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Strictly Confidential (FR) Class II FOMC

Part 1

September 20, 1995

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

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 economic data in recent weeks suggest that activity is growing moderately on the whole. Businesses have made some progress in bringing inventories into better alignment with sales and appear to be confident enough about the sustainability of the expansion that they are adding to their payrolls. Nevertheless, the inventory adjustment process still appears incomplete, and this is likely to place some limits on output growth in the short run. Consequently, we are projecting that real GDP will expand at an annual rate of only a bit more than 2-1/4 percent, on average, during the third and fourth quarters.

Indeed, assuming no change in monetary policy, as indexed by the current 5 3/4 percent federal funds rate, we would expect that activity would continue to expand at around this pace through 1996. The inventory correction should be largely complete within the next few months, and the lifting of this restraint on production--which we expect will have taken 3/4 percentage point off GDP growth this year--is a positive element in the outlook for activity thereafter. Similarly, growth is expected to be boosted by some lessening of the negative influence of real net exports in response to the lagged effects of the depreciation of the dollar earlier this year and an improvement in economic performance abroad, especially in Mexico. In contrast, growth in domestic final demand--which has remained fairly robust thus far this year--should slow. The recent rallies in the bond and stock markets may well bolster demand for a while longer, but this effect is more than offset in our projection for 1996 by additional fiscal restraint and waning accelerator effects on business fixed investment.

In an environment of slightly below-trend growth, the unemployment rate is projected to drift upward--to 6 percent by the end of next year. But we expect that there will be a marginal firming in compensation growth in the near term, given the current tautness in the labor market, with the ECI for private industry workers accelerating to a rise of just over 3 percent in 1996, compared with 2-3/4 percent in the year ended this past June. But, meanwhile, strains on domestic manufacturing capacity have diminished greatly since the beginning of the year, and high levels of investment point to an easing of price pressures from this source. Moreover, a firmer dollar should translate into flat import prices and reinforce the competitive pressures on U.S. producers. All told, the circumstances point to some reversal of the widening of profit margins that has occurred, and so the core CPI is projected to rise 2.8 percent in 1996, a shade below the pace in the last twelve months.

Key assumptions

The federal funds rate is assumed to remain where it is now until late in 1996 and then to ease thereafter only enough to match the decline in inflation. Such a path would come as a mild surprise to credit markets, which evidently are anticipating some further policy easing in the next few months. While this might have some adverse consequences for bond prices, there are offsetting factors in the outlook. First, we believe that the inflation rates we are projecting will be more favorable than is currently anticipated in the market. And, second, market participants probably have retained a considerable measure of skepticism about the prospects for deep reductions in the budget deficit; if a fiscal package similar to that assumed in our forecast were enacted, the bond market might respond positively. In light of these opposing influences, we have projected essentially no change in long-term interest rates over the forecast period.

As regards federal fiscal policy, we have retained our assumption of deficit reduction measures amounting to $30 billion (relative to CBO's current-policy baseline) in fiscal year 1996, $55 billion in fiscal 1997, and $80 billion in fiscal 1998. This package is more front-loaded than some other quite plausible outcomes, and it is arguable that the greater risk is that the degree of fiscal restraint next year will fall short of what we have assumed.[1] On a unified basis, the budget deficit has fallen sharply in the current fiscal year, from $203 billion in fiscal 1994 to about $162 billion. The drop has been exaggerated by the transitory effects of proceeds from spectrum auctions and deposit-insurance-related transactions. Given as well our projection of rather slow growth in nominal income, the deficit is forecast to jump to $176 billion in fiscal 1996 and remain in that vicinity in fiscal 1997. We have not assumed any type of tax reform at this point; if, as seems likely, the issue is more actively discussed, that debate could elicit significant anticipatory responses.

The trade-weighted foreign exchange value of the dollar has risen in recent weeks and is expected to stay near recent levels over the forecast period--an increase of approximately 2-1/2 percent relative to the path in the August Greenbook. Prospects for economic growth abroad have changed little since the last forecast: On an export-weighted basis, foreign real GDP is projected to increase 2 percent in 1995 and 3-1/2 percent in 1996. The posted price of WTI crude oil has firmed a bit over the inter-meeting

1. Some bigger first-year deficit reduction estimates include positive initial revenue effects of a capital gains tax <u>cut</u>. We have not included such a cut in our package, and it is in any event questionable whether such a revenue increase really implies much (if any) fiscal restraint: Investors would realize the gains now only if they felt they would be better off over the long haul.

period and now is expected to average \$16.75 per barrel in the third quarter. In response to the projected increases in world oil demand, the posted price is projected to rise to \$18.50 per barrel by the third quarter of 1996.

Developments in the Third Quarter

Our point-forecast of real GDP growth in the current quarter is 2-1/4 percent at an annual rate--with the many missing data leaving a sizable band of uncertainty around that number. Labor market indicators appear consistent with a moderate increase in output. Although payrolls were essentially unchanged in July, they rose substantially in August, and the latest readings on initial claims suggest a solid job gain in September. The workweek is expected to bounce back in September, and aggregate hours of private production or nonsupervisory workers are projected to increase at an annual rate of about 1-1/2 percent in the third quarter. After ticking down in August, the unemployment rate is expected to move back up to about 5-3/4 percent in September, implying little change for the third quarter as a whole.

In the industrial sector, we estimate that output spurted more than a percent in August, after increasing an upward-revised 1/4 percent in July. The gain in August seems outsized, but both the hours figures and the available physical-product information point persuasively to such a burst of production. That said, we do not think that strong output gains will continue. The surge in electricity generation will be reversed as temperatures become more seasonable. Last month's rebound in motor vehicle assemblies also is likely to be transitory, given reported parts shortages and the need to trim excessive stocks of some models.[2] In other

2. For the third quarter as a whole, lower motor vehicle production is forecast to reduce the growth in real GDP by 0.4 percentage point; cutbacks in assemblies depressed growth 1.1 percentage points in the second quarter.

manufacturing sectors, orders trends have flattened recently, and our industry contacts report a variety of soft spots. As a result, we are projecting that IP will decline some in the near term. Even with the August bulge, manufacturing output should increase only at a 2 percent annual pace on a quarterly average basis in the current period.

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

	1995		
	Q2	Q3	Q4
Real GDP	1.1	2.2	2.5
Previous	0.5	2.2	2.9
Final sales	2.5	3.4	2.8
Previous	2.1	3.3	2.4
Civilian unemployment rate[1]	5.7	5.7	5.8
Previous	5.7	5.8	5.8
CPI inflation	3.2	2.0	2.8
Previous	3.2	2.0	2.8

1. Percent.

Real consumer spending is expected to rise at a fairly hefty 3-1/4 percent annual rate this quarter, in part reflecting the arithmetic effects of the high level in June. Consumer purchases of motor vehicles fluctuated considerably in July and August but are running only a little above the average level of the second quarter, bolstered, in part, by incentive programs. Outside of motor vehicles, retail sales reportedly have flattened out after substantial gains in late spring; the demand for home electronic equipment apparently remains robust, but sales of apparel have continued to languish. On the service side, hefty air-conditioning bills have boosted expenditures.

Housing demand has strengthened in recent months in response to lower mortgage rates. Single-family housing starts rose sharply in

July and edged up further in August. Figures on mortgage applications and reports from homebuilders suggest that sales have been brisk in September. Given the normal lags in construction, this increase in activity will translate into a modest increase in real residential investment in the current quarter and a double digit gain in the fourth.

Real business fixed investment is expected to increase at a 10 percent annual rate in the current quarter--off from the 12 percent pace in the second quarter. The slowing has occurred in equipment spending, where orders and shipments have weakened of late. Business purchases of computers are projected to increase at "only" a 15 to 20 percent annual rate (versus better than 50 percent in the second quarter); this drop-off apparently has been exacerbated by parts shortages, leading us to think there may be a partial rebound in the fourth quarter. However, the slowing in growth of computer outlays likely is part of a broader and more fundamental cyclical deceleration in capital spending, and outlays for other types of equipment are also projected to grow more moderately. In contrast, the incoming data on construction put-in-place have been quite strong, and spending on real nonresidential structures is expected to advance at a 13-1/2 percent annual rate in the third quarter.

Cutbacks in business inventory investment are expected to depress real GDP growth more than a percentage point at an annual rate in the third quarter. The bulk of the adjustment occurs in the motor vehicle sector, where stocks fell appreciably in August. Elsewhere, the data now in hand extend only through July and present a rather mixed picture: Stocks rose sharply in manufacturing and wholesale trade but were drawn down at the retail level. We suspect that some of the July stockbuilding was intended, but the rise in inventory-sales ratios and anecdotal reports suggest that stocks probably are higher than many businesses would prefer. As a result, we anticipate further cuts in the pace of inventory accumulation.

Real government spending is forecast to rise at a 1-1/4 percent annual rate in the third quarter, led by a spurt in state and local expenditures. Incoming data indicate a sharp increase in construction expenditures, particularly for highways, while state and local governments also appear to be adding to their payrolls. At the federal level, real purchases are projected to fall at a 3-1/4 percent annual rate.

The deficit on net exports of goods and services was little changed in July, as nominal exports and imports both declined. For the third quarter as a whole, we expect a deterioration in real net exports equal to about 1/2 percentage point of real GDP.

The CPI rose 0.1 percent in August and is projected to increase only 2 percent at an annual rate in the third quarter. Energy prices are forecast to decline, as lower crude oil costs are passed on to the retail level, but food prices are expected to rise around 2-1/4 percent, held down by declines in the prices of fresh vegetables in recent months. Excluding food and energy, the core CPI rose 0.2 percent in August and appears headed for a quarterly average increase of about 2-1/2 percent. Prices of used cars, auto finance charges, and airfares have continued to reverse the large increases they recorded earlier in the year. Materials costs, too, have decelerated in recent months, with the PPI for intermediate materials excluding food and energy up only 0.1 percent last month. The latest news on labor costs also has been reasonably favorable: Average hourly earnings fell 0.2 percent in August, producing an average rate for the most recent three months just a little above the 3 percent pace of the past year.

The Outlook for the Economy

As was noted above in the overview, we are forecasting that real GDP growth will run around 2-1/4 percent through 1996. Our output path is obviously far smoother than can reasonably be expected to materialize, but at this point we have no basis for predicting significant twists and turns. Broadly characterized, the forecast involves a sequence of balancing impulses. Near term, the recent decline in the cost of capital and the ample availability of credit are expected to sustain above-trend growth of domestic final demand, but overall production is constrained by efforts to curb the rate of inventory accumulation. During 1996, the effects of this year's financial market rally begin to wane--and monetary policy remains rather restrictive, as gauged by the relatively high level of real short-term rates. In addition, fiscal policy exerts a greater restraint on demand in 1996, offsetting the lessening of the drag on activity coming from the external sector.

SUMMARY OF STAFF REAL GDP PROJECTION FOR 1995-1996
(Percent change, at annual rates)

	1994	1995		1996
		H1	H2	
Real GDP	4.1	1.9	2.3	2.2
Previous	4.1	1.6	2.5	2.3
Final sales	3.4	2.5	3.1	2.2
Previous	3.4	2.3	2.9	2.1
Gross domestic purchases	4.5	2.6	2.6	2.2
Previous	4.5	2.2	2.4	2.1

Overall, the picture is one of output growth averaging something less than potential and of a resultant slight easing of pressures on labor and capital resources. In this environment, the risks of inflation picking up materially would seem quite limited;

however, the prospects of achieving more than slight progress toward price stability also appear small.

Consumer spending. Real consumer spending is projected to grow at a comparatively modest pace through 1996. With household stocks of durable goods having grown appreciably in the past few years, a major cyclical impetus to demand is no longer present. We anticipate that this year's run-up in financial asset prices will give a boost to spending; however, the effect is expected to be dulled by the less robust tone of the labor market and the problems increasing numbers of households are encountering in servicing their enlarged debts. Mortgage refinancing activity appears to be on the rise once again, but this episode is unlikely to yield the same kind of improvement in household finances that other recent refi waves did.

Real PCE is forecast to increase at a 2-1/4 percent annual rate in the fourth quarter--a figure that is depressed almost 1/2 percentage point by the return of energy consumption to more normal levels; in 1996, consumer spending is projected to increase about 2 percent. We anticipate that spending on durable goods will be the fastest growing component of PCE, expanding 3-1/2 percent next year. Although sales of light vehicles are expected to move down to around 14-1/2 million units next year, spending on other durable goods is projected to remain fairly brisk. Sales of furniture and appliances are likely to benefit from the step-up in home sales, and the demand for home electronic equipment is expected to remain strong. In contrast, we are looking for subpar growth in spending on nondurable goods and services.

Residential investment. Real residential investment is expected to increase at a 13 percent annual rate in the fourth quarter of 1995 and 4 percent in 1996. Anticipating that most of the effect of this year's decline in mortgage rates has already been reflected in demand, we are projecting that single family housing starts will only rise a little further from here--to 1.15 million units (annual rate) late next year versus 1.11 million in the past two months and under 1 million at the low this spring. Demand will be moderated by the mild growth in disposable income and could be negatively affected by concerns about the future value--or existence--of mortgage interest deductions (given discussions of tax reform). But there are upside risks as well: The lag in the response of housing demand to interest rate changes has sometimes been surprisingly long, and more strengthening could be in the pipeline; in addition, it is conceivable that the higher rate of household formation observed in the past year could be maintained for a while.

In the multifamily sector, starts are projected to rise something over 10 percent by the end of next year, to an annual rate of just above 300,000 units. This would still be a low level of construction by historical standards, which is consistent with the still high rental vacancy rate. But financial conditions are generally favorable to an expansion of activity, and the supply-demand balance is conducive to building in some locales.

Business fixed investment. Business capital spending has been one of the driving forces in this expansion, and it is expected to remain so through 1996, although outlays are expected to rise at a less impressive pace. After increasing at double-digit rates for a good many quarters, real BFI is expected to grow 8 percent (annual rate) in the fourth quarter and 6 percent in 1996. The slowdown reflects the waning of accelerator effects that stimulated spending earlier in the expansion. Capacity utilization rates are projected to move lower, and the supply of internal funds is likely to expand only a little in a period of lackluster output growth.

Real PDE is projected to increase at an 8 percent annual rate in the fourth quarter and 6-3/4 percent in 1996. Spending on computers is expected to increase at a rapid clip--albeit one, at a mere 16 percent next year, that is well below the average of recent years. As noted earlier, we see computer outlays as participating in a general cyclical deceleration of capital spending; nonetheless, this forecast has some upside risk, given the rapidity of technological progress and the ongoing decline in prices that have led firms to upgrade their systems frequently and opened the door to new uses for the equipment.[3] Business purchases of motor vehicles are projected to fall slightly over the forecast period, reflecting in part a fall-off in deliveries of heavy trucks, for which orders have weakened of late. Spending on other types of equipment is expected to rise slowly, with substantial variation across categories.

Real NRS investment is projected to increase at an annual rate of close to 8 percent in the fourth quarter and 4 percent in 1996. The backlog of permits remains fairly high, and, given the long lags in this sector, spending growth should be sustained. Office construction is expected to rise, with vacancy rates now down considerably in some locales and financing readily available for qualified borrowers. Industrial building is likely to register a considerable advance, with notable capacity expansion under way not only in high-tech sectors like semiconductors but also in steel and some other "basic" industries.

3. This upside risk to our forecast of real GDP is, of course, more of a concern in the case of the fixed 1987-weight GDP accounts with which we are currently working; growth in computer expenditures will be a less important element once the GDP accounts are based on chain weights or 1992 relative prices.

Business inventories. Tight supply conditions--reflected, for example, in deteriorating vendor performance--and concerns about rising materials prices apparently prompted firms to raise their target stock-sales ratios last year. With the slackening in sales growth this year, some firms found themselves with uncomfortably large stockpiles, and the effort to realign inventories with expected sales has been an important element in the deceleration of output. During the forecast period, concerns about the availability of goods are likely to subside further, and consequently, we would expect to see a resumption of at least a slight downtrend to inventory sales ratios.

The bulk of the gearing-down in the pace of accumulation is forecast to be completed by the end of this year. Thereafter, we expect that business stocks will rise at a relatively steady rate in the absence--at least in our forecast--of any major short-run gyrations in final demand.

Government purchases. As in the August Greenbook, the staff assumes that the Congress and the President will reach a compromise on the budget within the next few months and avoid any extraordinary disruption of federal activities. Real federal purchases are projected to decline at a 6-1/4 percent annual rate in the fourth quarter of 1995, as the first round of spending cuts starts to take effect. Real purchases are projected to decline 5-3/4 percent in 1996, with real defense spending falling 3-3/4 percent and real nondefense purchases dropping 10 percent. As federal grants are cut, we anticipate that state and local governments will be forced to restrain their spending. After growing 2 percent in 1995, real state and local purchases are projected to rise only 1-1/2 percent in 1996.

<u>Net exports</u>. The restraint on domestic production coming from the external sector is expected to diminish over the projection period. Stimulated by faster growth abroad and the still relatively low level of the dollar, real exports are forecast to increase 9-1/4 percent in 1996 after an increase of 6-1/2 percent in 1995. Real imports are projected to expand a hefty 8-1/2 percent in 1996, despite the slower pace of output growth; this reflects this country's overall high propensity to import as well as exchange rate effects and continued large increases in purchases of computers and electronic components from abroad. (More detail on these projections is contained in the International Developments section.)

STAFF LABOR MARKET PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Output per hour, nonfarm business	1.8	1.8	1.0
Previous	1.8	1.5	1.3
Nonfarm payroll employment	3.1	1.7	1.1
Previous	3.1	1.7	1.1
Civilian unemployment rate[1]	5.6	5.8	6.0
Previous	5.6	5.8	5.9

1. Average for the fourth quarter.

<u>Labor markets</u>. Reported productivity growth during the first half of this year was remarkably high, for a period in which output was decelerating markedly. This raises some question about our assumption that the cyclically adjusted uptrend of output per hour in the nonfarm business sector is about 1-1/2 percent per annum (in 1987 dollars). While it could be that the trend is somewhat steeper, a couple of considerations lead us to retain our prior assumption for the time being. First, the surge in productivity in the second quarter appears to reflect importantly a fluke decline in self-employed workers, and we anticipate a reversal of that drop in

the current quarter. In addition, the official figures are derived from the income side of the national accounts and--arithmetically--have been elevated relative to GDP numbers by the steep increase over the past year or so in the statistical discrepancy as income growth has exceeded measured production growth. The product-side figures may well be running closer to the truth in this period. (Indeed, the BLS plans to shift to a product-side measure of productivity next year.)

On this interpretation, we have projected that labor productivity will dip this quarter and then grow relatively slowly through much of 1996--moving the level of output per hour a bit closer to the longer-term trend line. We are projecting that payrolls will expand about 150,000 per month, on average, in the fourth quarter and 100,000 per month in 1996.

Growth of the labor force has continued to run on the weak side of our expectations. One possibility is that the change in the household survey at the beginning of 1994 introduced a more serious discontinuity in the time series for the participation rate than we have understood; another is that behavior has truly changed, and we are not getting the kind of pickup in participation that has occurred in past expansions. We are now anticipating that the participation rate will post a slightly smaller increase over the next year than we had projected previously; but the forecast rise is significant, and if participation were to continue to be surprisingly sluggish, unemployment would tend, in the short run, to be lower than we have anticipated.

Wages and Prices. Given our forecast of slightly higher unemployment and slightly lower capacity utilization, we expect little change in the inflation picture through next year. The overall CPI is projected to rise 2.9 percent in 1996, with the core component increasing a bit less than that, at 2.8 percent.

We are anticipating that the employment cost index for hourly compensation will accelerate slightly in coming quarters. Employers have thus far captured a disproportionate share of the recent gains associated with savings on medical insurance and other benefits costs, and some partial catch-up by workers would not be surprising. In addition, it seems unlikely that benefit cost savings will be as easy to come by now that many companies have already shifted to managed care schemes.[4] But compensation gains are projected only to inch up: Although labor markets remain relatively tight--reports persist of "shortages" of qualified job applicants--workers still seem sufficiently concerned about preserving their jobs and benefits that they are not putting much pressure on employers to raise pay.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1994	1995	1996
Consumer price index	2.6	2.8	2.9
Previous	2.6	2.8	3.0
Excluding food and energy	2.8	3.1	2.8
Previous	2.8	3.1	2.9
ECI for compensation of private industry workers[1]	3.1	2.8	3.1
Previous	3.1	2.8	3.1

1. December to December.

Even if hourly compensation and unit labor cost increases do grow somewhat, the effects on prices should be minor. Prices have been rising considerably faster than labor costs for some time, leading to a widening of profit margins. This situation suggests

4. Current discussions of cuts in Medicare/Medicaid outlays suggest a further upside risk to benefit costs: "cost-shifting" by medical care providers squeezed by government price constraints. At this point, however, we have not incorporated such specific programmatic changes into our fiscal assumptions.

that some cushion exists to absorb higher compensation rates in the short run. Moreover, the easing of capacity pressures has reduced the pricing leverage of materials producers, and the firming of the dollar is likely to be reflected in a softening of import prices.

Meanwhile, we are assuming that there will be no major shocks from the energy and agriculture sectors disturbing this otherwise quiescent inflation picture. Energy prices are expected to accelerate appreciably in the near term as the projected increase in crude oil costs is passed through to the retail level. Although we have raised our forecast of food prices since the August Greenbook in response to reports of additional crop losses in late summer, the increases still are expected to be modest--2.7 percent in both 1995 and 1996. Although the prices of grains and oil seeds have climbed a good deal this year, unless there is a substantial further rise, the effects on grocery store or restaurant prices should be modest.

<u>A First Glance at 1997</u>

In this Greenbook, the projection has been extended through 1997. The tentativeness of this exercise must be regarded as even greater than usual, given the prospective revisions to the GDP accounts and the extraordinary uncertainty surrounding the fiscal outlook (including both deficit reduction and possible tax reform). With that caveat, as noted above, we have assumed a slight easing in short-term interest rates by 1997 to keep pace with the decline in inflation. Yet, even with this adjustment, we view the level of real short-term interest rates as high enough to continue to exert a restraining influence on the growth of aggregate demand; real GDP is projected to grow less than its potential pace, and the unemployment rate moves up somewhat further. With the reemergence of slack in the economy, the core inflation rate is forecast to edge down to 2.7 percent in 1997.

Alternative Simulations

We have run an alternative set of forecast simulations with the Board's econometric model in which the federal funds rate is assumed to be raised or lowered relative to the baseline path by 100 basis points--implemented in four equal installments beginning in the fourth quarter of 1995. Given the lags in the model, neither policy action has any appreciable effect on 1995. Thereafter, under the lower funds rate assumption, real GDP growth is raised almost 1/2 percentage point in 1996 and 3/4 percentage point in 1997. The unemployment rate is 1/2 percentage point lower by the end of 1997, and core inflation is 0.1 percentage point higher in 1996 and almost 1/2 percentage point higher in 1997. The results for the tighter monetary policy simulations are symmetrical.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, except as noted)

	1995	1996	1997
Real GDP			
Baseline	2.1	2.2	2.0
Lower funds rate	2.1	2.6	2.8
Higher funds rate	2.1	1.8	1.2
Civilian unemployment rate[1]			
Baseline	5.8	6.0	6.2
Lower funds rate	5.8	5.9	5.7
Higher funds rate	5.8	6.1	6.7
CPI excluding food and energy			
Baseline	3.1	2.8	2.7
Lower funds rate	3.1	2.9	3.1
Higher funds rate	3.1	2.7	2.3

1. Average for the fourth quarter.

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

September 20, 1995

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	08/16/95	09/20/95	08/16/95	09/20/95	08/16/95	09/20/95	08/16/95	09/20/95	08/16/95	09/20/95
ANNUAL										
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	4.9	5.1	2.9	3.0	2.9	2.9	2.9	2.9	5.7	5.7
1996	4.5	4.6	2.3	2.2	2.9	2.9	2.9	2.9	5.9	5.9
1997		4.0		2.1		2.7		2.7		6.1
QUARTERLY										
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]	4.7	4.7	2.7	2.7	3.3	3.3	3.2	3.2	5.5	5.5
Q2[2]	2.0	2.8	.5	1.1	2.7	2.8	3.2	3.2	5.7	5.7
Q3	4.6	5.1	2.2	2.2	2.8	2.8	2.0	2.0	5.8	5.7
Q4	5.4	5.1	2.9	2.5	2.9	3.1	2.8	2.8	5.8	5.8
1996 Q1	4.7	5.1	2.3	2.3	3.1	3.4	3.3	3.0	5.8	5.8
Q2	4.3	4.3	2.3	2.2	2.7	2.7	3.1	3.1	5.9	5.9
Q3	4.4	4.1	2.3	2.2	2.8	2.6	2.9	2.9	5.9	5.9
Q4	4.3	4.1	2.3	2.1	2.8	2.6	2.8	2.7	5.9	6.0
1997 Q1		4.1		2.0		2.9		2.7		6.0
Q2		3.9		2.0		2.6		2.7		6.1
Q3		3.9		2.0		2.6		2.7		6.1
Q4		3.8		2.0		2.6		2.7		6.2
TWO-QUARTER[3]										
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[2]	3.4	3.7	1.6	1.9	2.9	2.9	3.2	3.2	.1	.1
Q4	5.0	5.1	2.5	2.3	2.8	3.0	2.4	2.4	.1	.1
1996 Q2	4.5	4.7	2.3	2.2	2.9	3.0	3.2	3.1	.1	.1
Q4	4.4	4.1	2.3	2.1	2.8	2.6	2.9	2.8	.0	.1
1997 Q2		4.0		2.0		2.7		2.7		.1
Q4		3.8		2.0		2.6		2.7		.1
FOUR-QUARTER[4]										
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	4.2	4.4	2.1	2.1	2.9	3.0	2.8	2.8	.2	.2
1996 Q4	4.4	4.4	2.3	2.2	2.8	2.8	3.0	2.9	.1	.2
1997 Q4		3.9		2.0		2.7		2.7		.2

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)

September 20, 1995

Item	Unit[1]	1989	1990	1991	1992	1993	1994	Projected 1995	1996	1997
EXPENDITURES										
Nominal GDP	Bill. $	5250.8	5546.1	5724.8	6020.2	6343.3	6738.4	7078.7	7403.0	7699.4
Real GDP	Bill. 87$	4838.0	4897.3	4867.6	4979.3	5134.5	5344.0	5504.8	5624.8	5740.2
Real GDP	% change	1.6	.2	.3	3.7	3.1	4.1	2.1	2.2	2.0
Gross domestic purchases		.9	-.4	-.1	4.1	3.9	4.5	2.6	2.2	1.9
Final sales		1.5	1.2	-.4	3.8	3.0	3.4	2.8	2.2	2.0
Private dom. final purch.		.5	-.1	-.8	5.1	5.0	4.9	4.0	2.9	2.3
Personal cons. expend.		1.2	.7	.0	4.2	3.0	3.5	2.6	2.1	1.9
Durables		-.5	-.8	-1.3	9.6	9.0	8.6	2.9	3.6	3.8
Nondurables		1.2	-.1	-1.6	3.2	1.3	3.1	1.8	1.2	1.2
Services		1.7	1.7	1.2	3.5	2.5	2.4	2.9	2.2	1.7
Business fixed invest.		-.4	.7	-6.2	6.7	16.0	12.9	12.7	6.0	5.1
Producers' dur. equip.		-1.7	2.9	-3.2	11.0	21.3	15.5	13.3	6.7	6.3
Nonres. structures		2.3	-3.9	-12.4	-3.4	1.6	4.6	10.7	3.9	.9
Res. structures		-7.7	-15.2	.7	17.0	8.1	3.1	-.3	4.1	-.4
Exports		11.3	6.7	8.1	5.0	5.8	11.6	6.4	9.3	9.4
Imports		2.6	.4	4.0	8.6	12.4	13.8	9.0	8.6	7.9
Government purchases		2.0	3.3	-.8	.7	-1.0	-1.0	-.4	-1.1	-.4
Federal		-.6	2.8	-3.2	.8	-6.9	-5.9	-4.6	-5.8	-4.5
Defense		-1.5	1.5	-7.0	-1.3	-9.0	-8.2	-4.1	-3.7	-4.3
State and local		4.0	3.6	.8	.6	3.0	2.0	1.9	1.4	1.5
Change in bus. invent.	Bill. 87$	29.8	5.7	-1.1	2.5	15.3	47.8	28.3	16.0	15.4
Nonfarm		29.9	3.2	-1.3	-2.0	18.5	40.7	28.4	16.0	14.4
Net exports		-73.7	-54.7	-19.5	-32.3	-73.9	-110.0	-128.5	-141.9	-141.7
Nominal GDP	% change	6.0	4.7	3.5	6.4	5.0	6.5	4.4	4.4	3.9
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	107.9	109.4	108.3	108.6	110.7	114.0	116.6	118.1	119.1
Unemployment rate	%	5.3	5.5	6.7	7.4	6.8	6.1	5.7	5.9	6.1
Industrial prod. index	% change	-.1	-.2	.2	4.0	3.6	6.0	2.1	2.7	2.4
Capacity util. rate-mfg.	%	83.2	81.3	78.0	79.2	80.9	83.4	83.3	82.0	81.5
Housing starts	Millions	1.38	1.19	1.01	1.20	1.29	1.46	1.35	1.46	1.48
Light Motor Vehicle Sales		14.53	13.85	12.31	12.80	13.89	15.07	14.67	14.50	14.50
Auto sales in U.S.		9.91	9.50	8.39	8.35	8.72	9.24	8.84	8.61	8.61
North American prod.		7.08	6.90	6.14	6.26	6.75	7.28	7.10	7.00	7.00
Other		2.83	2.60	2.25	2.10	1.97	1.96	1.74	1.61	1.61
INCOME AND SAVING										
Nominal GNP	Bill. $	5266.8	5567.8	5740.8	6025.8	6347.8	6726.9	7061.3	7382.1	7675.8
Nominal GNP	% change	6.1	4.9	3.2	6.1	5.0	6.1	4.5	4.3	3.9
Nominal personal income		6.5	6.5	3.7	8.1	2.8	6.8	5.3	4.5	4.4
Real disposable income		1.1	1.1	.9	5.0	.5	4.4	2.5	2.0	1.9
Personal saving rate	%	4.0	4.2	5.0	5.5	4.1	4.1	4.4	4.2	4.3
Corp. profits, IVA&CCAdj	% change	-6.3	2.3	8.8	9.6	23.4	4.9	4.5	2.6	1.9
Profit share of GNP	%	6.9	6.8	6.8	6.7	7.7	8.1	8.3	8.1	7.9
Federal surpl./def.	Bill. $	-122.3	-163.5	-202.9	-282.7	-241.4	-159.1	-143.1	-133.8	-148.1
State/local surpl./def.		44.8	25.1	17.0	24.8	26.3	26.2	26.7	29.8	41.1
Ex. social ins. funds		-17.5	-35.6	-46.5	-41.6	-40.0	-39.3	-38.0	-34.3	-22.6
PRICES AND COSTS										
GDP implicit deflator	% change	4.4	4.5	3.3	2.6	1.8	2.3	2.3	2.1	1.9
GDP fixed-wt. price index		4.4	4.6	3.6	3.2	2.8	2.9	3.0	2.8	2.7
Gross domestic purchases fixed-wt. price index		4.4	5.2	2.9	3.2	2.5	2.9	2.8	2.7	2.6
CPI		4.6	6.3	3.0	3.1	2.7	2.6	2.8	2.9	2.7
Ex. food and energy		4.4	5.3	4.4	3.5	3.1	2.8	3.1	2.8	2.7
ECI, hourly compensation[2]		4.8	4.6	4.4	3.5	3.6	3.1	2.8	3.1	3.0
Nonfarm business sector										
Output per hour		-1.4	.4	2.3	3.1	1.3	1.8	1.8	1.0	1.4
Compensation per hour		3.1	6.2	4.7	5.1	1.9	3.2	3.7	3.3	3.2
Unit labor cost		4.6	5.7	2.3	1.9	.5	1.4	1.8	2.3	1.8

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)

Item	Unit	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
EXPENDITURES											
Nominal GDP	Bill. $	6235.9	6299.9	6359.2	6478.1	6574.7	6689.9	6791.7	6897.2	6977.4	7024.9
Real GDP	Bill. 87$	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1	5367.0	5433.8	5470.1	5485.2
Real GDP	% change	1.2	2.4	2.7	6.3	3.3	4.1	4.0	5.1	2.7	1.1
Gross domestic purchases		2.7	3.3	4.0	5.8	5.0	4.6	4.4	4.2	3.5	1.7
Final sales		.2	2.4	3.2	6.4	2.2	1.5	4.3	5.7	2.6	2.5
Private dom. final purch.		3.5	3.7	5.3	7.4	5.8	2.7	4.1	6.8	4.2	3.8
Personal cons. expend.		1.6	2.6	3.9	4.0	4.7	1.3	3.1	5.1	1.6	3.4
Durables		3.2	9.8	7.7	15.5	8.8	.4	5.8	20.4	-3.4	2.9
Nondurables		-1.6	1.6	2.8	2.4	3.8	2.2	3.3	3.1	2.3	2.0
Services		3.1	1.4	3.6	2.0	4.0	1.1	2.2	2.3	2.6	4.3
Business fixed invest.		15.1	15.6	12.2	21.1	10.9	9.2	14.1	17.6	21.5	11.8
Producers' dur. equip.		20.0	21.6	16.2	27.5	18.6	6.1	18.1	19.6	24.5	12.3
Nonres. structures		2.5	.3	.5	3.3	-11.8	20.6	1.6	11.0	11.5	10.1
Res. structures		5.3	-7.6	9.4	28.2	10.0	7.0	-6.0	2.3	-3.4	-13.2
Exports		-1.0	7.7	-3.2	21.7	-3.5	16.6	14.8	20.2	4.8	6.1
Imports		11.6	14.9	7.4	16.0	9.5	18.9	15.6	11.4	10.1	9.5
Government purchases		-5.9	1.2	1.1	-.1	-4.9	-1.2	6.7	-4.1	-.7	-.8
Federal		-15.4	-3.6	-3.0	-5.0	-10.3	-7.9	10.9	-14.4	-3.8	-4.9
Defense		-20.0	-2.2	-9.2	-3.6	-16.0	-4.1	12.8	-21.8	-7.5	-2.9
State and local		.9	4.4	3.7	2.9	-1.4	2.9	4.3	2.3	1.0	1.6
Change in bus. invent.	Bill. 87$	18.5	18.9	13.0	10.8	25.4	59.2	57.1	49.4	51.1	32.7
Nonfarm		19.7	22.8	20.9	10.7	22.1	51.7	47.4	41.7	49.1	31.9
Net exports		-57.6	-69.3	-86.3	-82.2	-104.0	-111.8	-117.0	-107.1	-118.5	-126.8
Nominal GDP	% change	4.4	4.2	3.8	7.7	6.1	7.2	6.2	6.4	4.7	2.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.7	110.4	111.0	111.8	112.7	113.6	114.5	115.3	116.1	116.4
Unemployment rate[1]	%	7.0	7.0	6.7	6.5	6.6	6.2	6.0	5.6	5.5	5.7
Industrial prod. index	% change	5.1	.7	3.3	5.3	7.1	6.0	4.9	5.9	5.2	-2.4
Capacity util. rate-mfg.[1]	%	80.8	80.6	80.7	81.4	82.3	83.1	83.6	84.5	84.7	83.1
Housing starts	Millions	1.16	1.25	1.31	1.47	1.36	1.44	1.47	1.51	1.31	1.28
Light Motor Vehicle Sales		13.23	14.11	13.69	14.53	15.45	14.76	14.65	15.44	14.90	14.35
Auto sales in U.S.		8.32	8.93	8.65	8.97	9.45	9.15	9.09	9.25	8.84	8.72
North American prod.		6.36	6.87	6.68	7.08	7.44	7.16	7.09	7.42	7.03	6.91
Other		1.96	2.07	1.97	1.89	2.00	1.99	2.01	1.83	1.81	1.82
INCOME AND SAVING											
Nominal GNP	Bill. $	6243.9	6303.3	6367.8	6476.2	6574.0	6682.5	6779.6	6871.3	6959.5	7005.8
Nominal GNP	% change	5.1	3.9	4.2	7.0	6.2	6.8	5.9	5.5	5.2	2.7
Nominal personal income		-5.8	8.6	2.4	6.7	5.3	7.7	5.4	8.8	7.4	2.9
Real disposable income		-7.4	4.7	.8	4.3	3.4	3.5	3.1	7.5	4.1	-1.1
Personal saving rate[1]	%	4.0	4.6	3.9	4.0	3.6	4.1	4.1	4.6	5.1	4.0
Corp. profits, IVA&CCAdj	% change	9.6	30.7	18.4	37.0	-17.9	33.6	7.2	3.1	6.9	11.3
Profit share of GNP[1]	%	7.1	7.5	7.7	8.2	7.7	8.2	8.2	8.2	8.2	8.4
Federal govt. surpl./def.	Bill. $	-283.5	-237.0	-224.9	-220.1	-176.2	-145.1	-154.0	-161.1	-148.6	-127.8
State/local surpl./def.		21.6	25.3	23.9	34.5	25.2	27.0	23.9	28.8	28.2	26.1
Ex. social ins. funds		-44.7	-41.1	-42.4	-31.7	-40.7	-38.9	-41.4	-36.4	-36.9	-38.7
PRICES AND COSTS											
GDP implicit deflator	% change	3.3	1.6	1.0	1.3	2.9	2.9	1.9	1.3	2.2	1.6
GDP fixed-wt. price index		4.2	2.4	2.0	2.4	3.1	2.9	3.0	2.6	3.3	2.8
Gross domestic purchases fixed-wt. price index		3.3	2.6	1.6	2.4	2.5	3.2	3.5	2.6	3.0	3.0
CPI		3.1	2.8	1.7	3.4	2.2	2.5	3.6	2.2	3.2	3.2
Ex. food and energy		3.5	3.5	2.4	2.9	2.9	2.9	3.1	2.3	3.3	3.6
ECI, hourly compensation[2]		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.6	2.3	2.9
Nonfarm business sector											
Output per hour		-2.2	.4	2.9	4.2	1.7	-1.4	2.7	4.3	2.5	4.8
Compensation per hour		1.9	2.4	1.5	1.6	4.9	1.4	2.7	3.8	4.1	3.5
Unit labor cost		4.1	2.0	-1.3	-2.5	3.1	2.8	.0	-.4	1.6	-1.2

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

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

September 20, 1995

Item	Units	1995		Projected 1996				1997			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	7112.0	7200.5	7290.3	7366.6	7440.4	7514.7	7590.5	7662.9	7735.7	7808.5
Real GDP	Bill. 87$	5515.3	5548.8	5579.9	5609.7	5640.1	5669.4	5697.6	5725.5	5754.3	5783.4
Real GDP	% change	2.2	2.5	2.3	2.2	2.2	2.1	2.0	2.0	2.0	2.0
Gross domestic purchases		2.7	2.4	2.5	2.2	2.6	1.6	1.9	1.9	2.4	1.6
Final sales		3.4	2.8	2.1	2.2	1.7	2.7	2.1	2.0	1.6	2.2
Private dom. final purch.		4.4	3.6	3.2	2.9	2.8	2.7	2.5	2.3	2.3	2.3
Personal cons. expend.		3.2	2.2	2.2	2.1	2.1	2.0	2.0	1.8	1.8	1.8
Durables		8.7	3.8	3.5	3.7	3.6	3.6	4.9	3.5	3.5	3.5
Nondurables		.9	1.9	1.2	1.2	1.3	1.2	1.1	1.2	1.2	1.2
Services		3.0	1.8	2.4	2.2	2.1	2.0	1.7	1.7	1.7	1.7
Business fixed invest.		10.0	7.9	6.3	6.0	5.9	5.9	5.4	5.1	5.1	5.0
Producers' dur. equip.		9.1	8.0	6.9	6.6	6.6	6.6	6.3	6.3	6.2	6.3
Nonres. structures		13.6	7.8	4.3	3.8	3.6	3.6	2.0	.7	.7	.3
Res. structures		4.4	13.1	8.2	4.4	2.6	1.5	-.4	-.5	-.4	-.3
Exports		2.9	12.1	7.6	11.8	4.3	13.6	7.6	12.4	5.1	12.6
Imports		6.0	10.4	8.6	10.5	6.9	8.4	6.2	10.4	6.7	8.3
Government purchases		1.3	-1.4	-1.7	-1.3	-.9	-.6	-.7	-.1	-.1	-.9
Federal		-3.3	-6.2	-6.3	-6.5	-5.9	-4.6	-4.9	-3.6	-3.5	-5.9
Defense		-4.4	-1.5	-2.3	-4.0	-4.6	-4.0	-4.3	-4.3	-4.2	-4.2
State and local		3.9	1.2	.8	1.5	1.7	1.5	1.4	1.6	1.6	1.6
Change in bus. invent.	Bill. 87$	17.1	12.4	14.8	14.6	21.3	13.5	12.7	12.9	19.4	16.5
Nonfarm		18.1	14.4	15.9	14.3	20.8	12.9	11.9	11.9	18.4	15.4
Net exports		-134.1	-134.6	-139.1	-140.3	-147.4	-141.0	-140.4	-140.2	-145.8	-140.1
Nominal GDP	% change	5.1	5.1	5.1	4.3	4.1	4.1	4.1	3.9	3.9	3.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	116.8	117.3	117.6	118.0	118.3	118.5	118.8	119.0	119.2	119.4
Unemployment rate[1]	%	5.7	5.8	5.8	5.9	5.9	6.0	6.0	6.1	6.1	6.2
Industrial prod. index	% change	3.8	1.9	3.0	2.6	2.7	2.4	2.4	2.3	2.4	2.6
Capacity util. rate-mfg[1]	%	82.7	82.4	82.3	82.1	82.0	81.7	81.6	81.5	81.4	81.4
Housing starts	Millions	1.40	1.43	1.45	1.46	1.46	1.46	1.47	1.47	1.48	1.48
Light Motor Vehicle Sales		14.74	14.69	14.49	14.50	14.50	14.50	14.50	14.50	14.50	14.50
Auto sales in U.S.		9.06	8.72	8.61	8.61	8.61	8.61	8.61	8.61	8.61	8.61
North American prod.		7.35	7.10	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Other		1.71	1.62	1.61	1.61	1.61	1.61	1.61	1.61	1.61	1.61
INCOME AND SAVING											
Nominal GNP	Bill. $	7098.2	7181.8	7271.6	7344.3	7421.9	7490.5	7569.7	7637.6	7715.0	7780.7
Nominal GNP	% change	5.4	4.8	5.1	4.1	4.3	3.7	4.3	3.6	4.1	3.5
Nominal personal income		5.1	5.8	5.0	4.4	4.0	4.7	5.0	4.2	3.9	4.3
Real disposable income		4.0	3.3	3.2	.4	2.4	2.0	3.1	1.6	1.1	1.7
Personal saving rate[1]	%	4.1	4.3	4.5	4.1	4.2	4.2	4.4	4.4	4.2	4.2
Corp. profits, IVA&CCAdj	% change	4.4	-3.8	6.1	-.4	4.0	.8	4.7	-4.6	6.2	1.8
Profit share of GNP[1]	%	8.3	8.2	8.2	8.1	8.1	8.0	8.0	7.9	7.9	7.9
Federal govt. surpl./def.	Bill. $	-139.1	-157.0	-145.7	-120.6	-128.5	-140.5	-148.7	-146.5	-141.8	-155.4
State/local surpl./def.		24.4	28.0	25.8	28.3	31.2	33.8	37.3	39.2	44.3	43.5
Ex. social ins. funds		-40.2	-36.3	-38.4	-35.8	-32.8	-30.1	-26.5	-24.5	-19.3	-20.0
PRICES AND COSTS											
GDP implicit deflator	% change	2.7	2.6	2.8	2.1	1.8	1.9	2.1	1.9	1.8	1.7
GDP fixed-wt. price index		2.8	3.1	3.4	2.7	2.6	2.6	2.9	2.6	2.6	2.6
Gross domestic purchases fixed-wt. price index		2.3	2.6	3.0	2.7	2.6	2.6	2.8	2.6	2.6	2.6
CPI		2.0	2.8	3.0	3.1	2.9	2.7	2.7	2.7	2.7	2.7
Ex. food and energy		2.6	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7
ECI, hourly compensation[2]		3.0	3.0	3.1	3.1	3.1	3.1	3.0	3.0	3.0	3.0
Nonfarm business sector											
Output per hour		-.8	.7	.9	1.0	1.1	1.1	1.3	1.3	1.4	1.5
Compensation per hour		3.5	3.5	3.6	3.2	3.2	3.2	3.5	3.1	3.1	3.1
Unit labor cost		4.3	2.8	2.7	2.2	2.1	2.1	2.2	1.8	1.7	1.6

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

Strictly Confidential (FR)
Class II FOMC

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

September 20, 1995

Item	1993				1994				1995					Projected
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1992	1993	1994	1995
Real GDP	14.6	30.1	34.0	78.6	43.1	53.0	52.9	66.8	36.3	15.1	179.9	157.3	215.8	115.0
Gross domestic purchases	33.7	41.8	51.1	74.4	64.9	60.7	58.2	56.9	47.7	23.4	201.6	201.0	240.7	142.4
Final sales	2.7	29.7	40.0	80.7	28.5	19.2	55.1	74.4	34.6	33.5	186.8	153.1	177.2	152.0
Private dom. final purch.	35.9	38.6	54.5	76.9	61.9	29.8	45.4	74.3	47.7	43.6	202.2	205.9	211.4	183.2
Personal cons. expend.	13.8	22.0	33.0	34.0	40.1	11.5	26.9	44.9	14.3	30.4	138.1	102.8	123.4	93.7
Durables	3.7	11.2	9.0	18.1	10.9	.5	7.4	25.2	-4.8	3.9	41.1	42.0	44.0	16.1
Nondurables	-4.2	4.3	7.4	6.3	10.3	6.0	9.1	8.5	6.3	5.7	33.8	13.8	33.9	20.1
Services	14.4	6.4	16.6	9.6	18.9	5.1	10.4	11.1	12.8	20.7	63.1	47.0	45.5	57.4
Business fixed invest.	19.4	20.7	16.9	29.3	16.4	14.3	22.1	28.2	35.4	21.1	34.0	86.3	81.0	90.1
Producers' dur. equip.	18.4	20.7	16.6	28.2	20.9	7.5	21.5	24.2	31.1	17.2	39.1	83.9	74.1	73.4
Nonres. structures	.9	.1	.2	1.2	-4.6	6.9	.6	4.0	4.3	3.9	-5.1	2.4	6.9	16.7
Res. structures	2.7	-4.1	4.7	13.5	5.4	3.9	-3.6	1.3	-2.0	-8.0	30.2	16.8	7.0	-.6
Change in bus. invent.	11.9	.4	-5.9	-2.2	14.6	33.8	-2.1	-7.7	1.7	-18.4	-6.9	4.2	38.6	-37.0
Nonfarm	13.4	3.1	-1.9	-10.2	11.4	29.6	-4.3	-5.7	7.4	-17.2	-8.3	4.4	31.0	-27.3
Farm	-1.5	-2.7	-4.0	8.0	3.2	4.2	2.2	-2.0	-5.7	-1.1	1.4	-.2	7.6	-9.7
Net exports	-19.1	-11.7	-17.0	4.1	-21.8	-7.8	-5.2	9.9	-11.4	-8.3	-21.6	-43.7	-24.9	-27.5
Exports	-1.5	11.0	-4.9	29.9	-5.6	24.3	22.6	31.4	8.3	10.6	28.1	34.5	72.7	44.8
Imports	17.5	22.8	12.0	25.8	16.2	32.0	27.9	21.5	19.6	19.0	49.9	78.1	97.6	72.3
Government purchases	-14.1	2.8	2.5	-.3	-11.6	-2.8	14.9	-9.8	-1.7	-1.8	6.2	-9.1	-9.3	-3.8
Federal	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	8.8	-13.1	-3.2	-4.1	2.9	-25.9	-20.7	-15.1
Defense	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	6.9	-13.9	-4.2	-1.6	-3.4	-23.7	-19.6	-9.0
Nondefense	-1.3	-1.8	3.2	-2.3	.8	-4.5	1.8	.8	1.0	-2.5	6.4	-2.2	-1.1	-6.1
State and local	1.3	6.1	5.2	4.2	-2.1	4.1	6.1	3.3	1.5	2.3	3.2	16.8	11.4	11.3

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

September 20, 1995

Item	1995 Q3	1995 Q4 (Projected)	1996 Q1 (Projected)	1996 Q2 (Projected)	1996 Q3 (Projected)	1996 Q4 (Projected)	1997 Q1 (Projected)	1997 Q2 (Projected)	1997 Q3 (Projected)	1997 Q4 (Projected)	1994	1995 (Projected)	1996 (Projected)	1997 (Projected)
Real GDP	30.1	33.5	31.2	29.8	30.4	29.3	28.2	27.9	28.8	29.1	215.8	115.0	120.7	114.0
Gross domestic purchases	37.4	33.9	35.7	31.0	37.5	22.9	27.6	27.7	34.4	23.4	240.7	142.4	127.1	113.1
Final sales	45.6	38.2	28.8	29.9	23.7	37.1	29.0	27.7	22.3	32.0	177.2	152.0	119.6	111.0
Private dom. final purch.	49.9	41.9	37.3	34.1	32.9	32.0	30.0	27.8	28.1	28.2	211.4	183.2	136.2	114.1
Personal cons. expend.	29.1	19.8	20.3	19.7	19.4	18.9	19.1	17.4	17.5	17.6	123.4	93.7	78.4	71.6
Durables	11.7	5.3	4.9	5.3	5.1	5.2	7.0	5.2	5.2	5.3	44.0	16.1	20.5	22.7
Nondurables	2.7	5.5	3.4	3.4	3.7	3.4	3.2	3.5	3.5	3.5	33.9	20.1	14.0	13.6
Services	14.9	9.1	12.0	11.0	10.6	10.3	8.9	8.8	8.8	8.8	45.5	57.4	43.9	35.3
Business fixed invest.	18.5	15.1	12.3	11.9	12.0	12.1	11.1	10.7	10.8	10.8	81.0	90.1	48.3	43.5
Producers' dur. equip.	13.2	11.9	10.5	10.2	10.4	10.5	10.2	10.4	10.5	10.7	74.1	73.4	41.6	41.8
Nonres. structures	5.3	3.2	1.8	1.6	1.6	1.6	.9	.3	.3	.1	6.9	16.7	6.6	1.7
Res. structures	2.4	7.0	4.6	2.5	1.5	.9	-.2	-.3	-.2	-.2	7.0	-.6	9.6	-.9
Change in bus. invent.	-15.6	-4.7	2.4	-.2	6.6	-7.8	-.8	.2	6.5	-2.9	38.6	-37.0	1.1	3.0
Nonfarm	-13.8	-3.7	1.5	-1.6	6.4	-7.9	-1.0	.0	6.5	-3.0	31.0	-27.3	-1.5	2.5
Farm	-1.9	-1.0	.9	1.4	.2	.1	.2	.2	.0	.1	7.6	-9.7	2.6	.5
Net exports	-7.3	-.5	-4.5	-1.2	-7.1	6.5	.5	.2	-5.6	5.7	-24.9	-27.5	-6.4	.8
Exports	5.1	20.9	13.7	21.4	8.3	25.4	15.0	24.5	10.6	25.9	72.7	44.8	68.8	75.9
Imports	12.4	21.3	18.3	22.6	15.4	19.0	14.5	24.3	16.1	20.2	97.6	72.3	75.3	75.1
Government purchases	3.0	-3.3	-3.9	-3.0	-2.0	-1.3	-1.5	-.3	-.2	-2.0	-9.3	-3.8	-10.2	-4.0
Federal	-2.7	-5.1	-5.1	-5.2	-4.6	-3.5	-3.7	-2.7	-2.6	-4.4	-20.7	-15.1	-18.4	-13.4
Defense	-2.4	-.8	-1.2	-2.1	-2.4	-2.1	-2.2	-2.2	-2.1	-2.1	-19.6	-9.0	-7.8	-8.6
Nondefense	-.3	-4.3	-3.9	-3.1	-2.2	-1.4	-1.5	-.5	-.5	-2.3	-1.1	-6.1	-10.6	-4.8
State and local	5.7	1.8	1.2	2.2	2.6	2.2	2.2	2.4	2.4	2.4	11.4	11.3	8.2	9.4

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)

September 20, 1995

Item	Fiscal year				1995				1996				1997			
	1994[a]	1995	1996	1997	Q1[a]	Q2[b]	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1257	1356	1395	1451	307	404	338	323	291	429	353	338	310	438	365	346
Outlays[1]	1461	1517	1571	1624	380	381	376	391	395	391	394	410	414	398	402	421
Surplus/deficit[1]	-203	-162	-176	-173	-73	23	-38	-68	-105	38	-41	-72	-104	40	-37	-76
On-budget	-259	-227	-238	-230	-85	-11	-44	-77	-111	-5	-45	-77	-110	0	-42	-80
Off-budget	56	66	62	57	12	34	6	9	7	42	4	5	6	40	5	4
Surplus excluding deposit insurance[2]	-211	-179	-183	-176	-79	18	-39	-71	-107	38	-44	-71	-106	40	-39	-75
Means of financing																
Borrowing	185	168	203	173	66	26	17	61	88	8	46	50	75	6	42	54
Cash decrease	17	-3	-21	0	8	-42	22	9	15	-45	0	25	20	45	0	25
Other[3]	1	-3	-5	0	-1	-6	-1	-1	2	-1	-4	-3	9	-1	-5	-3
Cash operating balance, end of period	36	39	60	60	18	61	39	30	15	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1355	1451	1513	1562	1441	1475	1480	1493	1500	1530	1531	1546	1555	1565	1583	1597
Expenditures	1529	1595	1651	1707	1590	1603	1619	1650	1645	1651	1659	1687	1704	1712	1725	1753
Purchases	439	433	423	415	434	433	431	427	426	422	418	415	416	415	413	410
Defense	296	284	284	281	284	285	283	284	285	284	283	281	282	281	280	279
Nondefense	144	148	139	134	151	148	148	143	141	137	135	134	134	134	134	131
Other expenditures	1090	1163	1228	1292	1155	1170	1187	1223	1219	1229	1242	1271	1287	1297	1311	1343
Surplus/deficit	-174	-144	-138	-144	-149	-128	-139	-157	-146	-121	-129	-141	-149	-147	-142	-155
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-164	-168	-157	-155	-176	-151	-161	-178	-165	-139	-145	-155	-160	-155	-148	-159
Change in HEB, percent of potential GDP	- 7	1	- 2	0	- 1	- 4	1	2	- 2	- 4	1	1	1	- 1	- 1	1
Fiscal impetus (FI), *percent, cal year*	-7 3	-5 9	-11 3	-5 9	-1 7	-1 6	- 8	-1 5	-6 7	-2 5	6	-3 1	-1 2	- 7	- 7	-2 9

1 OMB's July 1995 deficit estimates are $160 billion in FY95, $163 billion in FY96 and $179 billion in FY97 CBO's August 1995 deficit estimates are $161 billion in FY95, $189 billion in FY96 and $218 billion in FY97 Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law The Postal Service deficit is included in off-budget outlays beginning in FY90

2 OMB's July 1995 deficit estimates, excluding deposit insurance spending, are $177 billion in FY95, $170 billion in FY96 and $182 billion in FY97 CBO's August 1995 deficit estimates, excluding deposit insurance spending, are $177 billion in FY95, $197 billion in FY96 and $222 billion in FY97

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

Interest rates moved down on net over the intermeeting period. Evidence of moderate economic growth and relatively low inflation, along with the surge in the dollar against the yen, provided a constructive backdrop for trading in fixed-income markets where hopes strengthened that the System will implement an additional easing step by year end. Short-term rates are off about 10 to 30 basis points since the August 22 FOMC meeting, and long-term rates have declined about 40 basis points. The combination of lower interest rates and surprisingly strong earnings reports lifted the stock market to record highs in September.

The fiscal policy debate attracted growing market attention over the intermeeting period, with considerable focus on the possibility of a "train wreck" that would prevent a timely increase of the public debt ceiling. However, judging by yield relationships, it does not appear that financial markets are attaching a high probability to a default on interest or principal payments.

The broad monetary aggregates posted another month of solid expansion in August. M2 growth continued to be sustained by narrow opportunity costs on its retail components associated with the decline in market rates that began early in the year. M2 was also boosted by strong expansion of overnight RPs, perhaps associated with banks' acquisitions of Treasury securities in August. M3 advanced briskly again last month, sustained by some pickup in credit growth at banks and their greater reliance on deposit funding. The further spread of arrangements that sweep balances from reservable NOW accounts into nonreservable savings deposits caused M1 to contract in August.

The pickup in bank credit growth last month occurred despite a general slowing of lending. Business loans were especially weak, consistent with reports from loan officers of flagging demand owing to reduced needs to finance inventories and plant and equipment expenditures, and also with reports that the proceeds of some commercial paper issuance were used to pay down bank debt. Security loans contracted for a second month, perhaps reflecting reduced dealer financing needs associated with lackluster bond issuance. Growth of real estate loans also slowed. Consumer loan growth picked up in August, but adjusted for securitizations this component of bank credit, too, moderated last month.

For the household sector more broadly, available evidence indicates some revival in mortgage borrowing, but a slowing in the rapid pace of consumer credit growth. Data for the second quarter suggest that financial stresses in this sector have risen a bit, as indicated by increases in delinquency rates on consumer auto and revolving credit loans as well as in personal bankruptcies.

Available evidence suggests that borrowing by nonfinancial firms was subdued in August. Although commercial paper issuance was strong, this partly reflected funds raised to pay down bank debt, as noted above. Bond issuance had slackened following the backup of rates in July, but the recent decline in rates triggered some upturn in investment-grade issuance in the first half of September. Risk spreads for junk bonds have widened since the August FOMC meeting--reflecting both the expectation of heavy issuance and some recent defaults--but are narrow by historical standards. Gross equity issuance also remained moderate in August, despite the surge in share prices. Although many merger transactions are being structured as share exchanges, the volume of cash transactions along with hefty share repurchases programs--continues to hold net equity issuance in negative territory.

In the state and local sector, a revival of sorts took place in refunding offerings last month, boosting gross issuance of tax-exempt bonds. Even so, the stock of outstanding state and local debt continued to contract, and has fallen more than 4 percent since the end of last year, owing to the retirement of a large volume of debt pre-refunded in the early 1990s. Although the municipal market shared in the bond market rally, the ratio of tax-exempt to taxable yields remains high, particularly for longer-dated issues, largely reflecting fears that tax reform will limit, or eliminate, the tax advantage of municipal debt. Municipal rates have also been held up to an extent by the lingering effects of the Orange County bankruptcy and the fiscal problems of Los Angeles and the District of Columbia, even though rating changes on municipal debt have been positive on balance over the first half of the year.

With the Treasury drawing down its cash balances to finance much of this quarter's federal deficit, growth of federal debt is projected to slow to a seasonally adjusted annual rate of only 1 percent. The mid-August refunding operation included a thirty-year issue, and its overall size, including the three and ten-year notes, was raised. The emphasis on coupon financing led to the redemption of nearly $9 billion of Treasury bills.

<u>Outlook</u>

The interest rate path underlying the staff forecast does not involve much change in either short- or long-term rates over the next year or so. This would imply the persistence of a relatively flat yield curve after allowance for normal liquidity premia. Our thinking is that, though anticipations of further Fed easing would be disappointed in the near term, the markets would remain optimistic about the prospects for short-term rates. Enactment of a fiscal package along the lines assumed by the staff would be at least as good as the financial markets seem to be anticipating, and the outlook for inflationary pressures would be seen as relatively benign.

The projection for M2 for the balance of this year has been strengthened a bit on the basis of recent declines in opportunity costs and flattening of the yield curve. The projection for M3 also has been raised, in part reflecting the additional strength of M2, and in recognition of the recent increased reliance on deposit funding by banks. M2 is now expected to grow 5 percent this year and M3 should expand 6-3/4 percent--the latter somewhat exceeding the FOMC's announced target range. Looking to 1996, M2 is expected to accelerate somewhat, reflecting lagged effects of the flatter yield curve as well as lower deposit insurance premia. M3 growth, however, is expected to slow, as expansion of bank credit moderates.

Growth of domestic nonfinancial debt is expected to edge down to 4-3/4 percent next year from a projected 5-1/4 percent in 1995. Federal debt expands somewhat faster next year owing to a rising budget deficit, but this is more than offset by a slowing of nonfederal debt, reflecting less credit expansion in both the business and household sectors.

In the business sector, the financing gap is expected to narrow next year as cash flow rises more than capital expenditures. This, coupled with a reduced pace of net equity retirements, suggests that corporate borrowing in 1996 will be a bit below this year's pace. With long rates expected to retain their current lower levels, firms with access to bond markets are anticipated to concentrate their borrowings in this sector of the market, resulting in a considerable shift from this year when banks and commercial paper supplied more financing than bond markets. With interest coverage levels of nonfinancial firms remaining generally comfortable, the capital markets should remain receptive to offerings, and quality spreads on corporate bonds should remain narrow. Given their ample liquidity and strong profit and capital positions, banks should continue to be willing lenders to businesses. Indeed, declining opportunities to lend, implicit in the projected shift to bond markets, could further intensify competitive pressures in the bank loan market, the principal factor banks have cited for the steady easing of credit terms they have been reporting for some time. A further easing of credit terms will be limited, however, by banks' recognition, and regulators' reminders, that they already have moved to a fairly aggressive lending stance.

Although our forecast of household borrowing is driven mainly by demand rather than supply factors, the availability of credit to the household sector may well tighten a little over the forecast period in response to recent increases in the level of loan delinquencies and charge-offs. Indeed, the slower growth of household debt forecast for next year still exceeds the rise in disposable income, leading to a further increase in debt burden and, likely, a further deterioration in repayment performance. The reduction in household debt growth is expected to be concentrated in consumer credit, with mortgage growth projected to edge up to finance a rising level of housing activity fostered by attractive mortgage rates.

In the state and local sector, debt is projected to continue contracting, as pre-refunded bonds are called or mature and budgets remain under austerity pressures.

Confidential FR Class II
September 20, 1995

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

			Nonfederal						MEMO	
				Households						
	Total	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
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	4.5	11.1	2.4	4.7	6.5	-1.8	-0.9	7.4	-1.0	3.5
1992	4.8	10.9	2.8	5.7	6.7	0.9	0.0	2.4	0.7	6.4
1993	5.3	8.3	4.2	7.0	6.4	7.3	0.5	6.8	-0.1	5.0
1994	4.9	4.7	4.9	8.2	6.4	14.0	3.7	-4.4	4.9	6.5
1995	5.2	4.8	5.3	6.8	5.7	11.8	6.5	-7.2	2.1	4.4
1996	4.8	5.2	4.6	6.0	5.9	7.6	4.9	-5.2	1.0	4.4
1997	4.5	4.6	4.5	5.8	6.0	5.9	4.5	-3.9	1.0	3.9
Quarter (seasonally adjusted annual rates)										
1994:1	5.3	6.3	4.9	7.2	6.4	8.0	3.6	-0.3	6.1	6.1
2	4.2	3.6	4.4	7.1	5.2	13.9	3.8	-4.7	4.8	7.2
3	4.8	3.9	5.1	8.8	7.0	14.4	3.5	-5.4	2.4	6.2
4	4.9	4.5	5.0	9.0	6.2	17.1	3.5	-7.5	5.9	6.4
1995:1	6.5	7.8	6.0	7.0	6.4	10.2	7.8	-5.9	2.6	4.7
2	6.2	5.4	6.5	6.9	4.6	14.6	8.3	-2.9	4.2	2.8
3	3.2	1.4	3.9	6.5	5.7	10.5	4.4	-11.6	0.7	5.1
4	4.3	4.4	4.3	6.3	5.8	10.0	4.9	-9.2	1.0	5.1
1996:1	6.3	10.0	4.9	6.2	5.8	8.8	5.7	-6.7	1.0	5.1
2	4.3	3.3	4.6	6.1	5.8	7.7	4.6	-3.4	1.0	4.3
3	4.3	4.3	4.3	5.7	5.8	6.7	4.4	-5.3	1.0	4.1
4	3.9	3.0	4.2	5.6	5.8	6.2	4.4	-5.8	1.0	4.1

1. Data after 1995:q2 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. On a quarterly average basis, total debt grows 5.2 percent in 1995, 4.7 percent in 1996, and 4.6 percent in 1997. Federal debt rises 4.6 percent in 1995, 5.1 percent in 1996, and 4.9 percent in 1997. Nonfederal debt is projected to increase 5.4 percent in 1995, 4.5 percent in 1996, and 4.5 percent in 1997.

2.6.3 FOF

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

	Calendar year 1994	1995	1996	1997	1995 Q1	Q2	Q3	Q4	1996 H1	H2	1997 H1	H2
					Seasonally Adjusted Annual Rates							
Net funds raised by domestic nonfinancial sectors												
1 Total	557.5	601.7	589.4	624.9	774.0	746.4	359.6	526.6	651.3	527.6	656.4	593.3
2 Net equity issuance	-44.9	-67.4	-58.5	-20.0	-68.4	-73.2	-72.0	-56.0	-72.0	-45.0	-24.0	-16.0
3 Net debt issuance	602.4	669.1	647.9	644.9	842.4	819.6	431.6	582.6	723.3	572.6	680.4	609.3
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	48.5	101.2	82.6	94.8	124.8	86.2	108.2	85.6	81.1	84.2	89.1	100.4
5 Net equity issuance	-44.9	-67.4	-58.5	-20.0	-68.4	-73.2	-72.0	-56.0	-72.0	-45.0	-24.0	-16.0
6 Credit market borrowing	137.1	252.0	201.9	193.9	302.4	328.8	176.6	200.2	214.5	189.4	191.8	196.0
Households												
7 Net borrowing, of which:	353.5	316.7	299.6	307.4	324.4	324.7	311.2	306.4	307.6	291.7	307.4	307.4
8 Home mortgages	189.1	180.7	197.7	213.5	200.9	146.9	185.0	190.0	195.0	200.5	211.0	216.0
9 Consumer credit	121.2	116.3	83.5	70.0	100.3	147.9	109.7	107.2	92.2	74.7	70.0	70.0
10 Debt/DPI (percent)[3]	90.0	91.4	92.7	93.9	90.3	91.6	91.8	91.9	92.4	93.1	93.5	94.3
State and local governments												
11 Net borrowing	-44.0	-68.5	-45.7	-33.0	-56.2	-27.5	-107.6	-82.8	-44.2	-47.2	-33.0	-33.0
12 Current surplus[4]	-46.8	-72.3	-52.5	-41.2	-111.6	-65.8	-57.4	-54.3	-55.2	-49.8	-44.1	-38.4
U.S.government												
13 Net borrowing	155.9	168.9	192.1	176.6	271.8	193.6	51.4	158.9	245.5	138.7	214.3	138.9
14 Net borrowing;quarterly, nsa	155.9	168.9	192.1	176.6	65.6	25.6	17.1	60.6	96.6	95.5	81.0	95.6
15 Unified deficit;quarterly, nsa	184.5	154.7	180.0	176.4	71.3	-23.0	38.0	68.3	67.1	112.9	63.8	112.6
Funds supplied by												
16 depository institutions	196.9	257.6	213.7	202.2	388.9	298.2	170.6	172.5	213.7	213.7	203.7	200.7
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	188.0	188.0	188.6	189.8	187.4	189.1	189.0	188.4	188.6	189.2	189.6	190.2
18 Dom. nonfinancial borrowing	8.9	9.5	8.8	8.4	12.1	11.7	6.1	8.1	9.9	7.7	8.9	7.8
19 U.S. government[5]	2.3	2.4	2.6	2.3	3.9	2.8	0.7	2.2	3.3	1.9	2.8	1.8
20 Private	6.6	7.1	6.2	6.1	8.2	8.9	5.3	5.9	6.5	5.8	6.1	6.1

1. Data after 1995:q2 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 is about unchanged on balance since the August FOMC meeting. The dollar appreciated significantly further against the yen and declined slightly against most European currencies. On balance, the yen/dollar rate has risen 6 3/4 percent over the intermeeting period and nearly 30 percent since its low on April 19, bringing it above its level at the start of the year. Although much of the total rise in the yen/dollar rate remains difficult to explain, as was the weakness of the dollar earlier this year, the upward movement of the dollar over the intermeeting period was supported by sizable dollar purchases by the Bank of Japan, by the reduction, on September 8, of the Bank of Japan's discount rate to 1/2 percent, by statements by Japanese and U.S. officials that they would welcome a weaker yen, and by data showing a lower Japanese current account surplus.

The dollar declined 1 percent in terms of the mark over the period. The dollar fell, on balance, despite the cut on August 24 by the Bundesbank of its official lending rates, which was quickly followed by similar moves by several other European central banks, and the continued declines of the Bundesbank repo rate. Although the dollar fell against the Canadian dollar early in the intermeeting period, it has strengthened more recently and is currently about unchanged from the rate at the time of the August FOMC. Concerns about the referendum on Quebec sovereignty scheduled for October 30 have led to downward pressure on the Canadian dollar.

Short-term market interest rates have fallen since the August FOMC meeting in most foreign industrial countries but have risen, on balance, in Canada in response to the downward pressure on the currency. Japanese rates are down about 35 basis points, reflecting the steps by the Bank of Japan to move the call money rate below the reduced discount rate. Short-term market rates in the continental European G-10 countries are 5 to 35 basis points lower than they were at the time of the August meeting. Long-term market interest rates are also generally lower. The Japanese ten-year rate has declined 55 basis points over the intermeeting period while the U.S. ten-year Treasury bond rate has moved down 40 basis points. The German long-term rate is down 25 basis points.

The Desk did not intervene.

Indicators of real economic activity in the third quarter suggest that expansion is continuing in most of the major foreign industrial countries, but the rate of growth remains near the subdued pace of the first half of the year. In Japan, data for the current quarter suggest some weakness despite the 3.1 percent growth at an annual rate of GDP just reported for the second quarter. Industrial production fell again in July after remaining flat on average in the second quarter. New car registrations were also down in July. Labor market indicators suggest some further deterioration through July. The Bank of Japan's August Tankan survey showed a decline in business sentiment since the previous survey in May. However, this survey may not fully reflect the yen's recent weakness. Japanese officials have just announced a supplementary budget that totals ¥14 trillion, about 3 percent of GDP, only half of which is estimated to be additional real expenditures.

In Germany, industrial production rose strongly in July after little change in the previous two months, and orders rebounded as well. However, the unemployment rate remained little-changed from the beginning of the year through August. Recently released data on real GDP for the first half of the year show growth at an annual rate of 2-1/2 percent, with the second quarter stronger than the first. In the United Kingdom, output growth may be slowing somewhat from the second-quarter pace. In July, industrial production showed little gain from its second-quarter average, and manufacturing output fell slightly. Retail sales fell sharply in August, leaving the average for July and August only a bit above the second-quarter rate. Nevertheless, the unemployment rate fell in August and is now somewhat below its level early in the year. Indicators suggest that economic activity in Canada is expanding slowly in the current quarter after weakness in the automotive sector contributed to a decline in the second quarter. Through August, employment remains about unchanged from the second-quarter level. Housing starts rose in August but not enough to offset their decline in July. However, new manufacturing orders picked up in July for the first time in six months.

Consumer price inflation remains low in the major foreign industrial countries, with the exception of Italy. In Japan, consumer prices in August were below their year-earlier level, as were wholesale prices. A redefined index for western Germany shows inflation at only 1.5 percent over the twelve-month period ending in August. Inflation has edged down some in Canada over the past several months; it has moved up slightly in the United Kingdom, but remains below 3 percent for retail prices excluding mortgage interest. In contrast, consumer price inflation in Italy rose to 5.8 percent in August, significantly above its pace at the start of the year.

The U.S. nominal trade balance in goods and services in July was slightly above its second-quarter average. Exports and imports both declined. In the second quarter, the trade deficit was substantially larger than in the first quarter. Exports of goods and services were 2.5 percent above their first-quarter pace, with the sharpest increases recorded for capital goods and industrial supplies. Imports of goods and services rose somewhat more (4 percent) from the first quarter. Increases occurred in most major trade categories, especially oil, capital goods, and automotive products from Europe and Japan.

The current account deficit widened $18.4 billion, at a seasonally adjusted annual rate, from the revised first-quarter level. Most of the change is accounted for by the larger trade deficit and weaker net investment income, largely a result of growing U.S. net indebtedness.

Prices of non-oil imports rose in July, after pausing in June, with higher prices for industrial supplies accounting for much of the increase. Prices of exports moved up a bit in July, largely driven by higher prices for agricultural exports. In the second quarter, non-oil import prices rose at an annual rate of about 5-3/4 percent, about the pace experienced in the second half of last year, and export prices rose about 7 percent, annual rate, with upward pressure coming primarily from prices for agricultural products and industrial supplies. The price of imported oil fell sharply in July. Most recently, spot oil prices have resumed rising in response to lean U.S. inventories, tensions with Iraq, and concerns about the effect of recent hurricanes on production from Carribean refineries. Currently, spot WTI is trading around $18.96 per barrel.

Outlook

Total foreign real output (weighted by U.S. nonagricultural export shares) is projected to rise at an annual rate of 2-3/4 percent during the second half of 1995, considerably stronger than the 1 percent growth rate experienced in the first half of the year, when growth was depressed by the sharp contraction in Mexican activity. Output is projected to grow at about an average annual rate of 3-1/2 percent over the remainder of the forecast period, a bit higher than the rate projected in the previous Greenbook. The dollar is expected to remain near recent levels. Real net exports are projected to deteriorate somewhat over the ten quarters of the forecast period, making a marginal negative contribution to real GDP in 1996 after subtracting about 1/4 percentage point from GDP growth during the second half of 1995. This forecast is slightly weaker than that in the previous Greenbook, largely as a result of stronger imports that in turn reflect the higher path of the dollar and reduced import price inflation.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain little changed from its recent levels throughout the forecast period. This is slightly higher than the level forecast in the previous Greenbook, an adjustment that in large part reflects the sustained strength of the dollar against the yen. We expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate a bit over the remainder of this year, then decline at a moderate pace next year and during 1997. In particular, the peso is expected to appreciate in real terms over the forecast period, as the peso's nominal exchange value against the dollar depreciates at a slower pace than the extent to which Mexican inflation exceeds U.S. inflation.

Foreign G-7 countries. Real GDP growth in the foreign G-7 countries (weighted by U.S. export shares) is projected to average 1-3/4 percent at an annual rate during the second half of this year, somewhat stronger than the growth experienced during the first half. The improved growth projected for this quarter and next is largely accounted for by expected recovery in Canada. Average output growth in the G-7 countries is expected to improve to about 2-1/2 percent next year and to remain at about that pace through the end of 1997, as strengthening in the pace of economic activity occurs in most of the G-7 countries. Only weak expansion of real output is projected for Japan during the second half of 1995, with growth firming over the forecast period to about 2-1/2 percent in 1996 and 1997. This forecast is somewhat stronger than that in the previous Greeenbook. The lagged effects of monetary easing already in place and the recently announced fiscal stimulus measures are expected to contribute to recovery while the reversal since April of the yen appreciation that occurred earlier this year should limit the negative contribution from the external sector.

German real GDP growth is projected to average an annual rate of 2-1/2 percent during the second half of 1995 and to reach 2-3/4 percent over the remainder of the forecast period. This pace would imply some strengthening in 1996-97 average growth, as investment is expected to rebound and consumption to pick up next year in reponse to lower taxes. Real GDP in Canada is projected to resume growing during the current quarter and to expand at an average annual rate of 2 percent during the second half of the year. Growth is projected to rise further to 2-1/2 percent over the rest of the forecast period as domestic demand strengthens.

Average consumer price inflation in the G-7 countries (weighted by U.S. non-oil import shares) is projected to remain low in the near term as prices decelerate further in Canada and deflation continues in Japan. In 1996, inflation is projected to average about 1 percent and slightly higher in 1997.

This forecast incorporates the assumption that, on average, foreign short-term market interest rates will remain little changed through the end of this year and then will rise about 100 basis points over the remainder of the forecast period. In general, the rising rates reflect the continuing real output growth in these economies. An exception is Canada, where exchange rate pressures have led to higher rates currently that are expected to decline over the forecast period. Long-term market rates, on average, are expected to rise slightly over the forecast period, except in Japan where long-term rates are flat.

<u>Other countries</u>. The real GDP growth rate of major developing country trading partners of the United States (weighted by U.S. nonagricultural export shares) is projected to increase from about 2-1/2 percent during 1995 (on a Q4/Q4 basis) to around 5 percent during 1996-97. The pickup in growth in 1996-97 largely reflects an anticipated recovery in Mexico.

We now project that real GDP in Mexico will fall about 9-1/2 percent during 1995, compared with the 6 percent decline projected in the last Greenbook. The downward revision to our growth forecast reflects data for the second quarter that indicate a considerably sharper-than-expected contraction in domestic demand. Although Mexico's growth outlook remains highly uncertain, several factors are expected to allow Mexico to achieve positive output growth by early next year, including a loosening of fiscal policy, some relaxation of tight credit conditions, and a gradual revival of household spending as the effects of balance sheet adjustments wear off and as declining interest rates ease debt burdens. We project that Mexico's real GDP will recover to its pre-crisis level by mid-1997. We have also revised downward our forecast for real GDP growth in Brazil during 1995 to reflect second-quarter data that suggest that Brazil's tight monetary policy stance has slowed domestic demand by more than previously expected.

In Asia, our major developing country trading partners are expected to continue to grow at a robust rate in 1995-97. Average growth is expected to decline from a projected rate of 7 percent during 1995 to a rate of around 6-1/2 percent during 1996-97. The projected moderation in the aggregate growth rate during 1996-97 reflects the reversal of certain temporary factors that allowed for especially rapid growth during the first half of 1995, including yen appreciation against the Asian currencies during the early part of this year and accommodative monetary policy in some countries.

U.S. real net exports. The deficit on real net exports of goods and services is projected to widen somewhat over the forecast period. With real output growth abroad stronger than that in the United States, real export growth is expected to remain vigorous, at an annual rate of 7-1/2 percent during the second half of this year and about 9-1/4 percent during 1996 and 1997. However, with the dollar expected to remain near recent levels, import growth is also projected to edge up from an annual rate of 8 percent during the second half of this year to 8-1/2 percent in 1996 before slowing a bit in 1997. As a consequence, given the larger base of the current level of imports, real net exports will deteriorate some in the second half of this year and weaken slightly further in 1996. Notwithstanding that the dollar moved down this year through April and remained fairly weak through July, previous staff forecasts did not extrapolate the full extent of that dollar weakness into the forecast path. As a consequence, the current forecast for the dollar (to remain at recent levels) is only 2-1/2 percent higher than the forecast in the Greenbooks since March. This upward revision to the dollar results in projected real net exports that are about $10 billion (1987 prices) weaker by the end of 1996, all else the same.

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

		------------	Projection	------------	
		1995		1996	1997
	H1	Q3	Q4		
Exports of G&S	5.5	2.9	12.1	9.3	9.4
Services	-2.3	3.2	3.2	4.8	5.0
Computers	26.6	29.6	30.0	31.0	31.0
Other goods[1]	6.0	-4.5	12.7	4.9	3.4
Imports of G&S	9.8	6.0	10.4	8.6	7.9
Services	6.0	0.3	4.9	3.2	2.7
Oil	-2.8	15.2	5.2	2.2	4.4
Computers	21.5	28.5	28.5	22.4	21.5
Other goods[2]	9.2	0.8	7.3	6.3	4.7

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

Real nonagricultural exports of goods other than computers are projected to increase at an annual rate of 4 percent during the final two quarters of this year. Growth of these exports is expected to strengthen somewhat, to 5 percent, in 1996 as foreign output growth recovers and then to slow somewhat in 1997 as the lagged effects of the stronger dollar are felt. Continued strong growth of the quantity of computer exports helps to boost total export growth throughout the forecast period.

Real non-oil imports of goods other than computers are projected to grow at an annual rate of 4 percent for the second half of this year, reflecting the slowdown in U.S. GDP growth in the middle of this year. Imports of these goods will accelerate to 6-1/4 percent next year because while U.S. growth remains moderate, import prices rise more slowly than domestic prices, stimulating import demand. Growth of computer imports remains strong but slows a bit in 1996-97. We expect the quantity of oil imports to rise this quarter on seasonally higher consumption and inventory accumulation; imports should remain strong in the fourth quarter as consumption continues to rise seasonally against a backdrop of lean inventories. During the remainder of the forecast period, imports are projected to increase as consumption rises and U.S. production declines.

Oil prices. The projected price of imported oil for the third quarter has been revised up about $0.50 per barrel to average $16.12 per barrel in line with recent increases in spot prices. However, this price is still below the second-quarter average by about $1.30 per barrel because of an expected uptick in world oil production. The price of imported oil is expected to remain around $16.00 per barrel in the fourth quarter. Spot oil prices are projected to rise after year end, given the staff's view that Iraq will not return to the world oil export market during 1996. Longer-term WTI and the oil import unit value are projected to be $19.50 per barrel and $17.00 per barrel respectively.

Prices of non-oil imports and exports. Non-oil import prices are projected to decline, on average, over the final two quarters of 1995, reflecting the recent rise in the dollar and the projected decrease in global non-oil commodity prices. These prices are expected to increase only very slightly during 1996, as inflation abroad remains very low, commodity prices change little, and the dollar is stable, and then to rise 1-1/2 percent during 1997 as commodity prices begin to increase. Prices of nonagricultural exports excluding computers, which rose sharply during the first half of the year, are projected to increase at an annual rate of 3-1/2 percent during the second half of 1995 and then to decelerate somewhat further over the remainder of the forecast period. These prices tend to move with comparable U.S. producer prices.

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

	----------Projection----------				
	1995			1996	1997
	H1	Q3	Q4		
U.S. PPI[1]	5.7	1.2	3.4	2.3	1.8
Nonag.exports[2]	8.0	3.5	3.4	2.4	1.8
Non-oil imports[2]	4.4	0.4	-2.7	0.5	1.6
Oil imports					
(Q4 level, $bl.)	17.55	16.12	16.01	17.00	17.00

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

Nominal trade and current account balances. The nominal U.S. trade deficit on goods and services reached a peak in the second quarter of about $135 billion (annual rate) and is projected to decline on balance through the end of 1996 and to remain about unchanged in 1997. U.S. investment income is projected to fluctuate narrowly during the remainder of this year and to deteriorate somewhat in 1996 and 1997. The current account deficit is expected to remain about unchanged at 2-1/4 percent of GDP over the forecast period.

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

								Projected			
			Projected		1995			1996			
Measure and country	1994	1995	1996	1997	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP											
Canada	5.4	1.0	2.4	2.5	-1.0	1.4	2.6	2.3	2.4	2.4	2.4
France	4.1	1.8	2.8	2.9	1.4	1.2	2.0	2.6	2.8	2.9	2.9
Germany	3.7	2.6	2.9	2.7	4.3	2.4	2.9	3.1	2.9	2.7	2.7
W. Germany	3.1	2.2	2.4	2.1	3.8	2.0	2.3	2.4	2.3	2.3	2.4
Italy	2.9	4.0	3.0	2.4	2.6	3.8	3.8	3.5	3.0	2.8	2.6
Japan	0.8	1.1	2.5	2.2	3.1	-0.3	1.6	1.8	2.5	3.3	2.4
United Kingdom	4.0	2.1	2.5	2.3	1.9	1.4	2.2	2.5	2.5	2.5	2.5
Average, weighted by 1987-89 GDP	2.9	2.0	2.7	2.5	2.4	1.3	2.3	2.5	2.7	2.9	2.6
Average, weighted by share of U.S. nonagricultural exports											
Total foreign	4.4	1.9	3.4	3.4	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	3.9	1.4	2.5	2.5	1.0	1.2	2.4	2.4	2.5	2.7	2.5
Developing countries	5.7	2.2	5.2	5.3	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
Canada	0.0	2.5	2.0	2.5	3.1	1.2	1.6	1.8	2.0	2.0	2.0
France	1.6	2.8	1.7	1.9	2.1	4.0	2.8	1.6	1.6	1.6	1.8
Western Germany	2.5	1.8	2.1	2.3	2.2	1.8	0.4	3.9	2.5	1.8	0.3
Italy	3.8	6.0	5.0	4.5	8.0	4.2	5.5	6.1	6.6	2.6	4.7
Japan	0.8	-0.5	-0.9	-0.5	0.7	-0.0	-0.1	-0.4	-0.8	-1.0	-1.4
United Kingdom	2.6	3.3	3.8	3.6	7.5	0.7	1.6	4.0	7.6	1.0	2.5
Average, weighted by 1987-89 GDP	1.8	2.0	1.7	1.8	3.3	1.6	1.5	2.3	2.5	0.8	1.0
Average, weighted by share of U.S. non-oil imports	1.0	1.5	1.1	1.4	2.5	1.0	1.0	1.5	1.5	0.7	0.6

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

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

(Billions of dollars, seasonally adjusted annual rates)

	1993				1994				1995		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1992	1993	1994
NIPA Real Net Exports of Goods & Services (87$)	-57.6	-69.3	-86.3	-82.2	-104.0	-111.8	-117.0	-107.1	-118.5	-126.8	-32.3	-73.9	-110.0
Exports of G&S	589.2	600.2	595.3	625.2	619.6	643.9	666.5	697.9	706.2	716.8	578.8	602.5	657.0
Goods	433.9	443.3	438.5	468.2	464.4	484.6	505.1	533.5	543.2	554.5	426.5	446.0	496.9
Agricultural	39.1	39.3	36.9	39.1	36.6	37.5	40.7	45.9	45.9	43.3	39.8	38.6	40.2
Computers	60.9	62.9	68.5	74.0	76.9	79.3	85.9	95.8	102.0	107.8	53.9	66.6	84.5
Other Goods	333.9	341.1	333.1	355.1	350.9	367.8	378.5	391.8	395.3	403.4	332.8	340.8	372.2
Services	155.3	156.9	156.7	157.1	155.2	159.2	161.3	164.3	163.0	162.4	152.3	156.5	160.0
Imports of G&S	646.8	669.6	681.6	707.4	723.6	755.6	783.5	805.0	824.6	843.6	611.1	676.3	766.9
Goods	546.6	567.4	577.1	599.9	615.2	648.3	674.6	695.9	711.5	731.4	512.8	572.8	658.5
Oil	53.4	57.7	56.7	58.1	56.5	60.3	64.3	57.1	55.4	56.3	51.2	56.5	59.6
Computers	73.3	80.0	87.8	94.6	99.7	106.9	115.4	128.9	133.0	142.1	60.5	83.9	112.7
Other Goods	419.9	429.7	432.6	447.2	458.9	481.0	494.9	510.0	523.1	533.0	401.2	432.4	486.2
Services	100.1	102.2	104.5	107.6	108.5	107.4	108.9	109.1	113.2	112.3	98.3	103.6	108.5
Memo:(Percent change 1/)													
Exports of G&S	-1.0	7.7	-3.2	21.7	-3.5	16.6	14.8	20.2	4.8	6.1	5.0	5.8	11.6
Agricultural	-19.7	2.1	-22.3	26.1	-23.2	10.2	38.8	61.8	0.0	-20.8	9.5	-5.3	17.4
Computers	5.4	13.8	40.7	36.2	16.6	13.1	37.7	54.7	28.5	24.8	34.8	23.1	29.5
Other Goods	-6.8	8.9	-9.1	29.2	-4.6	20.7	12.2	14.8	3.6	8.5	3.8	4.5	10.3
Services	16.1	4.2	-0.5	1.0	-4.8	10.7	5.4	7.6	-3.1	-1.5	-2.0	5.0	4.6
Imports of G&S	11.6	14.9	7.4	16.0	9.5	18.9	15.6	11.4	10.1	9.5	8.6	12.4	13.8
Oil	4.6	36.3	-6.8	10.2	-10.6	29.7	29.3	-37.8	-11.4	6.7	12.1	10.0	-1.7
Computers	31.9	41.9	45.1	34.8	23.4	32.2	35.8	55.7	13.3	30.3	48.7	38.3	36.3
Other Goods	11.1	9.7	2.7	14.2	10.9	20.7	12.1	12.8	10.7	7.8	5.2	9.3	14.0
Services	4.5	8.7	9.3	12.4	3.4	-4.0	5.7	0.7	15.9	-3.1	1.4	8.7	1.4
Current Account Balance	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-158.9	-173.1	-156.1	-174.5	-61.5	-99.9	-151.2
Goods & Serv (BOP), net	-54.3	-75.2	-88.0	-82.0	-92.1	-107.7	-115.2	-109.9	-117.8	-133.5	-39.5	-74.8	-106.2
Goods (BOP), net	-115.8	-134.4	-146.4	-133.9	-146.0	-166.0	-178.5	-174.0	-180.2	-196.2	-96.1	-132.6	-166.1
Services (BOP), net	61.5	59.2	58.5	51.9	53.9	58.3	63.3	64.1	62.4	62.7	56.6	57.8	59.9
Investment Income, net	14.8	8.3	12.8	0.1	0.5	-9.1	-10.1	-18.3	-7.8	-11.5	10.1	9.0	-9.3
Direct, net	61.1	55.3	59.2	49.7	46.2	43.9	44.6	45.7	57.2	59.6	51.6	56.3	45.1
Portfolio, net	-46.2	-47.0	-46.5	-49.6	-45.7	-53.0	-54.7	-64.0	-65.1	-71.1	-41.5	-47.3	-54.4
Unilateral Transfers, net	-30.1	-30.4	-32.9	-42.9	-29.5	-35.1	-33.5	-45.0	-30.5	-29.5	-32.1	-34.1	-35.8

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)

	Projection										Projection		
	1995		1996				1997				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1995	1996	1997
NIPA Real Net Exports of Goods & Services (87$)	-134.1	-134.6	-139.1	-140.3	-147.4	-141.0	-140.4	-140.2	-145.8	-140.1	-128.5	-141.9	-141.7
Exports of G&S	721.9	742.7	756.5	777.9	786.2	811.6	826.6	851.1	861.6	887.5	721.9	783.0	856.7
Goods	558.3	577.9	590.5	609.6	616.0	638.7	651.7	673.6	682.3	705.9	558.5	613.7	678.4
Agricultural	44.5	44.2	44.9	45.5	46.1	46.8	47.4	48.1	48.8	49.4	44.5	45.8	48.4
Computers	115.0	122.8	131.4	140.6	150.4	160.9	172.2	184.2	197.1	210.9	111.9	145.8	191.1
Other Goods	398.8	410.9	414.2	423.5	419.4	431.0	432.0	441.3	436.5	445.6	402.1	422.0	438.9
Services	163.7	165.0	166.1	168.3	170.3	173.0	175.1	177.5	179.4	181.7	163.5	169.4	178.4
Imports of G&S	856.0	877.3	895.6	918.1	933.6	952.6	967.1	991.3	1007.4	1027.6	850.4	925.0	998.4
Goods	743.7	763.7	781.0	802.6	817.1	835.2	849.0	872.5	887.9	907.1	737.6	809.0	879.1
Oil	58.3	59.1	59.9	62.3	63.3	60.4	59.8	64.2	66.2	63.0	57.3	61.5	63.3
Computers	151.3	161.1	169.9	178.5	187.6	197.1	207.0	217.3	228.1	239.5	146.9	183.3	223.0
Other Goods	534.0	543.5	551.2	561.7	566.1	577.7	582.3	591.0	593.5	604.6	533.4	564.2	592.9
Services	112.4	113.7	114.6	115.7	116.6	117.4	118.1	119.0	119.7	120.6	112.9	116.1	119.3
Memo:(Percent change 1/)													
Exports of G&S	2.9	12.1	7.6	11.8	4.3	13.6	7.6	12.4	5.1	12.6	6.4	9.3	9.4
Agricultural	11.3	-2.5	6.2	6.0	5.4	5.7	5.8	5.7	5.7	5.6	-3.7	5.8	5.7
Computers	29.6	30.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0	28.2	31.0	31.0
Other Goods	-4.5	12.7	3.3	9.3	-3.8	11.5	1.0	8.9	-4.3	8.6	4.9	4.9	3.4
Services	3.2	3.2	2.7	5.5	4.7	6.5	4.9	5.8	4.3	5.2	0.4	4.8	5.0
Imports of G&S	6.0	10.4	8.6	10.5	6.9	8.4	6.2	10.4	6.7	8.3	9.0	8.6	7.9
Oil	15.2	5.2	5.8	17.1	6.6	-17.4	-3.8	32.6	13.6	-18.0	3.5	2.2	4.4
Computers	28.5	28.5	23.8	21.9	21.9	21.9	21.5	21.5	21.5	21.5	25.0	22.4	21.5
Other Goods	0.8	7.3	5.8	7.8	3.2	8.4	3.2	6.1	1.7	7.7	6.6	6.3	4.7
Services	0.3	4.9	3.2	3.6	3.3	2.9	2.3	2.9	2.5	3.1	4.3	3.2	2.7
Current Account Balance	-162.7	-167.8	-154.0	-158.8	-165.1	-173.3	-159.4	-163.4	-166.3	-178.3	-165.3	-162.8	-166.8
Goods & Serv (BOP), net	-125.5	-113.7	-109.9	-111.2	-121.2	-113.2	-113.2	-112.7	-120.2	-114.6	-122.6	-113.9	-115.2
Goods (BOP), net	-189.3	-178.2	-175.3	-178.3	-189.9	-184.8	-187.2	-189.3	-198.9	-195.9	-186.0	-182.1	-192.8
Services (BOP), net	63.8	64.5	65.4	67.1	68.6	71.6	74.0	76.5	78.7	81.3	63.4	68.2	77.6
Investment Income, net	-6.2	-11.0	-11.1	-14.7	-10.9	-16.6	-13.2	-17.6	-13.1	-20.2	-9.2	-13.3	-16.0
Direct, net	64.2	65.5	63.8	64.9	67.6	68.7	70.3	71.2	73.8	73.7	61.6	66.3	72.3
Portfolio, net	-70.5	-76.5	-74.9	-79.6	-78.5	-85.3	-83.4	-88.9	-86.9	-93.9	-70.8	-79.6	-88.3
Unilateral Transfers, net	-31.0	-43.0	-33.0	-33.0	-33.0	-43.5	-33.0	-33.0	-33.0	-43.5	-33.5	-35.6	-35.6

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