117.5	117.8	118.1
Unemployment rate[1]	%	6.0	5.6	5.5	5.8	6.0	6.0	6.0	6.1	6.1	6.1
Industrial prod. index	% change	4.9	5.9	5.0	-3.5	-.5	3.2	3.1	2.9	2.8	3.1
Capacity util. rate-mfg[1]	%	83.6	84.5	84.7	83.0	82.0	81.9	81.7	81.5	81.3	81.1
Housing starts	Millions	1.47	1.51	1.31	1.25	1.33	1.36	1.39	1.40	1.41	1.41
Light Motor Vehicle Sales		14.65	15.44	14.90	14.34	14.66	14.47	14.51	14.62	14.65	14.65
Auto sales in U.S.		9.09	9.25	8.84	8.66	8.88	8.65	8.64	8.71	8.71	8.70
North American prod.		7.09	7.42	7.03	6.87	7.32	7.03	7.03	7.07	7.07	7.06
Other		2.01	1.83	1.81	1.79	1.55	1.62	1.61	1.64	1.64	1.64
INCOME AND SAVING											
Nominal GNP	Bill. $	6779.6	6871.3	6957.9	6978.9	7049.6	7145.7	7226.3	7299.4	7385.3	7465.4
Nominal GNP	% change	5.9	5.5	5.1	1.2	4.1	5.6	4.6	4.1	4.8	4.4
Nominal personal income		5.4	8.8	7.5	2.9	4.4	5.3	5.1	4.0	4.1	4.6
Real disposable income		3.1	7.5	4.5	-1.3	2.9	2.5	2.9	0	2.6	1.7
Personal saving rate[1]	%	4.1	4.6	5.1	4.4	4.6	4.7	4.9	4.4	4.5	4.4
Corp. profits, IVA&CCAdj	% change	7.2	3.1	6.2	-11.0	-1.9	10.4	5.6	3.7	9.3	4.5
Profit share of GNP[1]	%	8.2	8.2	8.2	7.9	7.8	7.9	7.9	7.9	8.0	8.0
Federal govt. surpl./def.	Bill. $	-154.0	-161.1	-150.3	-151.5	-167.2	-173.5	-163.6	-137.2	-144.8	-154.8
State/local surpl./def.		23.9	28.8	29.7	23.3	24.3	23.0	20.5	23.6	27.5	30.8
Ex. social ins. funds		-41.4	-36.4	-35.4	-41.6	-40.3	-41.3	-43.7	-40.5	-36.5	-33.2
PRICES AND COSTS											
GDP implicit deflator	% change	1.9	1.3	2.2	2.2	2.8	2.3	2.4	2.2	2.2	2.1
GDP fixed-wt. price index		3.0	2.6	3.3	2.7	3.1	2.8	3.0	2.7	2.7	2.7
Gross domestic purchases fixed-wt. price index		3.5	2.6	3.0	3.0	2.8	2.7	3.0	2.7	2.7	2.7
CPI		3.6	2.2	3.2	3.5	2.8	2.9	3.1	2.9	2.8	2.8
Ex. food and energy		3.1	2.3	3.3	3.6	3.0	2.9	2.9	2.9	2.9	2.9
ECI, hourly compensation[2]		3.3	2.6	2.3	3.4	3.2	3.2	3.2	3.2	3.2	3.2
Nonfarm business sector											
Output per hour		2.7	4.3	2.7	.3	-.5	2.1	1.4	1.4	1.3	1.3
Compensation per hour		2.7	3.8	4.3	2.5	3.2	3.2	3.7	2.9	3.3	3.3
Unit labor cost		0	-.4	1.6	2.2	3.7	1.1	2.3	1.6	2.0	2.0

1 Not at an annual rate   2 Private-industry workers

Strictly Confidential (FR)
Class II FOMC

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

June 28, 1995

Item	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1991	1992	1993	1994
Real GDP	37.7	29.0	43.0	70.2	14.6	30.1	34.0	78.6	43.1	53.0	13.6	179.9	157.3	215.8
Gross domestic purchases	38.8	45.1	47.9	69.8	33.7	41.8	51.1	74.4	64.9	60.7	-6.4	201.6	201.0	240.7
Final sales	57.5	18.4	42.1	68.8	2.7	29.7	40.0	80.7	28.5	19.2	-20.7	186.8	153.1	177.2
Private dom. final purch.	55.1	41.7	39.1	66.3	35.9	38.6	54.5	76.9	61.9	29.8	-32.6	202.2	205.9	211.4
Personal cons. expend.	46.1	14.0	32.2	45.8	13.8	22.0	33.0	34.0	40.1	11.5	-.6	138.1	102.8	123.4
Durables	15.7	.4	10.7	14.3	3.7	11.2	9.0	18.1	10.9	.5	-5.5	41.1	42.0	44.0
Nondurables	10.7	-1.8	7.1	17.8	-4.2	4.3	7.4	6.3	10.3	6.0	-17.1	33.8	13.8	33.9
Services	19.7	15.3	14.4	13.7	14.4	6.4	16.6	9.6	18.9	5.1	22.1	63.1	47.0	45.5
Business fixed invest.	-.1	18.0	6.4	9.7	19.4	20.7	16.9	29.3	16.4	14.3	-33.3	34.0	86.3	81.0
Producers' dur. equip.	-1.2	18.6	9.9	11.6	18.4	20.7	16.6	28.2	20.9	7.5	-11.9	39.1	83.9	74.1
Nonres. structures	1.1	-.6	-3.5	-2.1	.9	.1	.2	1.2	-4.6	6.9	-21.4	-5.1	2.4	6.9
Res. structures	9.2	9.8	.4	10.8	2.7	-4.1	4.7	13.5	5.4	3.9	1.2	30.2	16.8	7.0
Change in bus. invent.	-19.8	10.5	1.0	1.4	11.9	.4	-5.9	-2.2	14.6	33.8	34.4	-6.9	4.2	38.6
Nonfarm	-28.9	12.4	3.7	4.5	13.4	3.1	-1.9	-10.2	11.4	29.6	33.3	-8.3	4.4	31.0
Farm	9.1	-1.8	-2.8	-3.1	-1.5	-2.7	-4.0	8.0	3.2	4.2	1.0	1.4	-.2	7.6
Net exports	-1.0	-16.2	-4.8	.4	-19.1	-11.7	-17.0	4.1	-21.8	-7.8	19.9	-21.6	-43.7	-24.9
Exports	8.4	2.1	7.4	10.2	-1.5	11.0	-4.9	29.9	-5.6	24.3	42.2	28.1	34.5	72.7
Imports	9.4	18.3	12.3	9.9	17.5	22.8	12.0	25.8	16.2	32.0	22.2	49.9	78.1	97.6
Government purchases	3.4	-7.1	7.8	2.1	-14.1	2.8	2.5	-.3	-11.6	-2.8	-8.0	6.2	-9.1	-9.3
Federal	-1.2	-4.6	7.7	1.0	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	-12.4	2.9	-25.9	-20.7
Defense	-4.9	-3.4	7.1	-2.2	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	-19.9	-3.4	-23.7	-19.6
Nondefense	3.8	-1.2	.6	3.2	-1.3	-1.8	3.2	-2.3	.8	-4.5	7.4	6.4	-2.2	-1.1
State and local	4.5	-2.5	.1	1.1	1.3	6.1	5.2	4.2	-2.1	4.1	4.6	3.2	16.8	11.4

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

June 28, 1995

			Projected											
	1994		1995				1996						Projected	
Item	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995	1996
Real GDP	52.9	66.8	36.2	-6.9	14.5	46.4	29.4	29.6	31.6	33.6	157.3	215.8	90.2	124.2
Gross domestic purchases	58.2	56.9	49.1	-4.8	9.9	42.6	30.8	28.2	29.6	27.2	201.0	240.7	96.8	115.8
Final sales	55.1	74.4	33.3	16.9	39.7	31.1	23.6	28.5	30.5	37.1	153.1	177.2	121.0	119.8
Private dom. final purch.	45.4	74.3	49.0	21.0	32.6	28.7	30.2	32.1	30.9	30.3	205.9	211.4	131.4	123.5
Personal cons. expend.	26.9	44.9	16.5	14.9	19.4	18.5	18.7	20.3	19.8	19.0	102.8	123.4	69.4	77.9
Durables	7.4	25.2	-5.7	-.4	2.8	1.6	1.6	3.7	3.1	2.9	42.0	44.0	-1.7	11.3
Nondurables	9.1	8.5	7.1	-.5	7.1	5.1	5.7	5.1	5.1	5.0	13.8	33.9	18.8	20.9
Services	10.4	11.1	15.1	15.8	9.5	11.9	11.4	11.5	11.6	11.1	47.0	45.5	52.3	45.6
Business fixed invest.	22.1	28.2	34.1	17.6	13.3	5.6	8.4	9.4	9.7	10.2	86.3	81.0	70.6	37.7
Producers' dur. equip.	21.5	24.2	28.8	14.0	10.8	3.6	6.7	7.7	8.0	8.5	83.9	74.1	57.2	31.0
Nonres. structures	.6	4.0	5.3	3.6	2.5	2.0	1.7	1.7	1.7	1.7	2.4	6.9	13.4	6.7
Res. structures	-3.6	1.3	-1.5	-11.6	-.2	4.6	3.1	2.4	1.4	1.1	16.8	7.0	-8.7	7.9
Change in bus. invent.	-2.1	-7.7	2.9	-23.8	-25.2	15.3	5.8	1.1	1.0	-3.5	4.2	38.6	30.8	4.4
Nonfarm	-4.3	-5.7	8.1	-20.3	-25.4	13.5	4.3	.1	.5	-1.5	4.4	31.0	-24.1	3.4
Farm	2.2	-2.0	-5.2	-3.5	.3	1.8	1.5	1.0	.5	-2.0	-.2	7.6	-6.7	1.0
Net exports	-5.2	9.9	-12.9	-2.1	4.7	3.8	-1.3	1.4	1.9	6.4	-43.7	-24.9	-6.5	8.4
Exports	22.6	31.4	4.3	7.3	2.8	19.3	12.0	20.9	10.6	22.8	34.5	72.7	33.8	66.2
Imports	27.9	21.5	17.2	9.4	-1.8	15.5	13.4	19.4	8.6	16.4	78.1	97.6	40.3	57.8
Government purchases	14.9	-9.8	-2.8	-2.1	2.5	-1.4	-5.3	-5.0	-2.3	.4	-9.1	-9.3	-3.8	-12.2
Federal	8.8	-13.1	-3.5	-5.5	-1.1	-3.3	-6.5	-7.2	-4.9	-1.8	-25.9	-20.7	-13.4	-20.4
Defense	6.9	-13.9	-4.1	-4.0	-.8	-.8	-2.5	-2.8	-2.2	-1.9	-23.7	-19.6	-9.7	-9.4
Nondefense	1.8	.8	.5	-1.4	-.3	-2.5	-4.0	-4.4	-2.7	.1	-2.2	-1.1	-3.7	-11.0
State and local	6.1	3.3	.7	3.4	3.6	1.9	1.2	2.2	2.6	2.2	16.8	11.4	9.6	8.2

1 Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

June 28, 1995

Item	Fiscal year 1993[a]	Fiscal year 1994[a]	Fiscal year 1995	Fiscal year 1996	1994 Q1[a]	1994 Q2[a]	1994 Q3[a]	1994 Q4[a]	1995 Q1[b]	1995 Q2	1995 Q3	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1153	1257	1358	1381	289	363	318	308	307	414	329	317	294	424	346	333
Outlays[1]	1409	1461	1517	1574	348	363	371	380	378	379	380	395	395	391	393	405
Surplus/deficit[1]	-255	-203	-159	-194	-59	0	-53	-73	-71	35	-51	-78	-101	33	-47	-72
On-budget	-301	-259	-228	-253	-66	-33	-55	-87	-83	-2	-56	-86	-108	-8	-51	-77
Off-budget	46	56	68	60	8	33	2	14	12	37	5	8	6	41	4	5
Surplus excluding deposit insurance[2]	-283	-211	-177	-201	-65	3	-57	-77	-77	33	-55	-78	-104	33	-51	-72
Means of financing																
Borrowing	249	185	162	216	51	8	37	60	66	22	15	72	80	13	52	50
Cash decrease	6	17	-8	-17	5	-6	15	9	8	-44	19	8	20	-45	0	25
Other[3]	0	1	6	-6	2	-2	1	5	-3	-13	17	-2	2	-1	-4	-3
Cash operating balance, end of period	53	36	43	60	45	51	36	27	18	62	43	35	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1242	1355	1437	1491	1338	1381	1389	1409	1437	1452	1451	1469	1478	1508	1509	1526
Expenditures	1497	1529	1595	1646	1514	1526	1543	1570	1587	1603	1618	1642	1642	1646	1654	1681
Purchases	447	439	431	421	438	435	444	432	434	429	429	427	425	418	414	413
Defense	307	296	283	281	292	292	301	285	284	281	282	282	283	281	280	279
Nondefense	140	144	148	139	146	144	144	147	150	148	148	145	142	137	134	134
Other expenditures	1049	1090	1164	1225	1076	1091	1099	1138	1154	1175	1189	1215	1217	1228	1240	1267
Surplus/deficit	-254	-174	-157	-155	-176	-145	-154	-161	-150	-151	-167	-173	-164	-137	-145	-155
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-211	-164	-175	-161	-158	-140	-161	-184	-178	-166	-173	-182	-170	-142	-149	-158
Change in HEB, percent of potential GDP	- 1	- 7	.2	- 2	- 6	- 3	3	3	- 1	- 2	1	1	- 2	- 4	1	1
Fiscal impetus (FI), percent, cal year	-4 1	-7 3	-6 5	-10 8	-4 2	-4 3	3 4	-3 8	-1 8	-2 8	3	-2 4	-5 7	-3	- 7	-1 9

1 OMB's February 1995 deficit estimates are $193 billion in FY95 and $197 billion in FY96 CBO's March 1995 deficit estimates are $175 billion in FY95 and $210 billion in FY96 Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law The Postal Service deficit is included in off-budget outlays beginning in FY90

2 OMB's February 1995 deficit estimates, excluding deposit insurance spending, are $205 billion in FY95 and $203 billion in FY96 CBO's March 1995 deficit estimates, excluding deposit insurance spending, are $191 billion in FY95 and $218 billion in FY96

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 2.4 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--Preliminary

Recent Developments

Mounting evidence of slowing economic activity and progress on the fiscal front have reduced concerns about prospective credit market pressures and reinforced expectations that the next move in monetary policy will be toward ease. Indeed, public remarks by Federal Reserve officials have been taken by some to imply that a policy shift could come as soon as the July FOMC meeting. Against this backdrop, market interest rates have declined appreciably further since the last FOMC meeting. Key Treasury bill rates have shed about 30 basis points over the intermeeting period and yields on notes and bonds have dropped 30 to 40 basis points. Private-market rates have moved down a bit less than those on Treasury securities of similar maturity--probably reflecting more the pressures of increased supply than concerns about greater credit risk. Equity markets certainly have not been greatly restrained by economic concerns: Major stock market indexes have posted gains of around 2-1/2 percent, repeatedly setting record highs.

A surge in retail money market mutual funds and double-digit increases in small time deposits have propelled M2 growth to rates of 5-1/4 percent in May and perhaps double that pace in June. The strength in M2 appears to be related at least in part to lagging adjustments of money fund returns and deposit rates to the declines in market rates. Managed liabilities in M3 have also continued to expand rapidly on balance, and growth in that aggregate rose to 8 percent in May and nearly 12 percent in June. The strength in the broader aggregates has lifted M2 appreciably above the midpoint of its 1 percent to 5 percent annual growth range and M3 to well above the upper bound of its 0 percent to 4 percent range.

Total bank credit growth slowed some in May because security holdings declined in value as certain off-balance-sheet positions were marked to market. Loan growth picked up a bit on the strength of increased loans to security dealers, probably associated with the need to finance their heavier underwriting of corporate debt; growth in the three major loan categories--business, real estate, and consumer--slowed to varying degrees in May. Consumer loans registered the sharpest slowdown, but much of the slackening stemmed simply from increased securitization of credit card receivables; consumer receivables appear to have rebounded in June. Business loans, edging off slightly in May, were still quite strong in that month but have apparently weakened considerably in June as large borrowers turned to the bond market. Overall, bank credit expansion was stronger on average in the second quarter than in the first, but slowed over the course of the quarter. Loan growth, too, was robust on balance, but less so toward the end of the period.

Nonfinancial corporations substantially increased their bond issuance in May and June in response to the significantly lower long-term rates and the flattening of the yield curve. The revival in bond offerings was broad-based by class of issuer. Much of the proceeds were used (or will be used) to pay down bank debt and to retire commercial paper. In part, such paydowns represented a conversion to longer-term funding for several mergers and acquisitions completed since late last year.

Net borrowing by households appears to have moderated slightly in the second quarter, consistent with sluggish home purchases and consumer spending. Some scattered signs of financial strains on households emerged in the first-quarter loan delinquency rate reports, but most of these measures showed negligible increases and were at low levels. Estimates of scheduled debt-service payments relative to disposable personal income likely rose another notch, but this indicator, too, remains well below historical highs.

Retirements of municipal debt continued to outpace gross offerings in the second quarter. although there was some pickup in long-term issuance in May and June for both refundings and new capital. The stock of long-term municipal debt is now about $25 billion below its level at the end of 1994.

The debt of the federal government is estimated to have increased at a seasonally adjusted rate of about 5 percent in the second quarter, well below the first-quarter pace. The stronger-than-expected inflow of tax receipts has allowed the Treasury both to reduce its marketable borrowing and to build its cash balance to a high level.

Outlook

The staff's economic projection is based on the assumption that the federal funds rate will remain at 6 percent into the early part of 1996 and then ease somewhat by the second half. If this path were realized, it clearly would disappoint the markets, which are anticipating significant easing this year. Moreover, market psychology may be altered by the more positive economic news that we think will soon emerge. Thus, we expect that longer-term rates will back up some in the coming months, before turning down again in 1996 as short rates decline and inflation remains in check.

The broad monetary aggregates are expected to grow at much faster rates this year--4 percent for M2 and 5-1/2 percent for M3--as banks put greater reliance on deposit funding and as households favor shorter-term instruments, given the flatter yield curve of recent months. The declines projected for interest rates next year --along with a bit faster in nominal GDP growth--should help M2 growth to edge higher in 1996, while M3 growth slows a little, in line with an expected deceleration of bank credit.

Total debt of the domestic nonfinancial sectors is expected to grow about 5 percent this year, with the federal and nonfederal component advancing at about that rate and the nonfederal component somewhat less. In 1996, total debt growth slips to 4-1/2 percent in our projection. Federal debt is expected to increase 5-1/4 percent while the growth of nonfederal debt eases to 4-1/4 percent, as businesses and households curtail the pace of their borrowing somewhat.

An unusually wide gap has emerged this year between capital expenditures and internal funds of nonfinancial businesses, but that gap is expected to narrow somewhat over the next several quarters as a moderate rise in internal funds outpaces relatively subdued growth of capital expenditures. The need for inventory financing will diminish sharply in the near term, before rebounding a little in 1996, and spending for plant and equipment will grow less rapidly. Nonetheless, capital spending should still be strong enough to generate a considerable demand for external financing over the forecast horizon. Borrowing also will be buoyed by continued net equity retirements, although mergers and acquisitions are expected to tail off from their recent feverish pace. Overall, business debt is projected to expand 6 percent this year and 4-1/4 percent in 1996.

With longer-term yields projected to turn up in the near term, bond issuance may slacken over the coming months; still, given the predicted rate structure, we expect that the financing requirements of business firms will continue to be met in the bond market to a much greater extent in 1995 and 1996 than was the case last year. Growth of bank loans to business should continue to taper off over the next year and a half from the very rapid pace so far this year, but banks will remain a significant source of funds. Banks are likely to move only gradually toward a more restrictive posture, given their relatively healthy capital positions and the limited erosion of business credit quality suggested by the generally favorable economic environment that we anticipate.

In the household sector, slowly increasing outlays for consumer durables and a rise in home sales should produce moderate debt growth. Overall, household debt is expected to rise 6-1/4 percent in 1995 and 6 percent in 1996, with mortgage debt growth holding steady over the period and the expansion of consumer debt dropping off a couple of percentage points. With debt increasing somewhat faster than nominal income and new debt replacing old debt at approximately the same average interest rates, households' debt service burdens will edge higher, and likely will be accompanied by some increase in loan delinquency rates. But, in view of the expected low unemployment and growing incomes, loan payment performance should not deteriorate sharply; consequently, any tightening of credit availability to households probably will be only marginal.

The financial outlook for state and local governments is somewhat clouded by uncertainties about prospective changes in federal programs, and the prospect that there could be big winners and losers if and as major programs are shifted to block grants. Even apart from this policy change, some states and many localities may experience financial strains. We anticipate that state and local spending will be modest and bond issuance for new capital will be limited. Issuance for refunding should also be light, given legal constraints on refinancing a tax-exempt issue more than once.

With substantial amounts of municipal debt originated in the mid-1980s expected to be called this year and next, the ongoing contraction of debt in the state and local sector is likely to continue through next year. A decline of 7 percent is projected for 1995, followed by a 5-1/4 percent drop in 1996.

Confidential FR Class II
June 28, 1995

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										
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	10.1	3.2
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5	11.0
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8	9 1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31 6	12.4	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3	4.7
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1	8.0
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6	7.7
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8	6 0
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7	4 7
1991	4.4	11.1	2.4	4.7	6.5	-1.8	-1.0	7.4	-1.0	3.5
1992	4.8	10.9	2.8	5.8	6.7	0.7	-0.1	1.8	0.7	6.4
1993	5.3	8.3	4.2	7.1	6.4	7.8	0 5	6.8	-0.4	5.0
1994	4.8	4.7	4.9	8.2	6 4	13.6	3 6	-4.9	5.0	6.5
1995	4.9	5.0	4.8	6.3	5.8	8.7	5.9	-7 0	1.3	4.1
1996	4.5	5.3	4.2	5.9	5.8	6.6	4.2	-5.2	1.0	4.5
Quarter (seasonally adjusted annual rates)										
1994:1	5.1	6.3	4 7	7.2	6.5	8.4	3.4	-1.4	6.2	6.1
2	4.2	3 6	4 5	7.0	5.2	13.8	3.8	-4.5	5.3	7.2
3	4.6	3 9	4.8	8.6	7.0	13.8	3.5	-7.2	2.0	6.2
4	5.0	4.5	5.1	9.0	6.2	15.8	3.6	-6 8	6 0	6.4
1995:1	6.3	7.8	5 7	6.6	6.2	8.5	7.8	-6.7	2.8	4 9
2	5.1	5.0	5.1	6.2	5.4	9.4	6.4	-5.7	0.6	1.7
3	3.3	1.2	4.1	5.9	5.5	8.3	4.7	-8.3	0.7	3.9
4	4.4	5.6	4.0	6.0	5.7	7.7	4.2	-7.9	1.0	5.8
1996:1	5.4	9.0	4.1	6.0	5.7	7.1	4.1	-6 8	1.0	4.6
2	4.2	3.8	4.4	5.9	5.7	6.7	4.1	-3.4	1.0	4.4
3	4 3	4.9	4.1	5.6	5.7	6.2	4.1	-5.3	1.0	4.5
4	3.8	3.1	4.0	5.6	5.7	5.8	4.1	-5.8	1.0	4 6

1. Data after 1995:1 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4.
2. On a quarterly average basis, total debt growth is projected to be 4.8 in 1995 and 4.5 in 1996. Federal debt rises 4.4 percent in 1995 and 5.5 percent in 1996. Nonfederal debt is projected to increase 4.9 percent in 1995 and 4.2 percent in 1996.

2.6.3 FOF

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

		Calendar year			-1994-	-----------1995-----------				-----------1996-----------			
		1994	1995	1996	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					---Seasonally Adjusted Annual Rates---								
	Net funds raised by domestic nonfinancial sectors												
1	Total	554.1	583.8	586.1	532.4	769.2	622.2	389.6	554.0	701.9	556.4	578.4	507.9
2	Net equity issuance	-40.9	-46.2	-25.0	-102.0	-46.8	-48.0	-52.0	-38.0	-34.0	-24.0	-22.0	-20.0
3	Net debt issuance	595.0	630.0	611.1	634.4	816.0	670.2	441.6	592.0	735.9	580.4	600.4	527.9
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	48.5	110.0	85.3	91.7	126.1	107.1	113.9	92.7	86.8	87.5	87.2	79.9
5	Net equity issuance	-40.9	-46.2	-25.0	-102.0	-46.8	-48.0	-52.0	-38.0	-34.0	-24.0	-22.0	-20.0
6	Credit market borrowing	135.8	228.6	171.4	137.5	302.7	252.2	189.9	169.6	169.5	170.4	172.1	173.5
	Households												
7	Net borrowing, of which:	351.6	293.0	290.7	407.0	304.7	293.3	283.7	290.4	294.0	295.8	286.6	286.4
8	Home mortgages	190.1	184.5	194.7	194.5	195.0	175.0	180.0	188.0	191.0	193.0	196.0	199.0
9	Consumer credit	117.5	86.0	70.8	149.4	83.4	94.2	85.2	81.2	76.0	73.0	69.0	65.0
10	Debt/DPI (percent)[3]	*90.1*	*91.1*	*92.3*	90.1	90.2	91.3	91.4	91.6	91.7	92.4	92.5	92.8
	State and local governments												
11	Net borrowing	-48.2	-65.7	-45.7	-65.1	-63.1	-53.2	-75.7	-70.7	-59.2	-29.2	-45.2	-49.2
12	Current surplus[4]	-46.8	-55.5	-56.7	-32.9	-47.1	-58.0	-57.5	-59.3	-61.8	-58.7	-54.8	-51.5
	U.S.government												
13	Net borrowing	155.9	174.0	194.8	155.0	271.8	177.9	43.8	202.8	331.6	143.4	186.9	117.2
14	Net borrowing;quarterly, nsa	155.9	174.0	194.8	59.7	65.6	21.6	15.2	71.6	79.5	13.1	51.8	50.4
15	Unified deficit;quarterly, nsa	184.5	164.5	188.0	72.7	71.3	-35.4	50.7	77.9	101.2	-33.1	47.5	72.3
	Funds supplied by												
16	depository institutions	197.2	233.1	207.2	196.5	373.2	214.1	176.6	168.5	199.7	*209.7*	*206.7*	*212.7*
	MEMO: (percent of GDP)												
17	Dom. nonfinancial debt[3]	188.0	188.1	188.4	186.8	187.2	189.1	189.2	188.4	188.6	188.8	188.7	188.5
18	Dom. nonfinancial borrowing	8.8	8.9	8.3	9.2	11.7	9.6	6.2	8.2	10.1	7.9	8.1	7.0
19	U.S. government[5]	2.3	2.5	2.6	2.2	3.9	2.5	0.6	2.8	4.6	2.0	2.5	1.6
20	Private	6.5	6.5	5.6	7.0	7.8	7.0	5.6	5.4	5.6	6.0	5.6	5.5

1. Data after 1995:1 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

Recent Developments

The foreign exchange value of the dollar in terms of the other G-10 currencies has declined 2-1/2 percent on balance since the May 23 FOMC meeting, bringing its total decline since last December back to about 8 percent. The dollar declined sharply in late May on further news of weakening in the U.S. economy but rebounded somewhat at the end of May when the G-10 central banks engaged in concerted intervention. The dollar has been fairly stable for most of June, and on June 28 it recovered somewhat against the yen and on a weighted average basis following the announcement that U.S. and Japanese negotiators had reached an agreement in the auto trade talks.

While most major currencies rose on net against the dollar over the intermeeting period, the Canadian dollar depreciated somewhat on balance, and the pound declined, largely in response to political turmoil in the United Kingdom late in the period. The Mexican peso depreciated 5 percent against the dollar, with peso-denominated interest rates falling more than 7 percentage points.

Interest rate changes were mixed in major foreign industrial countries. In Italy and Sweden, money market conditions were tightened significantly in response to rising inflation; in Canada, evidence of further weakening of the economy led the Bank of Canada to cut the overnight rate by 50 basis points, and in France rates were reduced in conjunction with a tighter-than-expected fiscal package and some firming of the French franc. In contrast to the marked further decline in U.S. long-term rates, the average level of long-term rates abroad was little changed over the period. A significant increase in U.K. and Italian bond yields was about offset by declines in Canadian and Japanese rates. The weakness of the Japanese economy, along with growing concerns about the banking system, contributed to a further 8 percent decline in the Japanese stock market, bringing its total decline this year to about

25 percent and its level not far above the August 1992 trough.

. Intervention by U.S. authorities on May 31 amounted to $500 million against the mark and $500 million against the yen, split evenly between the accounts of the Treasury and the System.

The growth of real output in the major industrial countries was on average sluggish in the first quarter and appears to have remained so in the second, with weakness concentrated in Japan and Canada. Japanese real GDP advanced only slightly in the first quarter after having declined in the fourth quarter, with an expansion of government expenditures (following the earthquake) offsetting a decline in private investment. Industrial production fell in April and May, and business sentiment remained negative in the second quarter, although less so than in previous quarters. In Canada, GDP growth fell sharply, to 3/4 percent (annual rate) in the first quarter, and would have been significantly negative were it not for a substantial increase in inventory accumulation. Other components of domestic demand were flat to negative, and the growth of exports decelerated sharply, presumably reflecting slower growth of shipments to the United States. During the first two months of the second quarter, employment was flat and housing starts declined further on balance.

Economic activity in Europe appears to have continued to expand in the first half of 1995, although probably at a more moderate pace than during 1994. Real GDP grew at rates a little less than 3 percent during the first quarter in France and the United Kingdom, and partial indicators suggest a similar expansion in Italy. Labor market data through May indicate continued growth of real output in these countries in the second quarter. A lack of reliable information in Germany, where the statistical agencies have recently implemented new methods of data collection, have made it difficult to assess current economic conditions in that country. German manufacturing capacity utilization continued to rise through the first quarter, but survey data suggest some damping of producers' expectations.

Consumer price inflation remained subdued on the whole in foreign industrial countries, but pressures are visible in some cases. Prices have accelerated in Italy and Sweden over the past few months in response to currency depreciations. Despite the depressing effects of the appreciation of the DM on German prices, recent wage settlements and an uptick in the preliminary CPI inflation rate in June point to some persistence in underlying inflation pressures in Germany.

The U.S. nominal trade deficit in goods and services widened substantially in the first quarter and again in April. The growth of exports has slowed sharply from rapid rates recorded last year; import growth has slowed too, though less dramatically. The deterioration of net exports during the first quarter was largely accounted for by the adjustment of U.S. trade with Mexico. The further decline in April reflected in part a surge in imports of autos from Japan and Europe apparently associated with the introduction of several new models.[1] The price of non-oil imports rose nearly 6 percent at an annual rate in April-May compared to the first quarter, partly reflecting the effects of the depreciation of the dollar. The price of imported oil rose $1 per barrel in April as a consequence of the runup in spot prices earlier in the year. Spot-oil prices have fallen back recently in response to the ending of an oil workers strike in Brazil, to higher OPEC production, and to statements by some OPEC officials that OPEC might suspend its production quota during 1996. The West Texas intermediate spot price is currently about $18 per barrel, almost $2 below the level at the time of the May FOMC.

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1. Some reports have connected this surge in auto imports to the threat of U.S. sanctions on imported luxury models from Japan. Since that threat was not announced until mid-May and was generally unanticipated, it probably did not affect imports in April, but because it would have been retroactive, it likely resulted in some decline in imports in May and June, which probably will be made up in the third quarter.

Outlook

U.S. real net exports probably edged lower in the second quarter after a substantial weakening in the first quarter. The near-term growth of both exports and imports has been reduced from that in our previous forecast in light of downward revisions to foreign GDP growth (largely Canada and Japan) and U.S. GDP growth. However, we expect net exports to pick up moderately during the second half of 1995 and further during 1996 as a result of several factors. First, with adjustment vis à vis Mexico now largely completed, exports to that country should stop declining. Second, growth in Canada should rebound, and we anticipate a modest recovery in Japan. Third, net exports will be further stimulated by the lagged effects of the depreciation of the dollar over the past year.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies on average will appreciate slightly in the near-term, assuming that the market's expectation of a near-term easing of Federal Reserve policy is not fulfilled. Thereafter, we anticipate the dollar will remain little changed through the end of the forecast period. We also expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate moderately, on balance, both this year and next. The sharp real appreciation of the dollar against the peso around the turn of the year should continue to be eroded, with the peso declining slightly to 6.50 per dollar later this year and Mexican inflation running well above U.S. inflation. We also expect the dollar to depreciate moderately in real terms against the currencies of the major Asian developing countries.

Foreign G-7 countries. Growth of real GDP in the major foreign industrial countries (weighted by U.S. nonagricultural exports) is projected to be less than 1 percent at an annual rate in the second quarter, to pick up somewhat in the third quarter, and to average a bit more than 2-1/2 percent over the rest of the forecast period. Relative to the May forecast, growth has been marked down about 1-1/2 percentage points for the first half of 1995 and about 1/4 percentage point for the balance of the forecast period, with these downward revisions concentrated in Canada and Japan. As indicated in the table below, these revisions move our projections for Japan and Canada below those of the most recent Consensus, OECD, and IMF forecasts. Our outlook for Europe is about in line with the outside forecasts.

Average Annual Rate of Real GDP Growth for 1995 and 1996[1]
(Percent)

	Japan	Canada	Europe[2]	United States
FRB (June Greenbook)	1.1	2.4	3.0	2.4
Consensus (June)[3]	1.3	2.7	2.9	2.7
OECD (June)	1.8	3.7	3.0	2.8
IMF (May)	2.7	3.5	3.1	2.7

1. Averages of the year/year growth rates for the two years.
2. France, Germany, Italy, and the United Kingdom, weighted by shares in U.S. nonagricultural exports.
3. The Consensus forecasts survey some 200 private forecasting firms, including roughly 20 to 30 forecasters for each country.

Our projected pattern of GDP growth in Canada in the near term looks much the same as that for the United States, but only partly because of the importance to the Canadian economy of trade with the United States. The build-up of Canadian inventories in the first quarter and the weakness of labor market indicators through May point to a downturn in real output in the second quarter. A weak recovery is anticipated for the third quarter and a stronger bounceback in the fourth quarter. For 1996, we project real GDP to grow only slightly faster than its potential rate despite a still sizable output gap, largely because of the restraining influence of Canadian fiscal policy.

In Japan, economic activity so far this year has been a good deal weaker than we had anticipated. The depressing effects of the appreciation of the yen on Japanese net exports should continue for some time, and uncertainties related to weakness in the labor market and recent further declines in household wealth are likely to weigh on the

Japanese consumer. These negative factors will only be partly offset by continued fiscal expansion. As a result, we now expect GDP growth to remain sluggish over the forecast period, implying a further widening of the already large output gap.

Real output growth in Germany has been revised down somewhat in the second quarter because of recent weakness in production plans and the business climate index. Over the period ahead, German growth is projected to average about 2-3/4 percent (annual rate), slightly less than projected in May. The appreciation of the mark that has occurred over the past year should weaken German net exports, but we expect that the current high rate of capacity utilization and recent declines in interest rates will support a moderate expansion of investment spending. German consumption, too, should be stimulated, by scheduled tax reductions and wage increases. GDP growth in France, Italy, and the United Kingdom has not shown signs of slowing significantly in the second quarter and is expected to be in the vicinity of 3 percent over the forecast period. The growth of Italian and U.K. net exports will be boosted by previous currency depreciations.

Consumer price inflation in the foreign G-7 is projected to average around 2 percent over the forecast period, although performance will differ across countries. At one end of the spectrum, Japanese consumer prices should continue to decline at a rate of about 1/2 percent per year as the economy remains well below potential and the effects of the yen appreciation pass through to domestic prices. At the other end, with Italian GDP nearing potential, the cumulative effects of past depreciations of the lira are expected to keep Italian inflation near 6 percent for the next several quarters, after which it should recede. U.K. inflation (excluding mortgage interest payments) is expected to increase to above 3 percent for similar reasons. The effects of recent currency appreciations should help to keep German and French inflation relatively subdued, and the weaker outlook for Canadian activity has led us to mark down the Canadian inflation rate somewhat.

Our forecast assumes short-term interest rates in Japan and Canada will remain little changed from recent levels, 50 to 100 basis points lower than the paths assumed in the previous forecast. Short-term rates in Germany and the United Kingdom are still expected to rise on balance over the forecast period, though at somewhat lower trajectories than projected previously. We expect the differentials between French and German long-term rates to narrow, with French rates falling somewhat and German rates steady. The Italian-German differential should narrow as well, as political uncertainties ease after Italy's election around the turn of the year.

Other countries. The real GDP of major trading partners of the United States in the developing world (weighted by U.S. nonagricultural export shares) is forecast to increase 3 percent during 1995 and 5 percent during 1996. The projected pickup in growth in 1996 largely reflects the anticipated recovery in Mexico. We project that real GDP in Mexico will contract about 6 percent during 1995 (on a Q4/Q4 basis), and will grow 3-1/2 percent in 1996. In light of the sizable Mexican trade surpluses reported for April and May and with the sharper than expected contraction of domestic demand, the country's current account appears headed for a zero balance, if not a surplus, in 1995.

Regarding other Latin American countries, we expect that real GDP in Argentina will be flat during 1995 but that Brazil and Chile will record fairly strong growth. A very strong expansion of Brazilian GDP in the first quarter led us to revise up growth for the year by 1-1/2 percentage points; nevertheless, monetary restraint and a substantial appreciation of the currency in real terms--despite a recent small nominal devaluation--should keep that expansion in check over the period ahead.

Major developing economies in Asia should see a moderate slowing in 1995-96 of their recent very strong growth. An anticipated deceleration of internal demand in some of these countries due to policy restraint should be partly offset by more rapid growth in external demand for all of these countries because of recent currency depreciations in real terms, particularly against the yen.

U.S. real net exports. The widening of the trade deficit in April notwithstanding, we expect only a slight decline in net exports in the second quarter. The likely weakening of U.S. GDP and that of several of our major trading partners points to a sharp slowing of import growth and, to a slightly lesser extent, export growth in the months ahead. The overall outlook for net exports is little changed from that in the May forecast. With the help of some stimulus from the depreciation of the dollar over the past year, along with recovery in Mexico, Canada, and Japan, export growth is expected to outpace import growth over the next year and a half, imparting a modest upward trend to net exports.[2]

We expect the growth of real exports of goods and services to increase to more than 6 percent (AR) during the second half of 1995 (double the rate of expansion in the first half) and to 9 percent during 1996. Seasonal factors affecting exports of nonagricultural goods other than computers will tend to depress growth during the third quarter and augment it in the fourth quarter.

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2. Our forecast now incorporates, to a limited degree, seasonal fluctuations in nonagricultural exports and non-oil imports that seem to have become more pronounced in recent years and are not captured in BEA's adjustment factors. (For some time now we have taken into account seasonal variability in oil imports.) While the quarterly changes in imports and exports are affected noticeably, the impact on net exports is small--no more than $1 billion (AR) per quarter. Our estimates of these seasonal movements are based on data for the past 20 years. Estimates based on the past five years alone (a period of time still too short to yield statistically significant results by itself) would show a more pronounced seasonal pattern, in particular adding to the growth of net exports in the fourth quarter.

QUANTITIES OF GOODS AND SERVICES
(Percent change from end of previous period, SAAR)

	----------Projection----------				
	1995				1996
	Q1	Q2	Q3	Q4	
Exports of G&S	2.5	4.2	1.6	11.3	9.0
Services	-3.4	2.9	4.6	6.2	4.7
Computers	20.2	19.6	23.9	26.3	26.3
Other goods[1]	1.5	2.1	-2.5	8.3	6.4
Imports of G&S	8.8	4.6	-0.9	7.7	6.8
Services	13.9	-4.6	-0.1	2.8	2.8
Oil	-4.8	5.1	37.4	-4.7	0.8
Computers	3.5	27.2	23.9	21.6	20.4
Other goods[2]	10.7	1.5	-10.3	6.6	4.4

Note.
NIPA basis, 1987 dollars.
1. Nonagricultural exports of goods excluding computers.
2. Non-oil imports of goods excluding computers.

The growth of real imports of goods and services should slow significantly in the second quarter and especially in the third quarter. We project non-oil imports excluding computers to decline substantially in the third quarter, with weakness of domestic demand and the rise in the relative price of imports associated with the depreciation of the dollar contributing to this decline. In addition, part of the projected decline in the third quarter reflects seasonal fluctuation not captured in BEA's adjustment factors. Thereafter, these imports should resume expanding, helped along by a seasonal boost and a bounceback in domestic demand in the fourth quarter. During 1996, we expect these imports to grow about twice as fast as GDP, in line with historical trends. We expect oil imports to continue on a moderate uptrend, though with a substantial seasonal increase in the third quarter. Continued rapid growth in real imports of computers raises the projected growth of total imports of goods and services to nearly 7 percent next year.

Oil prices. We are assuming that WTI spot oil prices will remain little changed from current levels of about $18 per barrel in the near term, rise somewhat around the turn of the year, and level off at $19.50 per barrel by mid-1996. The price next year is $1.00 per barrel greater than in our previous forecast, largely because we now assume that Iraq will not return to the world oil export market during 1996.

Prices of non-oil imports and exports. Prices of U.S. non-oil imports other than computers are expected to continue to decelerate from a 6 percent rate of increase during the second quarter as the effects of the past depreciation of the dollar diminish, and to increase at only about a 2 percent rate during 1996. A substantial deceleration of commodity prices, reflecting in part somewhat lower world economic growth, contributes to this trajectory of import prices. Prices of nonagricultural exports other than computers are also projected to decelerate over the forecast period, in line with a slowing of U.S. producer prices increases, especially of materials for durable and nondurable manufacturing.

SELECTED PRICE INDICATORS
(Percent change from end of previous period except as noted, AR)

		----------Projection----------			
	1995				1996
	Q1	Q2	Q3	Q4	
U.S. PPI[1]	5.7	4.8	2.5	2.6	2.1
Nonag.exports[2]	9.6	4.9	2.7	3.0	2.1
Non-oil imports[2]	3.2	6.0	3.8	2.1	2.0
Oil imports (Q4 level, $bl.)	16.01	17.13	15.34	15.60	17.00

1. Selected categories (excluding computers) weighted by U.S. exports.
2. Excluding computers.

Nominal trade and current account balances. The nominal trade deficit on goods and services is expected to have peaked in the second quarter; our projection shows a gradual narrowing over the period ahead, with an average deficit of around $105 billion for the year 1996. The deficit on net investment income and transfers is projected to increase to about $60 billion by next year. As a consequence, we project the current account deficit to remain around $165 billion this year and next. This deficit is about $25 billion less than in the May projection, primarily because of a $23 billion upward revision to the level of U.S. net investment income receipts, much of which reflects recently published data.

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CLASS II FOMC

June 28, 1995

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1993-96
(Percent; quarterly change at an annual rate except as noted)

Measure and country	1993	1994	Projected 1995	Projected 1996	1994 Q2	1994 Q3	1994 Q4	Projected 1995 Q1	Projected 1995 Q2	Projected 1995 Q3	Projected 1995 Q4
REAL GDP											
Canada	3.1	5.4	1.2	2.6	5.9	5.7	4.6	0.7	-0.9	1.4	3.5
France	-1.0	4.0	2.9	3.1	5.5	3.6	3.2	2.9	2.8	2.9	3.0
Germany	-0.1	4.0	2.4	2.8	4.2	4.4	4.0	1.9	2.0	2.7	2.8
W. Germany	-0.5	3.3	1.8	2.2	3.6	4.2	3.0	0.9	1.7	2.2	2.3
Italy	-0.2	2.7	3.4	3.0	4.0	5.4	0.1	2.8	3.3	3.8	3.8
Japan	-0.5	0.8	1.2	2.0	0.7	3.5	-3.9	0.3	0.8	1.7	1.8
United Kingdom	2.6	4.3	2.8	2.7	6.1	3.7	2.8	2.7	2.5	3.0	3.0
Average, weighted by 1987-89 GDP	0.3	2.9	2.1	2.6	3.6	4.1	0.6	1.6	1.7	2.5	2.7
Average, weighted by share of U.S. nonagricultural exports											
Total foreign	2.7	4.4	2.3	3.4	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	1.6	4.0	1.7	2.6	4.6	4.7	2.3	1.2	0.5	2.0	3.0
Developing countries	5.2	5.7	3.1	4.9	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
Canada	1.8	0.0	3.1	2.2	-1.4	2.2	1.3	4.2	3.4	2.4	2.2
France	2.1	1.6	1.9	2.2	2.5	0.6	1.7	2.2	2.3	1.3	1.7
Western Germany	3.7	2.8	2.4	2.6	2.7	1.4	1.3	3.8	2.7	1.4	1.7
Italy	4.1	3.8	6.0	5.0	3.4	3.0	4.7	6.3	8.0	4.2	5.5
Japan	1.2	0.8	-0.5	-0.9	1.3	-0.9	2.1	-2.3	0.7	0.0	-0.1
United Kingdom	1.6	2.6	3.4	3.9	7.4	0.1	2.6	3.6	7.2	0.8	2.0
Average, weighted by 1987-89 GDP	2.2	1.8	2.1	1.9	2.6	0.6	2.3	1.9	3.4	1.3	1.7
Average, weighted by share of U.S. non-oil imports	1.9	1.1	1.7	1.3	1.1	0.7	1.9	1.5	2.7	1.3	1.3

Note. Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.

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

(Billions of dollars, seasonally adjusted annual rates)

	1992				1993				1994		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1991	1992	1993
NIPA Real Net Exports of Goods & Services (87$)	-17.9	-34.1	-38.9	-38.5	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8	-19.5	-32.3	-73.9
Exports of G&S	571.0	573.1	580.5	590.7	589.2	600.2	595.3	625.2	619.6	643.9	542.6	578.8	602.5
Goods	416.0	421.5	427.4	441.1	433.9	443.3	438.5	468.1	464.4	484.6	397.1	426.5	445.9
Agricultural	38.9	38.4	40.5	41.3	39.1	39.3	36.9	39.1	36.6	37.5	35.5	39.8	38.6
Computers	47.1	52.3	56.2	60.1	60.9	62.9	68.5	74.0	76.9	79.3	41.4	53.9	66.6
Other Goods	330.0	330.8	330.7	339.8	333.9	341.1	333.1	355.1	350.9	367.8	320.2	332.8	340.8
Services	154.9	151.6	153.1	149.6	155.3	156.9	156.7	157.1	155.2	159.2	145.5	152.3	156.5
Imports of G&S	588.8	607.1	619.4	629.3	646.8	669.6	681.6	707.4	723.6	755.6	562.1	611.1	676.3
Goods	489.5	509.7	521.7	530.2	546.6	567.4	577.1	599.9	615.2	648.3	464.4	512.8	572.8
Oil	47.2	51.6	53.1	52.8	53.4	57.7	56.7	58.1	56.5	60.3	49.2	51.2	56.5
Computers	51.2	57.5	64.7	68.4	73.3	80.0	87.8	94.6	99.7	106.9	41.6	60.5	83.9
Other Goods	391.1	400.6	403.9	409.0	419.9	429.7	432.6	447.2	458.9	481.0	373.7	401.2	432.4
Services	99.3	97.4	97.7	99.0	100.1	102.2	104.5	107.6	108.5	107.4	97.7	98.3	103.6
Memo:(Percent change 1/)													
Exports of G&S	6.1	1.5	5.3	7.2	-1.0	7.7	-3.2	21.7	-3.5	16.6	8.1	5.0	5.8
Agricultural	13.4	-5.0	23.7	8.1	-19.7	2.1	-22.3	26.1	-23.2	10.2	10.9	9.5	-5.3
Computers	24.4	52.0	33.3	30.8	5.4	13.8	40.7	36.2	16.6	13.1	26.7	34.8	23.1
Other Goods	3.1	1.0	-0.1	11.5	-6.8	8.9	-9.1	29.2	-4.6	20.7	7.2	3.8	4.5
Services	5.9	-8.3	4.0	-8.8	16.1	4.2	-0.5	1.0	-4.8	10.7	4.7	-2.0	5.0
Imports of G&S	6.6	13.0	8.4	6.5	11.6	14.9	7.4	16.0	9.5	18.9	4.0	8.6	12.4
Oil	0.9	42.8	12.1	-2.2	4.6	36.3	-6.8	10.2	-10.6	29.7	8.3	12.1	10.0
Computers	53.5	59.1	60.3	24.9	31.9	41.9	45.1	34.8	23.4	32.2	45.6	48.7	38.3
Other Goods	2.4	10.1	3.3	5.1	11.1	9.7	2.7	14.2	10.9	20.7	2.9	5.2	9.3
Services	7.2	-7.4	1.2	5.4	4.5	8.7	9.3	12.4	3.4	-4.0	-6.2	1.4	8.7
Current Account Balance	-28.0	-62.1	-67.2	-89.0	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-7.4	-61.5	-99.9
Goods & Serv (BOP), net	-15.9	-41.1	-47.5	-53.5	-54.3	-75.2	-88.0	-82.0	-92.1	-107.7	-29.4	-39.5	-74.8
Goods (BOP), net	-71.8	-97.0	-109.2	-106.5	-115.8	-134.4	-146.4	-133.9	-146.0	-166.0	-74.1	-96.1	-132.6
Services (BOP), net	55.9	56.0	61.7	53.0	61.5	59.2	58.5	51.9	53.9	58.3	44.7	56.6	57.8
Investment Income, net	15.5	10.0	8.5	6.4	14.8	8.3	12.8	0.1	0.5	-9.1	15.1	10.1	9.0
Direct, net	56.6	53.6	50.1	46.1	61.1	55.3	59.2	49.7	46.2	43.9	55.6	51.6	56.3
Portfolio, net	-41.1	-43.6	-41.6	-39.7	-46.2	-47.0	-46.5	-49.6	-45.7	-53.0	-40.5	-41.5	-47.3
Unilateral Transfers, net	-27.5	-31.0	-28.1	-42.0	-30.1	-30.4	-32.9	-42.9	-29.5	-35.1	6.9	-32.1	-34.1

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)

	1994		1995 (Projection)				1996 (Projection)				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1994	1995	1996
NIPA Real Net Exports of Goods & Services (87$)	-117.0	-107.1	-120.0	-122.1	-117.4	-113.6	-115.0	-113.6	-111.6	-105.2	-110.0	-118.3	-111.3
Exports of G&S	666.5	697.9	702.2	709.5	712.4	731.7	743.7	764.6	775.1	797.9	657.0	713.9	770.3
Goods	505.1	533.6	539.3	545.5	546.5	563.3	573.5	592.3	601.2	621.6	496.9	548.6	597.1
Agricultural	40.7	45.9	45.7	45.2	43.0	45.3	45.3	45.3	47.3	47.3	40.2	44.8	46.3
Computers	85.9	95.8	100.3	104.9	110.7	117.3	124.3	131.8	139.7	148.1	84.5	108.3	136.0
Other Goods	378.5	391.8	393.3	395.4	392.8	400.7	403.9	415.2	414.3	426.2	372.2	395.6	414.9
Services	161.3	164.3	162.9	164.1	165.9	168.4	170.2	172.3	173.9	176.3	160.0	165.3	173.2
Imports of G&S	783.5	805.0	822.2	831.6	829.8	845.3	858.7	878.1	886.8	903.1	766.9	832.2	881.7
Goods	674.6	695.9	709.5	720.2	718.4	733.2	745.8	764.6	772.5	787.9	658.5	720.3	767.7
Oil	64.3	57.1	56.4	57.1	61.8	61.1	61.3	63.3	64.3	61.5	59.6	59.1	62.6
Computers	115.4	128.9	130.0	138.1	145.7	153.0	160.6	168.7	176.3	184.2	112.7	141.7	172.4
Other Goods	494.9	510.0	523.1	525.0	511.0	519.2	523.9	532.6	532.0	542.2	486.2	519.6	532.7
Services	108.9	109.1	112.7	111.4	111.3	112.1	112.9	113.5	114.2	115.2	108.5	111.9	114.0
Memo:(Percent change 1/)													
Exports of G&S	14.8	20.2	2.5	4.2	1.6	11.3	6.7	11.7	5.6	12.3	11.6	4.8	9.1
Agricultural	38.8	61.8	-1.7	-4.0	-18.6	23.2	0.0	0.0	18.9	0.0	17.4	-1.4	4.4
Computers	37.7	54.7	20.2	19.6	23.9	26.3	26.3	26.3	26.3	26.3	29.5	22.4	26.3
Other Goods	12.2	14.8	1.5	2.1	-2.5	8.3	3.2	11.7	-0.9	12.1	10.3	2.3	6.4
Services	5.4	7.6	-3.4	2.9	4.6	6.2	4.4	5.0	3.7	5.7	4.6	2.5	4.7
Imports of G&S	15.6	11.4	8.8	4.6	-0.9	7.7	6.5	9.4	4.0	7.6	13.8	5.0	6.8
Oil	29.3	-37.8	-4.8	5.1	37.4	-4.7	1.2	14.2	6.2	-16.1	-1.7	7.0	0.8
Computers	35.8	55.7	3.5	27.2	23.9	21.6	21.6	21.6	19.3	19.3	36.3	18.7	20.4
Other Goods	12.1	12.8	10.7	1.5	-10.3	6.6	3.7	6.8	-0.5	7.9	14.0	1.8	4.4
Services	5.7	0.7	13.9	-4.6	-0.1	2.8	2.7	2.3	2.6	3.4	1.4	2.8	2.7
Current Account Balance	-158.9	-173.1	-162.0	-177.8	-160.0	-167.7	-161.1	-165.2	-158.2	-165.1	-151.2	-166.9	-162.4
Goods & Serv (BOP), net	-115.2	-109.9	-120.1	-125.9	-111.7	-105.3	-107.9	-106.2	-103.3	-95.7	-106.2	-115.8	-103.3
Goods (BOP), net	-178.5	-174.0	-180.2	-188.1	-176.5	-172.5	-177.2	-177.8	-176.7	-171.9	-166.1	-179.3	-175.9
Services (BOP), net	63.3	64.1	60.1	62.1	64.8	67.3	69.4	71.5	73.5	76.1	59.9	63.6	72.6
Investment Income, net	-10.1	-18.3	-10.8	-19.8	-16.2	-20.0	-20.8	-26.5	-22.5	-26.3	-9.3	-16.7	-24.0
Direct, net	44.6	45.7	54.7	54.2	57.0	61.6	61.9	62.0	63.2	65.8	45.1	56.9	63.2
Portfolio, net	-54.7	-64.0	-65.5	-74.0	-73.2	-81.6	-82.7	-88.5	-85.7	-92.2	-54.4	-73.6	-87.3
Unilateral Transfers, net	-33.5	-45.0	-31.1	-32.0	-32.0	-42.5	-32.5	-32.5	-32.5	-43.0	-35.8	-34.4	-35.1

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