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Strictly Confidential (FR) Class II FOMC

Part 1

December 14, 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 information received since the last FOMC meeting has led us to trim our prediction of fourth-quarter growth in real GDP. However, given the upside surprises in data for the previous quarter, the current level of activity appears to be at least as high as we anticipated last month. Moreover, despite the recent unevenness of the expansion, we continue to believe that the economy possesses sufficient underlying strength to sustain moderate growth over coming quarters. Resource utilization appears likely to change little, producing a slight deterioration in labor cost trends and a continuation of core inflation in the neighborhood of 3 percent. In short, the forecast presented here is essentially the same as that in the last Greenbook.

Key Assumptions

We again are basing our projection on the assumption that the federal funds rate will be held at 5-3/4 percent, at least well into 1997. This path is clearly at odds with expectations prevailing in the financial markets, which call for a reduction of perhaps 50 basis points over the next few months. Thus, we are projecting some reversal of the bond rally, which has pushed long-term rates to lower levels than we had been expecting--and which has helped sustain a remarkable run-up in stock prices. On balance, however, in light of the current level of bond yields and the rather benign economic environment projected, long-term rates are a shade lower, on average, in 1996-97 in this forecast than in the last; we do not foresee more than a mild retracing of the rise in equity values that has occurred this year.

COMPARISON OF STAFF AND CONGRESSIONAL DEFICIT REDUCTION PACKAGES
(Relative to CBO baseline, fiscal years, billions of dollars)

	1996	1997	1998
Discretionary spending			
December Greenbook	-17	-28	-37
CBO scoring of reconciliation[1]	-18	-30	-39
November Greenbook	-17	-28	-37
Mandatory spending			
December Greenbook	-7	-22	-37
CBO scoring of reconciliation[1]	-10	-28	-50
November Greenbook	-15	-34	-50
Revenue reductions			
December Greenbook	-1	19	21
CBO scoring of reconciliation[1]	6	36	34
November Greenbook	-1	19	21
Interest			
December Greenbook	-1	-2	-4
CBO scoring of reconciliation[1]	-1	-2	-4
November Greenbook	-1	-3	-7
Deficit			
December Greenbook	-26	-33	-57
CBO scoring of reconciliation[1]	-22	-24	-58
November Greenbook	-34	-46	-73

1. CBO scoring of the conference agreement under December baseline assumptions.

With regard to fiscal policy, we are assuming that the Administration and Congress will reach a compromise soon. The reconciliation bill agreed to recently by the House-Senate conference contained less restraint than we expected; and in addition, CBO has lowered its baseline deficit projection. We have accordingly reduced our assumption of the deficit reduction that will result from a budget agreement to $26 billion in fiscal year 1996, $33 billion in fiscal 1997, and $57 billion in fiscal 1998. Because of the revised CBO baseline, this pattern of deficit reduction remains consistent with a budget compromise that aims to achieve budget balance in fiscal 2002. Relative to the congressional plan, our assumptions entail fewer cuts to mandatory spending and smaller tax reductions. The revisions to our fiscal assumptions have raised the projection of the unified deficit to $169 billion in fiscal 1996 and $193 billion in fiscal 1997, compared with the previous projection of $165 billion in fiscal 1996 and $183 billion in fiscal 1997.

Although the characteristics of the Administration's revised fiscal proposal may suggest that we are on the right track with our compromise package, recent developments have done little to assure us that a political stalemate will be avoided. It is still quite conceivable that no agreement will be reached on mandatory spending and taxes and that only legislation on discretionary spending will be enacted--perhaps even in the form of continuing resolutions for those budget categories for which appropriations have not yet been signed. If this were to happen, the degree of fiscal restraint would be less than indicated by our budget assumptions.

With respect to the external sector, the trade-weighted dollar in terms of the other G-10 currencies has changed little over the past month, and we have retained the assumption that the dollar will remain near recent levels. As before, foreign real GDP (on a U.S.-export-weighted basis) is projected to increase about 3-1/2 percent in each of the next two years, after having risen about 2 percent in 1995; much of the pickup of growth occurs in Canada and Mexico, especially in the near term. No change has been made to the longer-term path for oil prices, which has the spot WTI price rising to $18.50 by the middle of next year and holding at that level through the end of 1997. Crude prices have firmed a bit more rapidly than had been expected, however, and we now project the spot price to average close to $18 per barrel in the current quarter, up about 50 cents from the previous assumption.

Recent Developments

Data available at the time of the last Greenbook supported BEA's seemingly high advance estimate of third-quarter GDP growth, but additional information received since then suggests that the initial estimate was too low. Especially striking is the further upward revision to our estimate of final sales: BEA had estimated that real final sales grew at a 4.2 percent rate, which we bumped up to 4.6 percent in the November Greenbook; now, the rate looks to have been 5.2 percent. Strong figures on net exports in August and September are the main factor in our further upward revision. As for inventory investment, data in early November reduced our estimate below BEA's third-quarter value, but it now appears that inventories will be revised up from the published figure. (See Part 2 for a detailed accounting of the third-quarter GDP estimate.)

REAL GDP AND SELECTED COMPONENTS IN 1995:H2
(Percent change at annual rates, unless otherwise noted)

	1995:Q3			1995:Q4	
	BEA Adv	Nov. GB	Dec. GB	Nov. GB	Dec. GB
Real GDP	4.2	4.1	5.4	2.6	1.9
Final sales	4.2	4.6	5.2	3.5	2.6
Private domestic	4.2	4.4	4.5	5.4	4.2
Change in billions of 1987 dollars					
Nonfarm inventory investment	3.6	-2.9	5.6	-10.5	-9.3
Net exports	.9	2.7	9.6	-3.6	-1.9

In contrast to the upward revision for the last quarter, current-quarter activity, according to information received over the intermeeting interval, has been weaker than expected on balance, and we have lowered our estimate of GDP growth from above 2-1/2 percent to a bit below 2 percent. Early-quarter readings on retail sales, orders and shipments of nondefense capital goods (other than computers), and housing starts were below expectations--and these were only partly offset by stronger-than-anticipated state and local construction and motor vehicle assemblies. As in last month's forecast, however, the signals coming from the labor market seem to pose an upside risk to our current-quarter output estimate. Payrolls have continued to expand at roughly the same pace as in the summer, and the unemployment rate has averaged a tad below the third-quarter level. Most notably, production-worker hours appear to be headed for a 2-1/2 percent (annual rate) increase, and we have, in effect, had to build in a disappointing productivity outcome in arriving at our GDP prediction; in contrast, a trend gain in output per hour would push real GDP growth well above 3 percent, and we cannot rule out such an increase at this point.

Two transitory factors are exaggerating the slackening of growth this quarter. The just-settled strike at Boeing is estimated to subtract 1/4 percentage point from GDP growth. A larger retarding effect is coming from federal purchases, which are projected to cut 1-1/4 percentage point from growth. Part of the fall in purchases represents the transitory effects of the government shutdown in November. Purchases are also being restrained by the continuing resolution and cuts imposed by appropriation bills that have been signed. Finally, real purchases registered a surprising increase in the third quarter, and some of the drop in the fourth quarter reflects simply a return of spending to trend.

Despite the two-month Boeing strike, we expect manufacturing output in the current quarter to grow at an annual rate of 2-1/4 percent, spurred by continued strong increases in the production of office and computing equipment. Motor vehicle assemblies (FRB seasonals) are projected to edge down slightly this quarter. We had anticipated that high inventory levels would lead to a more substantial cutback of production in this sector. With vehicle sales running about as expected, the production surprise will leave the days' supply of inventory at year-end somewhat higher than we had projected in the November Greenbook.

We have raised the forecast for the increase in the total CPI to an annual rate of 2-1/4 percent in the current quarter, about 1/4 percentage point above the previous forecast. Most of the revision is attributable to energy prices, which have not been as weak as expected, in part because of unusually cold weather. The CPI for energy is now projected to fall at a 4 percent annual rate this quarter; the previous projection contained a 7-1/2 percent decline. Our forecast of the increase in the CPI excluding food and energy remains at an annual rate of 2-3/4 percent. The increases in the core CPI in October and November were, on balance, close to our expectation.

The Outlook for the Economy in 1996 and 1997

We are forecasting that real GDP growth will be close to potential over the next two years, an outlook that is a shade stronger than in our previous forecast, mainly because of the lesser fiscal restraint now assumed. GDP has decelerated substantially in 1995 from the rapid pace in 1994, but much of the slowing has resulted from a lower pace of inventory accumulation; final sales have continued to grow in excess of 3 percent, in part because business fixed investment has again registered a strong advance. In the period ahead, growth in final demand is projected to slow appreciably. The signs are that BFI is losing some of its cyclical thrust, and the associated multiplier effects will put a damper on demand generally. Moreover, the scope for further increases in demand for consumer durables and home construction is limited by the already elevated levels of expenditure in those areas. Fiscal policy will be somewhat restrictive, continuing the pattern of recent years, but the competitiveness of U.S. producers and an expected pickup in foreign economic activity should halt the deterioration in our external position.

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

	1994	1995	1996	1997
Real GDP	4.1	2.8	2.5	2.5
Previous	4.1	2.7	2.5	2.3
Final sales	3.4	3.2	2.6	2.4
Previous	3.4	3.3	2.6	2.4
Civilian unemployment rate[1]	5.6	5.6	5.6	5.6
Previous	5.6	5.6	5.6	5.7
Memo:				
Chain-type real GDP	3.8	2.2	2.0	1.9
Previous	3.8	2.1	2.1	1.8

1. Average level for the final quarter of the year indicated.

Consumer spending. Consumption is, in effect, a neutral factor in our longer-term outlook. Although the rate of growth of real PCE is expected to slow to just above 2-1/4 percent in 1996 and 1997--a quarter percentage point below our estimate for this year--the slowing is a response to the diminished gains in disposable income associated with less rapid advances of purchases in other sectors. The saving rate is projected to be essentially flat.

Spending on consumer durables is projected to outpace growth in other types of consumer purchases, but only by about 2 percentage points. Although consumer electronics are expected to remain strong, the cyclical surge in purchases of autos and hard goods seems to be behind us. Total light vehicle sales are projected at 14-1/2 million units in each of the next two years, just below the 1995 pace. Moreover, given the projected flatness of housing starts, growth of housing-related durable purchases also is likely to be subdued.

Our consumption forecast balances a number of factors that, considered separately, could push the projection away from the neutral trajectory. On the positive side, sentiment remains fairly positive, and the stock market rally has provided a huge boost to household wealth. Even if equity prices were to decline considerably--which we view as far from certain--the ratio of wealth to income would remain above its average of the past few years and suggest the possibility of a rise in spending relative to current income. On the negative side is the past and prospective rise in household debt ratios and loan delinquency rates. We doubt that consumers generally have been borrowing beyond their means, especially given the job insecurity that has been widely reported, but some households probably have been seduced by the aggressive marketing of credit cards and may have built up levels of indebtedness that will force them to curb their spending. Lenders may also become a bit more cautious, but we don't foresee a major curtailment of credit availability.

Business fixed investment. Although 1995 is expected to be the third consecutive year in which real business capital spending has grown in excess of 10 percent, signs of slowing are evident. The increase in BFI over the second half of this year is likely to be 6 percentage points (annual rate) less than that in the first half. We expect the tendency toward slower growth to continue, as waning accelerator effects and sluggish cash flow more than offset the lagged effects of the decline in bond yields that has occurred over the past year. Real BFI is projected to advance 6 percent on average in 1996-97.

Real expenditures on equipment are expected to advance about 7 percent on average over the next two years, compared with an increase of nearly 15 percent this year. Most major components are projected to grow more slowly. Orders placed with domestic manufacturers for equipment other than computers have shown little growth for some time now, and a slackening in non-computer-outlay growth is already apparent. Demand for heavy trucks has also peaked. The computer story is more difficult to sort out, however. Advances in technology continue to make older equipment obsolete and create opportunities for cost-effective uses of new equipment. The expansion of capacity in the semiconductor industry suggests that manufacturers foresee robust growth in demand (although this investment also reflects the fact that the chip content of many goods other than computers is rising rapidly). While recognizing that these phenomena may sustain the boom for a while longer, computer demand is likely to be affected by cyclical factors similar to those expected to moderate the growth of other types of capital investment over the next two years. We are forecasting that computer outlays will decelerate from an increase of more than 40 percent this year to an average increase of a bit more than 15 percent in 1996-97. (Fortunately, when we shift to the new GDP indexes, the weight associated with computers will decline, making the GDP outcome less sensitive to surprises in computer expenditures.)

Growth of real outlays for nonresidential construction is expected to drop from 8 percent this year to an average of 2 percent through 1997. The decline this year of capacity utilization in many industries will discourage aggressive expansion of manufacturing plants, and the difficulties experienced by a number of major retailers underscore the excess capacity in that sector. However, market conditions have improved in the office sector, and construction there should post some respectable gains from a low level.

Residential investment. Despite falling mortgage interest rates, single-family starts and sales have stalled out after a sharp rise this summer. The recent further decline in mortgage rates could spur renewed growth: Indeed, the early December returns from the Michigan SRC survey indicate that households perceived an improvement in homebuying conditions. But we expect mortgage rates to back up somewhat in the near term and, thus, do not anticipate much of an increase in starts from here. We are showing single-family starts at 1.1 million units in 1996 and 1997.

Multifamily starts were also on the weak side in October. But the rate of permit issuance has been better maintained, and anecdotal evidence suggests that market conditions are quite good in many locales. Thus, we still expect activity in this sector to trend upward over time, though we have trimmed our forecast somewhat in response to the recent downside surprise.

Overall, our forecast of total starts--about 1.4 million units in each of the next two years--is fairly robust; it matches the average pace of 1994-95. Some analysts have taken the recent drop in starts and sales as evidence of the exhaustion of "pent-up" demand and have predicted lower levels of starts. Although we would not deny the possibility that housing activity could soften--despite favorable affordability conditions--we remain relatively optimistic based on our reading of demographic trends. We see considerable room for a pickup in household formations, given population growth and the potential for many young people to catch up with traditional patterns in the establishment of independent households.

<u>Business inventories</u>. The aggregate inventory-sales ratio has flattened this year. Our estimate of the stock-to-sales ratio in the third quarter shows no change from its value at the end of last year, and we expect only a small decline in the ratio in the current quarter. Although stocks are probably on the high side in a few industries, evidence of a substantial undesired buildup is lacking. The pace of inventory accumulation this year may suggest that improved control procedures have already been introduced in those industries with the largest potential gains from better inventory management and, thus, that effects of the drive to economize on inventory holdings are diminishing. Looking ahead, our best guess is that continuing efforts to reduce inventory costs will cause the inventory-sales ratio to trend down gradually. This pattern calls for a slowing in the constant-dollar rate of nonfarm inventory accumulation from $38 billion this year to $25 billion in 1996 and $22 billion in 1997.

<u>Government purchases</u>. Broadly speaking, the projection of real federal purchases is little changed, although the near-term pattern has been adjusted to account for effects of the government shutdown, the current continuing resolution, and the peacekeeping costs in Bosnia. Real federal purchases are expected to decline 3 percent in 1996 and 4 percent in 1997.

State and local purchases are projected to grow more slowly in 1996-97. Although most states are reported to be in good fiscal health, the situation at the local level is mixed. The prospective changes in federal programs make for a very uncertain outlook for the state and local sector, but we anticipate that, on balance, cutbacks in federal grants will impinge negatively on the capacity of the sector to finance increases in real purchases.

Net exports. After having increased substantially over the past four years, the deficit in real net exports is projected to change little on balance over the next two years. The leveling out is attributable partly to the lagged effects of the weak dollar in 1994-95. In addition, the firming of economic activity abroad should bolster exports while the slackening of domestic demand restrains imports. (These developments are discussed in the International Developments section.)

Labor markets. As indicated in the last Greenbook, we now use chain-weighted "real" quantities for constructing our basic estimates of trend productivity and potential output. The historical trend in output per hour is much more stable when calculated on that basis than when derived from output measured with fixed 1987 weights. We estimate the trend rate of productivity increase to be about 1 percent per year on the chain-weighted basis, which, given our forecast of computer outlays, translates into annual trend productivity growth in 1987 dollars of about 1-1/2 percent for 1996-97.[1] (The corresponding estimates of potential output growth on the two measurement bases are about 2 and 2-1/2 percent respectively.) Actual productivity should increase at about the trend rate over the next two years, given that the current level of output per hour is quite close to the estimated trend line and GDP is projected to grow moderately.

Payroll employment is projected to increase about 100,000 per month on average over 1996-97. With similar monthly advances expected for the labor force, the unemployment rate holds steady at its current level through the end of 1997. Our projection of the labor force has been revised down a bit. There has been no hint of

1. The projected 1/2 percentage point difference between the two measures of the productivity trend is a bit less than the spread estimated for 1995, because of the expected deceleration of computer purchases.

an increase in the participation rate in the past two years--indeed, it fell in November- despite the considerable expansion of job opportunities. Our forecast now starts from a lower level of the participation rate and assumes smaller increases over time.

Wages and prices. Only a little broad statistical information has become available on labor costs since the last Greenbook. Although reports of upward pressures on wages were more prevalent in the latest Beige Book, the November average hourly earnings figure did not suggest that a broad-based acceleration in wages is yet under way. However, we continue to view labor markets as being fairly taut overall and likely to give rise to some pickup in compensation gains over the coming quarters. But we anticipate that ECI compensation growth will move up only to 3 percent in 1997, versus the 2.6 percent increase recorded in the year ended in September.

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

	1995	1996	1997
Employment cost index[1]	2.6	2.8	3.0
Previous	2.5	2.8	3.0
Consumer price index	2.7	3.1	2.9
Previous	2.6	3.1	2.9
Excluding food and energy	3.1	2.9	3.0
Previous	3.1	2.9	3.0

1. Compensation of private industry workers, percent change from final month of previous year to final month of year indicated.

A step-up in compensation gains of this magnitude probably can be accommodated without much effect on prices, given the substantial growth in mark-ups that has occurred in recent years. Moreover, prices of crude and intermediate industrial materials have been soft of late, inflation expectations remain subdued, and the projected flat exchange rate is expected to slow the growth of non-oil import prices. With moderate output growth and little change in resource utilization, core inflation appears likely to hold in the neighborhood of 3 percent.

Major shocks from the volatile agricultural or energy sectors could, of course, disturb this stable picture, as they have on previous occasions. No such shocks are visible at this time, however. An obvious risk is present in the agricultural sector, where grain stocks are historically low and another major shortfall in production next year could trigger substantial price increases. The crop price increases recorded to date do not seem sufficient to cause more than a small acceleration in retail food prices. Crude oil prices have firmed and are expected to rise further in the first part of 1996. The passthrough of the increase in costs of crude oil to the consumer level is expected to result in a transitory bulge in retail energy prices, but the rise pales in comparison with those that have caused serious general inflation problems in the past. That said, with the less favorable contributions from food and energy prices, the total CPI is expected to accelerate several tenths in 1996, to an increase of just over 3 percent, before dropping back to a rise of a bit less than 3 percent in 1997.[2]

Alternative Simulations

We have run a set of alternative forecast simulations with the Board's quarterly econometric model in which the funds rate is assumed to be raised or lowered relative to the baseline path. The deviations from baseline start at 50 basis points in the first quarter of 1996, increase smoothly to 100 basis points by the third quarter of 1996, and then are maintained at that value through the

2. BLS is likely to correct the CPI for some minor sources of upward bias no later than 1997. Given the considerable uncertainty at this juncture about the timing and magnitude of the revisions, however, we have not attempted to incorporate any effects of methodological changes into our CPI projection.

end of 1997. Under the lower funds rate assumption, real GDP growth is raised about 1/4 percentage point in 1996 and about 3/4 percentage point in 1997. The unemployment rate is nearly 1/2 percentage point lower at the end of 1997, and core inflation is higher by 0.1 percentage point in 1996 and about 1/4 percentage point in 1997. The results for the tighter policy simulation are symmetrical.

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

	1996	1997
Real GDP		
Baseline	2.5	2.5
Lower funds rate	2.8	3.3
Higher funds rate	2.2	1.7
Civilian unemployment rate[1]		
Baseline	5.6	5.6
Lower funds rate	5.5	5.2
Higher funds rate	5.7	6.0
CPI excluding food and energy		
Baseline	2.9	3.0
Lower funds rate	3.0	3.3
Higher funds rate	2.8	2.7

1. Average for the fourth quarter.

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

December 14, 1995

Interval	Nominal GDP 11/08/95	Nominal GDP 12/14/95	Real GDP 11/08/95	Real GDP 12/14/95	GDP fixed-weight price index 11/08/95	GDP fixed-weight price index 12/14/95	Consumer price index[1] 11/08/95	Consumer price index[1] 12/14/95	Unemployment rate (level except as noted) 11/08/95	Unemployment rate (level except as noted) 12/14/95
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	5.0	5.1	3.3	3.4	2.8	2.8	2.8	2.8	5.6	5.6
1996	4.7	4.6	2.7	2.6	3.0	3.0	2.9	2.8	5.6	5.6
1997	4.5	4.5	2.5	2.5	2.9	2.9	3.0	2.9	5.6	5.6
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]	3.0	3.0	1.3	1.3	2.8	2.8	3.2	3.2	5.7	5.7
Q3	4.6	5.9	4.1	5.4	2.1	2.2	2.1	2.1	5.6	5.6
Q4	4.8	3.9	2.6	1.9	2.7	2.8	2.1	2.3	5.6	5.6
1996 Q1	5.3	5.1	2.7	2.5	3.7	3.5	3.2	3.1	5.6	5.6
Q2	5.0	4.7	2.7	2.4	3.1	3.0	3.4	3.2	5.6	5.6
Q3	4.2	4.0	2.1	2.0	2.9	2.8	3.0	3.0	5.6	5.6
Q4	4.6	4.8	2.7	2.9	2.8	2.8	3.0	2.9	5.6	5.6
1997 Q1	4.6	4.7	2.5	2.5	3.1	3.1	2.9	2.9	5.6	5.6
Q2	4.8	4.7	2.9	2.7	2.8	2.8	2.9	2.9	5.6	5.6
Q3	3.9	4.1	1.9	2.1	2.8	2.8	2.9	2.9	5.7	5.6
Q4	3.8	4.2	2.0	2.4	2.8	2.8	2.9	2.9	5.7	5.6
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]	3.9	3.9	2.0	2.0	2.9	2.9	3.2	3.2	.1	.1
Q4	4.7	4.9	3.4	3.6	2.5	2.5	2.1	2.1	.1	.1
1996 Q2	5.2	4.9	2.7	2.5	3.4	3.3	3.3	3.2	.0	.0
Q4	4.4	4.4	2.4	2.5	2.9	2.8	3.0	3.0	.0	.0
1997 Q2	4.7	4.7	2.7	2.6	2.9	2.9	2.9	2.9	.0	.0
Q4	3.9	4.1	2.0	2.3	2.8	2.8	2.9	2.9	.1	.0
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	4.3	4.4	2.7	2.8	2.7	2.7	2.6	2.7	.0	.0
1996 Q4	4.8	4.7	2.5	2.5	3.1	3.1	3.1	3.1	.0	.0
1997 Q4	4.3	4.4	2.3	2.5	2.9	2.9	2.9	2.9	.1	.0

1. For all urban consumers.
2. Actual.
3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.
4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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

December 14, 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	7084.5	7411.1	7745.8
Real GDP	Bill. 87$	4838.1	4897.3	4867.6	4979.3	5134.5	5344.0	5526.2	5670.4	5813.1
Real GDP	% change	1.6	.2	.3	3.7	3.1	4.1	2.8	2.5	2.5
Gross domestic purchases		.9	-.4	-.1	4.1	3.9	4.5	3.0	2.4	2.4
Final sales		1.5	1.2	-.4	3.8	3.0	3.4	3.2	2.6	2.4
Private dom. final purch.		.5	-.1	-.8	5.1	5.0	4.9	4.2	3.0	2.8
Personal cons. expend.		1.2	.7	.0	4.2	3.0	3.5	2.7	2.4	2.3
Durables		-.5	-.8	-1.3	9.6	9.0	8.6	5.1	3.9	4.0
Nondurables		1.2	-.1	-1.6	3.2	1.3	3.1	1.1	1.8	1.6
Services		1.7	1.7	1.2	3.5	2.5	2.4	3.0	2.2	2.3
Business fixed invest.		-.4	.7	-6.2	6.7	16.0	12.9	13.4	6.3	5.5
Producers' dur. equip.		-1.7	2.9	-3.2	11.0	21.3	15.5	14.8	7.1	6.8
Nonres. structures		2.3	-3.9	-12.4	-3.4	1.6	4.6	8.3	3.1	.5
Res. structures		-7.7	-15.2	.7	17.0	8.1	3.1	-1.3	2.2	.5
Exports		11.3	6.7	8.1	5.0	5.8	11.6	10.7	10.1	10.5
Imports		2.6	.4	4.0	8.6	12.4	13.8	10.7	8.9	8.9
Government purchases		2.0	3.3	-.8	.7	-1.0	-1.0	-.3	.2	-.1
Federal		-.6	2.8	-3.2	.8	-6.9	-5.9	-5.6	-3.0	-4.3
Defense		-1.5	1.5	-7.0	-1.3	-9.0	-8.2	-4.6	-.9	-4.1
State and local		4.0	3.6	.8	.6	3.0	2.0	2.6	1.9	2.0
Change in bus. invent.	Bill. 87$	29.8	5.7	-1.1	2.5	15.3	47.8	37.6	24.7	23.9
Nonfarm		29.9	3.2	-1.3	-2.0	18.5	40.7	37.7	24.5	22.3
Net exports		-73.7	-54.7	-19.5	-32.3	-73.9	-110.0	-120.3	-124.5	-120.5
Nominal GDP	% change	6.0	4.7	3.5	6.4	5.0	6.5	4.4	4.7	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	107.9	109.4	108.3	108.6	110.7	114.0	116.6	117.9	119.3
Unemployment rate	%	5.3	5.5	6.7	7.4	6.8	6.1	5.6	5.6	5.6
Industrial prod. index	% change	-.1	-.2	.2	4.0	3.2	6.6	1.8	3.3	3.1
Capacity util. rate-mfg.	%	83.2	81.3	78.0	79.5	80.6	83.3	83.0	82.0	82.2
Housing starts	Millions	1.38	1.19	1.01	1.20	1.29	1.46	1.34	1.39	1.39
Light Motor Vehicle Sales		14.53	13.85	12.31	12.80	13.89	15.07	14.69	14.57	14.60
Auto sales in U.S.		9.91	9.50	8.39	8.35	8.72	9.24	8.85	8.63	8.67
North American prod.		7.08	6.90	6.14	6.26	6.75	7.28	7.12	7.02	7.05
Other		2.83	2.60	2.25	2.10	1.97	1.96	1.73	1.61	1.62
INCOME AND SAVING										
Nominal GNP	Bill. $	5266.8	5567.8	5740.8	6025.8	6347.8	6726.9	7060.8	7383.6	7712.7
Nominal GNP	% change	6.1	4.9	3.2	6.1	5.0	6.1	4.4	4.6	4.3
Nominal personal income		6.5	6.5	3.7	8.1	2.8	6.8	5.2	4.9	4.7
Real disposable income		1.1	1.1	.9	5.0	.5	4.4	2.9	2.2	2.3
Personal saving rate	%	4.1	4.2	5.0	5.5	4.1	4.1	4.5	4.5	4.5
Corp. profits, IVA&CCAdj	% change	-6.3	2.3	8.8	9.6	23.4	4.9	5.6	5.5	2.2
Profit share of GNP	%	6.9	6.8	6.8	6.7	7.7	8.1	8.3	8.3	8.2
Federal surpl./def.	Bill. $	-122.3	-163.5	-202.9	-282.7	-241.4	-159.1	-140.4	-142.5	-158.0
State/local surpl./def.		44.8	25.1	17.0	24.8	26.3	26.2	20.9	13.6	25.3
Ex. social ins. funds		-17.5	-35.6	-46.5	-41.6	-40.0	-39.3	-43.7	-50.3	-38.2
PRICES AND COSTS										
GDP implicit deflator	% change	4.4	4.5	3.3	2.6	1.8	2.3	1.6	2.2	1.9
GDP fixed-wt. price index		4.4	4.6	3.6	3.2	2.8	2.9	2.7	3.1	2.9
Gross domestic purchases fixed-wt. price index		4.4	5.2	2.9	3.2	2.5	2.9	2.7	2.9	2.8
CPI		4.6	6.3	3.0	3.1	2.7	2.6	2.7	3.1	2.9
Ex. food and energy		4.4	5.3	4.4	3.5	3.1	2.8	3.1	2.9	3.0
ECI, hourly compensation[2]		4.8	4.6	4.4	3.5	3.6	3.1	2.6	2.8	3.0
Nonfarm business sector										
Output per hour		-1.4	.4	2.3	3.1	1.3	1.8	2.4	1.3	1.5
Compensation per hour		3.1	6.2	4.7	5.1	1.9	3.2	3.6	3.4	3.4
Unit labor cost		4.6	5.7	2.3	1.9	.5	1.4	1.2	2.0	1.8

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

Strictly Confidential (FR)
Class II FOMC

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

December 14, 1995

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	7030.0
Real GDP	Bill. 87$	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1	5367.0	5433.8	5470.1	5487.8
Real GDP	% change	1.2	2.4	2.7	6.3	3.3	4.1	4.0	5.1	2.7	1.3
Gross domestic purchases		2.7	3.3	4.0	5.8	5.0	4.6	4.4	4.2	3.5	1.9
Final sales		.2	2.4	3.2	6.4	2.2	1.5	4.3	5.7	2.6	2.6
Private dom. final purch.		3.5	3.7	5.3	7.4	5.8	2.7	4.1	6.8	4.2	3.7
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	3.5
Nondurables		-1.6	1.6	2.8	2.4	3.8	2.2	3.3	3.1	2.3	1.9
Services		3.1	1.4	3.6	2.0	4.0	1.1	2.2	2.3	2.6	4.2
Business fixed invest.		15.1	15.6	12.2	21.1	10.9	9.2	14.1	17.6	21.5	11.3
Producers' dur. equip.		20.0	21.6	16.2	27.5	18.6	6.1	18.1	19.6	24.5	11.9
Nonres. structures		2.5	.3	.5	3.3	-11.8	20.6	1.6	11.0	11.5	9.0
Res. structures		5.3	-7.6	9.4	28.2	10.0	7.0	-6.0	2.3	-3.4	-13.7
Exports		-1.0	7.7	-3.2	21.7	-3.5	16.6	14.8	20.2	4.8	6.6
Imports		11.6	14.9	7.4	16.0	9.5	18.9	15.6	11.4	10.1	9.9
Government purchases		-5.9	1.2	1.1	-.1	-4.9	-1.2	6.7	-4.1	-.7	.2
Federal		-15.4	-3.6	-3.0	-5.0	-10.3	-7.9	10.9	-14.4	-3.8	-2.9
Defense		-20.0	-2.2	-9.2	-3.6	-16.0	-4.1	12.8	-21.8	-7.5	.2
State and local		.9	4.4	3.7	2.9	-1.4	2.9	4.3	2.3	1.0	2.0
Change in bus. invent.	Bill. 87$	18.5	18.9	13.0	10.8	25.4	59.2	57.1	49.4	51.1	34.3
Nonfarm		19.7	22.8	20.9	10.7	22.1	51.7	47.4	41.7	49.1	33.2
Net exports		-57.6	-69.3	-86.3	-82.2	-104.0	-111.8	-117.0	-107.1	-118.5	-126.7
Nominal GDP	% change	4.4	4.2	3.8	7.7	6.1	7.2	6.2	6.4	4.7	3.0
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	3.7	.5	3.2	5.5	8.4	7.0	4.6	6.4	3.9	-1.4
Capacity util. rate-mfg.[1]	%	80.6	80.3	80.4	81.1	82.2	83.2	83.4	84.3	84.3	82.9
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	7008.6
Nominal GNP	% change	5.1	3.9	4.2	7.0	6.2	6.8	5.9	5.5	5.2	2.9
Nominal personal income		-5.8	8.6	2.4	6.7	5.3	7.7	5.4	8.8	7.4	3.1
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	8.2
Profit share of GNP[1]	%	7.1	7.5	7.7	8.2	7.7	8.2	8.2	8.2	8.2	8.3
Federal govt. surpl./def.	Bill. $	-283.5	-237.0	-224.9	-220.1	-176.2	-145.1	-154.0	-161.1	-148.6	-129.6
State/local surpl./def.		21.6	25.3	23.9	34.5	25.2	27.0	23.9	28.8	28.2	23.4
Ex. social ins. funds		-44.7	-41.1	-42.4	-31.7	-40.7	-38.9	-41.4	-36.4	-36.9	-41.5
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	3.2
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	4.9
Compensation per hour		1.9	2.4	1.5	1.6	4.9	1.4	2.7	3.8	4.1	3.7
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.

Strictly Confidential (FR)
Class II FOMC

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

December 14, 1995

Item	Units	1995		Projected							
				1996				1997			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	7131.2	7199.4	7289.5	7373.5	7446.5	7535.0	7621.3	7708.8	7786.3	7867.0
Real GDP	Bill. 87$	5560.4	5586.6	5620.7	5654.7	5682.4	5723.7	5759.6	5798.7	5829.5	5864.8
Real GDP	% change	5.4	1.9	2.5	2.4	2.0	2.9	2.5	2.7	2.1	2.4
Gross domestic purchases		4.6	2.0	2.8	2.4	2.4	2.1	2.5	2.7	2.5	1.8
Final sales		5.2	2.6	2.7	2.2	2.0	3.6	2.2	2.7	2.1	2.8
Private dom. final purch.		4.5	4.2	3.4	2.9	2.9	2.9	3.1	3.0	2.6	2.6
Personal cons. expend.		3.1	2.8	2.5	2.3	2.4	2.4	2.7	2.6	2.1	2.1
Durables		14.0	7.0	4.7	2.8	4.2	4.1	5.6	5.4	2.6	2.6
Nondurables		-.3	.6	2.4	1.8	1.6	1.6	1.7	1.6	1.5	1.5
Services		2.2	2.8	1.9	2.4	2.3	2.3	2.4	2.3	2.2	2.2
Business fixed invest.		10.0	11.0	6.9	6.4	6.1	5.7	5.5	5.5	5.5	5.5
Producers' dur. equip.		11.0	12.2	7.9	7.5	6.9	6.3	6.6	6.8	6.8	6.9
Nonres. structures		6.0	6.8	3.0	2.5	3.3	3.3	1.4	.3	.3	-.1
Res. structures		8.2	5.1	5.9	1.1	.6	1.4	.6	.6	.5	.5
Exports		18.0	13.8	7.5	12.5	5.8	14.9	8.9	13.6	6.1	13.6
Imports		10.1	12.8	8.9	10.6	8.1	7.9	7.8	11.7	7.8	8.3
Government purchases		3.9	-4.6	1.3	-2.1	-.2	2.0	-2.7	.5	2.0	-.1
Federal		4.8	-19.0	.3	-9.5	-4.2	1.9	-11.9	-2.3	1.8	-4.2
Defense		2.1	-12.3	3.1	-5.6	-2.7	1.8	-16.1	-2.4	3.7	-.2
State and local		3.4	4.1	1.8	1.8	1.8	2.1	2.1	1.9	2.1	1.8
Change in bus. invent.	Bill. 87$	37.3	27.5	24.0	27.9	27.9	19.1	24.2	25.2	25.7	20.5
Nonfarm		38.8	29.5	25.1	27.4	27.2	18.3	23.1	23.7	24.0	18.6
Net exports		-117.1	-119.0	-124.0	-123.6	-130.5	-119.8	-119.9	-119.6	-125.5	-116.8
Nominal GDP	% change	5.9	3.9	5.1	4.7	4.0	4.8	4.7	4.7	4.1	4.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	116.8	117.1	117.5	117.8	118.1	118.5	118.8	119.1	119.4	119.7
Unemployment rate[1]	%	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Industrial prod. index	% change	3.2	1.3	3.0	3.3	3.2	3.5	3.6	3.4	2.6	2.8
Capacity util. rate-mfg[1]	%	82.6	82.2	82.1	82.0	82.0	82.0	82.1	82.2	82.2	82.2
Housing starts	Millions	1.40	1.38	1.39	1.39	1.39	1.39	1.39	1.39	1.38	1.38
Light Motor Vehicle Sales		14.74	14.76	14.78	14.50	14.50	14.50	14.59	14.70	14.59	14.50
Auto sales in U.S.		9.15	8.68	8.68	8.61	8.61	8.61	8.66	8.73	8.66	8.61
North American prod.		7.39	7.15	7.07	7.00	7.00	7.00	7.05	7.10	7.05	7.00
Other		1.75	1.53	1.61	1.61	1.61	1.61	1.61	1.63	1.61	1.61
INCOME AND SAVING											
Nominal GNP	Bill. $	7104.7	7170.3	7266.4	7345.6	7419.4	7502.8	7591.6	7675.2	7754.9	7829.0
Nominal GNP	% change	5.6	3.7	5.5	4.4	4.1	4.6	4.8	4.5	4.2	3.9
Nominal personal income		4.5	5.9	6.0	5.0	4.6	4.1	6.1	4.2	4.3	4.2
Real disposable income		4.3	4.5	3.8	.8	2.9	1.3	5.0	1.5	1.4	1.5
Personal saving rate[1]	%	4.2	4.5	4.8	4.4	4.6	4.3	4.8	4.6	4.4	4.3
Corp. profits, IVA&CCAdj	% change	10.7	-3.0	14.2	-2.4	-3.0	14.5	4.0	-.7	-1.2	7.0
Profit share of GNP[1]	%	8.4	8.3	8.4	8.3	8.1	8.3	8.3	8.2	8.1	8.1
Federal govt. surpl./def.	Bill. $	-141.7	-141.8	-166.3	-124.3	-133.9	-145.3	-164.6	-153.2	-150.0	-164.3
State/local surpl./def.		20.0	12.1	12.3	10.9	14.1	17.2	20.3	23.1	27.9	30.0
Ex. social ins. funds		-44.3	-52.1	-51.8	-53.1	-49.8	-46.6	-43.4	-40.5	-35.6	-33.4
PRICES AND COSTS											
GDP implicit deflator	% change	.5	1.9	2.6	2.2	2.0	1.9	2.1	1.9	1.9	1.7
GDP fixed-wt. price index		2.1	2.8	3.5	3.0	2.8	2.8	3.1	2.8	2.8	2.8
Gross domestic purchases fixed-wt. price index		1.9	2.6	3.0	2.9	2.8	2.8	3.0	2.8	2.8	2.8
CPI		2.1	2.3	3.1	3.2	3.0	2.9	2.9	2.9	2.9	2.9
Ex. food and energy		2.5	2.7	2.7	2.9	2.9	3.0	3.0	3.0	3.0	3.0
ECI, hourly compensation[2]		2.3	2.7	2.7	2.8	2.8	2.9	3.0	3.0	3.0	3.0
Nonfarm business sector											
Output per hour		2.0	.1	1.4	1.4	.8	1.7	1.5	1.9	1.1	1.5
Compensation per hour		3.1	3.4	3.6	3.3	3.4	3.3	3.5	3.3	3.3	3.4
Unit labor cost		1.1	3.3	2.1	1.9	2.6	1.6	2.0	1.4	2.2	1.9

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)

December 14, 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	17.7	179.9	157.3	215.8	152.8
Gross domestic purchases	33.7	41.8	51.1	74.4	64.9	60.7	58.2	56.9	47.7	25.9	201.6	201.0	240.7	164.7
Final sales	2.7	29.7	40.0	80.7	28.5	19.2	55.1	74.4	34.6	34.5	186.8	153.1	177.2	174.7
Private dom. final purch.	35.9	38.6	54.5	76.9	61.9	29.8	45.4	74.3	47.7	42.2	202.2	205.9	211.4	189.8
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	98.4
Durables	3.7	11.2	9.0	18.1	10.9	.5	7.4	25.2	-4.8	4.8	41.1	42.0	44.0	28.2
Nondurables	-4.2	4.3	7.4	6.3	10.3	6.0	9.1	8.5	6.3	5.3	33.8	13.8	33.9	12.5
Services	14.4	6.4	16.6	9.6	18.9	5.1	10.4	11.1	12.8	20.3	63.1	47.0	45.5	57.7
Business fixed invest.	19.4	20.7	16.9	29.3	16.4	14.3	22.1	28.2	35.4	20.1	34.0	86.3	81.0	94.6
Producers' dur. equip.	18.4	20.7	16.6	28.2	20.9	7.5	21.5	24.2	31.1	16.6	39.1	83.9	74.1	81.6
Nonres. structures	.9	.1	.2	1.2	-4.6	6.9	.6	4.0	4.3	3.5	-5.1	2.4	6.9	12.9
Res. structures	2.7	-4.1	4.7	13.5	5.4	3.9	-3.6	1.3	-2.0	-8.3	30.2	16.8	7.0	-3.1
Change in bus. invent.	11.9	.4	-5.9	-2.2	14.6	33.8	-2.1	-7.7	1.7	-16.8	-6.9	4.2	38.6	-21.9
Nonfarm	13.4	3.1	-1.9	-10.2	11.4	29.6	-4.3	-5.7	7.4	-15.9	-8.3	4.4	31.0	-12.2
Farm	-1.5	-2.7	-4.0	8.0	3.2	4.2	2.2	-2.0	-5.7	-.9	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	-8.2	-21.6	-43.7	-24.9	-11.9
Exports	-1.5	11.0	-4.9	29.9	-5.6	24.3	22.6	31.4	8.3	11.4	28.1	34.5	72.7	74.6
Imports	17.5	22.8	12.0	25.8	16.2	32.0	27.9	21.5	19.6	19.7	49.9	78.1	97.6	86.5
Government purchases	-14.1	2.8	2.5	-.3	-11.6	-2.8	14.9	-9.8	-1.7	.5	6.2	-9.1	-9.3	-3.2
Federal	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	8.8	-13.1	-3.2	-2.4	2.9	-25.9	-20.7	-18.6
Defense	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	6.9	-13.9	-4.2	.1	-3.4	-23.7	-19.6	-10.0
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	-8.6
State and local	1.3	6.1	5.2	4.2	-2.1	4.1	6.1	3.3	1.5	2.9	3.2	16.8	11.4	15.4

1. Annual changes are from Q4 to Q4.

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

Item	1995 Q3	1995 Q4	Projected 1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1994	Projected 1995	1996	1997
Real GDP	72.6	26.2	34.1	33.9	27.8	41.3	35.9	39.0	30.8	35.3	215.8	152.8	137.1	141.1
Gross domestic purchases	63.0	28.1	39.2	33.5	34.6	30.5	36.1	38.6	36.8	26.6	240.7	164.7	137.9	138.1
Final sales	69.6	36.0	37.6	30.0	27.7	50.1	30.8	38.0	30.3	40.5	177.2	174.7	145.5	139.7
Private dom. final purch.	51.2	48.8	39.7	34.6	35.0	34.8	37.2	36.5	31.8	32.1	211.4	189.8	144.2	137.6
Personal cons. expend.	28.4	25.2	22.9	21.1	22.3	22.3	25.3	24.5	19.8	19.8	123.4	98.4	88.7	89.4
Durables	18.4	9.7	6.7	4.0	6.2	6.1	8.2	8.1	4.1	4.1	44.0	28.2	23.0	24.4
Nondurables	-.9	1.8	6.7	5.1	4.6	4.6	4.9	4.6	4.3	4.4	33.9	12.5	20.9	18.2
Services	10.9	13.6	9.5	12.0	11.6	11.7	12.2	11.8	11.3	11.4	45.5	57.7	44.8	46.8
Business fixed invest.	18.3	20.7	13.5	12.8	12.4	11.7	11.5	11.6	11.8	12.0	81.0	94.6	50.4	47.0
Producers' dur. equip.	15.9	18.0	12.2	11.7	11.0	10.3	10.9	11.5	11.6	12.0	74.1	81.6	45.2	46.1
Nonres. structures	2.4	2.7	1.3	1.1	1.4	1.4	.6	.1	.1	.0	6.9	12.9	5.1	.8
Res. structures	4.4	2.8	3.3	.7	.3	.8	.3	.4	.3	.3	7.0	-3.1	5.1	1.3
Change in bus. invent.	3.0	-9.8	-3.5	3.9	.0	-8.9	5.1	1.0	.5	-5.2	38.6	-21.9	-8.4	1.4
Nonfarm	5.6	-9.3	-4.4	2.3	-.2	-9.0	4.8	.6	.3	-5.4	31.0	-12.2	-11.2	.3
Farm	-2.6	-.5	.9	1.6	.2	.1	.3	.4	.2	.2	7.6	-9.7	2.8	1.1
Net exports	9.6	-1.9	-5.0	.4	-6.8	10.7	-.2	.4	-6.0	8.7	-24.9	-11.9	-.8	3.0
Exports	30.3	24.6	14.2	23.6	11.4	29.1	18.3	28.1	13.4	29.5	72.7	74.6	78.3	89.2
Imports	20.6	26.5	19.2	23.2	18.3	18.4	18.5	27.7	19.3	20.7	97.6	86.5	79.0	86.3
Government purchases	8.8	-10.8	3.0	-5.0	-.5	4.6	-6.2	1.2	4.5	-.3	-9.3	-3.2	2.1	-.9
Federal	3.8	-16.8	.3	-7.7	-3.3	1.4	-9.4	-1.7	1.3	-3.1	-20.7	-18.6	-9.3	-13.0
Defense	1.1	-7.0	1.6	-3.0	-1.4	.9	-8.9	-1.2	1.8	-.1	-19.6	-10.0	-1.9	-8.4
Nondefense	2.7	-9.8	-1.3	-4.7	-1.9	.5	-.5	-.5	-.5	-3.0	-1.1	-8.6	-7.4	-4.6
State and local	5.0	6.0	2.7	2.7	2.8	3.2	3.2	2.9	3.2	2.8	11.4	15.4	11.4	12.1

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)

December 14, 1995

Item	Fiscal year				1995				1996				1997			
	1994[a]	1995	1996	1997	Q1[a]	Q2[a]	Q3[b]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1257	1351	1406	1442	307	404	333	326	302	424	354	336	315	430	361	344
Outlays[1]	1461	1514	1575	1635	380	381	373	382	401	394	398	412	414	403	406	424
Surplus/deficit[1]	-203	-164	-169	-193	-73	23	-40	-57	-99	30	-44	-76	-99	27	-45	-80
On-budget	-259	-226	-229	-246	-85	-11	-43	-63	-109	-10	-47	-79	-109	-10	-47	-80
Off-budget	56	62	60	53	12	34	2	7	11	40	3	3	10	37	3	1
Surplus excluding deposit insurance[2]	-210	-181	-176	-197	-79	18	-42	-60	-101	31	-46	-76	-101	28	-47	-79
Means of financing																
Borrowing	185	171	211	193	66	26	20	38	112	13	48	54	70	19	50	58
Cash decrease	17	-2	-22	0	8	-42	23	19	-6	-35	0	25	20	-45	0	25
Other[3]	1	-5	-20	0	0	-7	-3	-1	-7	-7	-4	-3	9	-1	-5	-3
Cash operating balance, end of period	36	38	60	60	18	61	38	19	25	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1355	1449	1517	1567	1441	1476	1472	1493	1504	1535	1535	1557	1556	1570	1586	1605
Expenditures	1529	1595	1659	1721	1590	1605	1615	1635	1671	1660	1669	1702	1721	1723	1737	1770
Purchases	439	434	421	417	434	435	437	423	426	419	417	420	414	414	417	415
Defense	296	285	283	281	284	287	286	281	286	283	283	285	278	278	282	283
Nondefense	144	149	138	136	151	148	151	142	141	136	134	135	136	136	136	132
Other expenditures	1090	1161	1237	1304	1155	1170	1179	1212	1245	1241	1252	1282	1306	1309	1319	1354
Surplus/deficit	-174	-146	-142	-153	-149	-130	-143	-142	-167	-125	-134	-145	-165	-153	-150	-164
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-164	-172	-179	-195	-176	-154	-175	-178	-204	-164	-171	-185	-206	-196	-193	-208
Change in HEB, percent of potential GDP	-.7	.1	.1	.2	-.1	-.3	.3	0	.4	-.6	.1	.2	.3	-.1	0	.2
Fiscal impetus (FI), percent, cal. year	-7.3	-5.1	-8.7	-5.4	-1.7	-1.1	2.3	-5.7	-2.2	-3.6	-.4	-1.5	-1.6	1.9	-3.9	-4.3

1. OMB's July 1995 deficit estimates are $160 billion in FY95, $163 billion in FY96 and $179 billion in FY97. CBO's December 1995 baseline deficit estimates (including the fiscal dividend from assumed enactment of congressional budget program) are $161 billion in FY95, $172 billion in FY96 and $182 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 December 1995 baseline deficit estimates (including the fiscal dividend from assumed enactment of congressional budget program), excluding deposit insurance spending, are $177 billion in FY95, $180 billion in FY96 and $186 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

Over the intermeeting period, softness in some economic indicators apparently led market participants to lower expectations for economic activity and inflation pressures. Hopes for System action to ease money market conditions were strengthened at times by statements from policymakers. Except for one-month interest rates, which began to incorporate year-end premiums, the short end of the yield curve dropped about 10 basis points. The long end fell even more, with the thirty-year bond yield dropping 1/4 percentage point.

The broad monetary aggregates grew slowly in November. Although the spread of long-term market rates over deposit rates has continued to decline, it has not produced a surge in deposit growth as it seemed to during the summer. Over the year, M2 has expanded at a 4-1/4 percent rate, placing it in the upper half of its annual growth range. M3 continued to decelerate last month, owing largely to a runoff of its wholesale components. Branches and agencies of Japanese banks, in particular, cut back on large CDs while continuing to borrow heavily from their overseas offices. At 6 percent, M3's growth over the year is at the upper end of its annual range.

Bank credit also grew at a sluggish pace in November, as lending expanded modestly, while security holdings declined--largely reflecting revaluation of off-balance-sheet contracts. Business loans were boosted by financing for the Westinghouse/CBS merger and the paydown of commercial paper by a troubled retailer. Although the net easing of credit standards evident over the past two years may be drawing to a close, banks continue to report a slight further softening of lending terms. Business loan delinquencies remain at low levels. Consumer loans grew only moderately in November, largely because of a heavy pace of securitization. Perhaps reflecting ongoing disillusionment with CMOs and other derivative securities, investors have shown a good appetite for issues backed by consumer loans. Delinquencies and charge-offs of consumer loans have turned up, but banks do not appear to have made any substantial cutback in credit availability. Indeed, the net percentage of senior loan officers reporting an increased willingness to lend to consumers, though declining, has remained slightly positive. Real estate loans at banks have weakened, apparently also reflecting securitizations. Mortgage refinancing activity has been strong and has often involved shifts from adjustable rate mortgages, which tend to remain on the books of banks, to fixed rate loans, which are typically securitized.

With the favorable financing environment provided by the rally in bond and stock markets, nonfinancial corporations have maintained a heavy pace of security issuance. Quality spreads remain generally modest relative to historical averages, despite some recent increases for lower-rated issuers. Bond maturities have lengthened, and investors gave good receptions to several 50-year and 100-year issues, until the Administration proposed last week to treat new issues with maturities of more than 40 years as equity. The proceeds of many bond issues continue to be used to pay down or substitute for shorter-term debt, thereby contributing to a decline in nonfinancial commercial paper again in November. Although gross equity issuance has remained fairly strong, the market's reception of initial public offerings has become somewhat less enthusiastic. On net, equity shares continue to be retired because of repurchase programs and debt-financed mergers.

Borrowing by households appears to have remained substantial. Growth of outstanding home mortgage debt has picked up somewhat in the second half of 1995, but it remains moderate. The proportion of new loans with fixed rates has risen sharply, as homeowners have sought to lock in lower rates for the life of their loans. With the rally in capital markets, households have tapped margin credit. Consumer credit growth picked up to a healthy clip in October, but it remains below the vigorous pace of 1994 and the first half of 1995.

Gross offerings of tax-exempt bonds rose somewhat in October and November. States and local units appear to be responding to declines in long-term interest rates with increased refunding issuance, although the total volume is still moderate. Because of heavy retirements, outstanding state and local debt continues to decline. To attract investors who have been disappointed by calls of municipal securities for early redemption, new issues have included greater call protection.

With the disinvestment of $61 billion of nonmarketable securities in trust funds for federal employees, the Treasury was able to proceed with quarterly refunding auctions in late November. The seasonally high fourth-quarter federal deficit has been held down somewhat by spending restraints under continuing resolutions. Early in the quarter, the Treasury financed the deficit largely by running down available cash, but in the last several weeks its net borrowing has picked up sharply.

Outlook

The staff assumes that the federal funds rate will remain unchanged well into 1997. Because financial markets are expecting some near-term easing, bond yields should back up from their current levels under the assumed path for the funds rate; however, the rise in yields will be limited to the extent that investors believe that easing has merely been deferred. Furthermore, with the economy growing moderately, the budget presumably headed toward balance, and inflation virtually stable, investors may be satisfied in coming quarters with a relatively modest premium for holding longer-dated instruments--perhaps something similar to that observed on average in the 1950s and 1960s.

M2 is expected to expand a bit faster next year than in 1995, owing to a slight pickup in nominal GDP growth and a narrower average spread of market interest rates over deposit rates. As these effects subside, M2's growth should edge down in 1997. With bond financing continuing to substitute for some bank loans to businesses, and a larger share of new mortgages and consumer loans being securitized, bank lending is expected to grow at a slower rate over the next two years. The financing of bank credit with M3 liabilities should slow as well.

Domestic nonfinancial debt is expected to grow 5-1/4 percent this year, about 3/4 of a percentage point faster than nominal GDP, reflecting the pickup in borrowing by businesses. As private borrowing slows over the next two years, the debt aggregate may expand at about the pace of nominal spending. Federal borrowing is expected to rise somewhat in 1996 before beginning to decline in 1997.

Borrowing by nonfinancial firms is projected to be a bit lower next year. Pending deals suggest that merger activity in the near term will involve an increasing proportion of stock swaps, thus involving less debt creation and lower equity retirements than in 1995. With prices in capital markets expected to give back some of their recent gains, gross bond and equity issuance should ease from their strong fourth-quarter pace. Nonetheless, bond issuance by nonfinancial corporations is likely to remain fairly robust, while borrowing in commercial paper markets slows, as firms continue to respond to a rather flat yield curve spread by substituting away from shorter-term debt. With nonfinancial firms experiencing little difficulty in servicing debt and banks continuing to compete for good loans, the availability of bank financing for all but marginal borrowers will likely remain quite favorable over the forecast period.

Despite some backup in mortgage interest rates, borrowing for home mortgages should continue near its current pace in the period ahead. Mortgage refinancing is likely to pick up in the very near term, but to a rate well short of the record set in 1993; household debt should be boosted to a small extent as homeowners convert some equity in their homes into debt when refinancing. With reduced growth in consumer durables purchases, consumer credit growth is expected to slow over the next two years. Although delinquency and charge-off rates are now rising, they generally remain below levels associated with substantial financial stress in the past, and seem unlikely to place noticeable restraint on household credit demand in the near future. As signs of weaker household financial positions become more evident, banks will probably tighten up gradually on pricing and loan availability, but not enough to put much of a dent in debt expansion.

The decline in outstanding tax-exempt securities that began in 1994 is expected to continue over the next two years, but at a slower pace than in 1995. With a smaller volume of municipal securities either maturing or becoming subject to calls for early redemption, retirements should decline. While the volume of refunding issues is expected to be light, issuance other than for refundings is expected to increase gradually over the period, reflecting continued moderate growth in construction expenditures by state and local governments.

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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	12.0	18.9	10.2	11.6	10.8	12.6	8.7	11.4	11.4	11.0
1984	14.6	16.9	14.0	12.9	11.7	18.7	15.5	11.4	14.2	9.1
1985	15.8	16.5	15.6	15.5	13.5	15.8	12.0	31.8	12.4	7.0
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	8.1	4.7
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	8.1	8.0
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	6.5	8.6	7.7
1989	7.6	7.0	7.8	8.8	10.1	6.2	7.5	5.7	5.6	6.0
1990	6.5	11.0	5.3	7.8	10.0	2.0	3.0	4.9	4.6	4.7
1991	4.4	11.1	2.4	5.0	6.6	-1.8	-1.7	8.2	1.7	3.5
1992	4.8	10.9	2.8	5.2	6.1	0.9	0.5	2.0	1.6	6.4
1993	5.3	8.3	4.2	6.1	5.4	7.3	1.7	5.7	1.2	5.0
1994	4.9	4.7	5.0	8.4	6.6	14.0	3.8	-3.7	4.2	6.5
1995	5.1	4.3	5.4	7.5	6.4	11.7	6.1	-5.7	2.2	4.4
1996	5.0	6.2	4.6	6.2	6.4	7.4	4.8	-3.9	1.0	4.7
1997	4.4	5.1	4.2	5.9	6.2	5.7	4.0	-3.8	1.0	4.4
Quarter (seasonally adjusted annual rates)										
1994:1	5.2	6.2	4.8	6.8	6.3	7.5	4.1	-0.0	3.4	6.1
2	4.6	3.9	4.8	8.1	6.0	14.8	3.7	-3.4	5.1	7.2
3	4.5	4.0	4.7	8.6	6.7	13.7	3.4	-5.7	2.4	6.2
4	5.0	4.3	5.3	9.3	6.9	17.5	3.9	-6.0	5.7	6.4
1995:1	6.2	7.6	5.7	6.3	5.8	9.5	7.8	-4.7	3.2	4.7
2	6.7	5.7	7.0	8.4	6.2	15.7	7.8	-1.5	4.6	3.0
3	3.5	1.8	4.1	7.6	6.6	10.5	4.0	-10.9	-0.1	5.9
4	3.6	1.7	4.3	6.7	6.5	9.3	4.2	-6.3	1.0	3.9
1996:1	7.1	12.5	5.2	6.3	6.3	8.4	5.7	-1.8	1.0	5.1
2	4.6	4.0	4.9	6.2	6.2	7.3	4.5	-0.0	1.0	4.7
3	4.0	4.7	3.7	6.0	6.2	6.8	4.3	-9.4	1.0	4.0
4	3.9	3.3	4.2	5.9	6.2	6.2	4.3	-4.7	1.0	4.8

1. Data after 1995:q3 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, 4.8 percent in 1996, and 4.5 percent in 1997. Federal debt rises 4.6 percent in 1995, 5.5 percent in 1996, and 5.3 percent in 1997. Nonfederal debt is projected to increase 5.4 percent in 1995, 4.6 percent in 1996, and 4.2 percent in 1997.

2.6.3 FOF

Confidential FR Class II
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FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS[1]
(Billions of dollars)

	Calendar year				1995				1996		1997	
	1994	1995	1996	1997	Q1	Q2	Q3	Q4	H1	H2	H1	H2
					Seasonally Adjusted Annual Rates							
Net funds raised by domestic nonfinancial sectors												
1 Total	571.6	598.4	634.4	615.9	746.7	832.4	390.8	423.8	750.4	518.4	634.8	597.0
2 Net equity issuance	-44.9	-71.4	-59.5	-30.0	-68.4	-59.6	-84.8	-72.8	-69.0	-50.0	-36.0	-24.0
3 Net debt issuance	616.5	669.8	693.9	645.9	815.1	892.0	475.6	496.6	819.4	568.4	670.8	621.0
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	48.5	111.7	73.1	71.8	134.1	102.8	124.8	85.2	75.1	71.1	69.3	74.2
5 Net equity issuance	-44.9	-71.4	-59.5	-30.0	-68.4	-59.6	-84.8	-72.8	-69.0	-50.0	-36.0	-24.0
6 Credit market borrowing	143.8	238.8	197.5	175.0	306.5	312.5	164.9	171.4	212 1	182.9	171.1	178.8
Households												
7 Net borrowing, of which:	360.2	345.5	310.9	313.2	293.9	393.7	364.1	330.1	315.4	306.5	310.2	316.2
8 Home mortgages	196.6	203.4	214.2	220.7	184.3	200.4	214.6	214.2	211.7	216.7	215.2	226.2
9 Consumer credit	121.2	115.4	81.0	67.5	93.8	158.1	109.6	100.2	87.2	74.7	70.0	65 0
10 Debt/DPI (percent)[3]	89.8	91.5	93.0	93.8	90.1	91.4	92.1	92.3	92.6	93.3	93.4	94.2
State and local governments												
11 Net borrowing	-43.4	-64.0	-41.4	-38.8	-52.1	-16.9	-119.9	-67.2	-9.6	-73.2	-42.9	-34 6
12 Current surplus[4]	-39.7	-44.0	-61.4	-51.0	-47.6	-28.1	-38.0	-62.2	-63.2	-59.6	-54.6	-47.4
U.S government												
13 Net borrowing	155.9	149.6	226.8	196 6	266.8	202.8	66.4	62.3	301.5	152.2	232.4	160 7
14 Net borrowing;quarterly, nsa	155.9	149.6	226.8	196.6	65.6	25.6	20.1	38.3	124.2	102.6	89.0	107 5
15 Unified deficit;quarterly, nsa	185.2	147.1	188.5	196.4	73.3	-23.0	40.2	56.6	68.4	120.0	71.9	124.5
Funds supplied by												
16 depository institutions	198.3	279.8	205.7	209.7	370.9	325.5	294.2	128.5	204.7	206.7	213.7	205.7
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	190.7	190.5	191.3	191.6	190.0	191.7	191.3	191.2	191.4	192.0	191.6	191.8
18 Dom. nonfinancial borrowing	9.1	9.5	9.4	8.3	11.7	12.7	6.7	6.9	11.2	7.6	8.8	7.9
19 U.S. government[5]	2.3	2.1	3.1	2.5	3.8	2.9	0.9	0.9	4.1	2.0	3.0	2.1
20 Private	6.8	7.3	6.3	5.8	7 9	9.8	5.7	6.0	7.1	5.6	5.7	5.9

1. Data after 1995:q3 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 weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has risen about 1-1/2 percent, on balance, since the November FOMC meeting. The dollar has strengthened in terms of the European currencies, rising almost 2-3/4 percent against the German mark. In contrast, the dollar is up only 1/2 percent in terms of the Japanese yen, as prospects for recovery of the Japanese economy have brightened somewhat. The dollar has also gained in terms of the Canadian dollar.

Consistent with the continued slow pace of economic expansion and anticipated monetary easing, long-term interest rates in Europe have generally declined 25 basis points or more over the intermeeting period. Canadian long-term rates are also down 25 basis points, whereas the Japanese long-term rate is only slightly reduced. On average, since the previous FOMC, foreign, 10-year rates have declined about the same as the U.S. rate. On December 14, the Bundesbank lowered its discount and Lombard rates by 50 basis points; other European central banks followed. Earlier in the intermeeting period, official rates were also lowered in France and the United Kingdom. On balance, short-term interest rates abroad are down about 20 basis points.

Pressures on Mexican financial markets have abated somewhat over the intermeeting period. On balance, the Mexican peso has appreciated about 2 percent against the dollar, peso interest rates have declined about 10 percentage points, and stock prices have rebounded substantially.

. The Desk did not intervene.

Economic expansion continues to be uneven but generally subdued in the major foreign industrial countries. In Germany, industrial production fell in October after declining in the third quarter. Unemployment moved up a bit further through November. Third-quarter GDP data confirmed a marked slowing in real output growth from that experienced in the first half of the year. In France, economic activity this quarter is being disrupted by the strikes of public-sector workers that are now in their third week. The strikes are in protest of the government's plan to eliminate the deficit on social security and to reduce the general government budget deficit by limiting benefits and raising taxes. Third-quarter French GDP growth was modest, as consumption and exports declined. In contrast, real GDP growth rebounded in Canada in the third quarter, boosted by strong growth in exports but restrained by a decline in domestic demand. Through November, Canadian employment remained little changed from its third-quarter level.

In Japan, industrial production, housing starts and new machinery orders rose in October, while new car registrations fell and labor market indicators registered essentially no change from the third quarter. Third-quarter growth in domestic demand was boosted by strong consumption spending, but output growth was held back by a substantial rise in imports and a drop in exports. The Bank of Japan's November Tankan survey registered a slightly less negative balance for business sentiment than it did in August.

Inflation abroad remains low on average. In Japan, the latest data again show declines in the consumer price index from twelve months ago. Consumer prices in most European countries continue to rise only slowly, but in Italy inflation in November reached 6 percent. Canadian inflation has moderated in recent months and remains within the 1 to 3 percent target range.

The U.S. nominal trade deficit in goods and services was about equal in September to that in August. For the third quarter, the trade deficit declined significantly from its unusually high second-quarter rate. Exports of goods and services rose 1 percent in the third quarter, whereas imports of goods and services fell about the same.[1] The current account deficit narrowed in the third quarter, as the improvement in the trade deficit more than offset an increase in the deficit on investment income and higher net unilateral transfers.

The average price of U.S. exports increased a bit in October; the rise was about the same as in September. Prices of non-oil imports declined slightly in October for the second consecutive month. The price of imported oil moved down somewhat further in October after falling sharply on average in the third quarter as world supply remained abundant. Spot oil prices rose in November in response to an output loss in Mexico, fear of strikes by oil workers in Venezuela and Brazil, and the OPEC decision to maintain existing production quotas, and they have continued to rise in December, responding to cold weather in the United States. Spot WTI is currently trading at $19.12, compared with $17.70 at the time of the November FOMC meeting.

Outlook

Real net exports of goods and services are projected to fluctuate narrowly over the forecast period and to be about unchanged from current levels at the end of 1997 when measured in 1987 dollars. We project that total foreign real GDP growth (weighted by shares in U.S. nonagricultural exports) will strengthen from about 3 percent, annual rate, during the second half of this year to 3-1/2 percent in 1996 and 1997. With U.S. growth expected

[1]Trade data for October are expected to be released on December 20.

to fall below that of foreign growth, improved foreign income expansion and lagged effects from previous dollar depreciation will stimulate exports to grow a bit faster than imports. As a consequence, the deficit in real net exports should remain little changed. This forecast implies that the contribution of real net exports to GDP growth, which is expected to be negative in 1995, will be essentially neutral in 1996-1997.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain near its recent levels over the forecast period. This forecast is the same as that in the previous Greenbook despite the small appreciation over the intermeeting period. While the recent rise may imply some upside risk to the dollar, the current level is comfortably within the range in which it has fluctuated since early March. We expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate at a moderate rate both next year and during 1997. In particular, the Mexican peso is expected to appreciate in real terms from current levels as the peso's nominal exchange value against the dollar depreciates less than the extent to which Mexican inflation exceeds U.S. inflation.

Foreign G-7 countries. Growth of real GDP in the major foreign industrial countries (weighted by bilateral U.S. export shares) is projected to strengthen from about 1-1/4 percent, annual rate, during the current quarter to about 2-1/2 percent during 1996 and 1997. Projected growth has been revised downward in the current quarter from the November forecast in light of recent weaker data in several countries and the ongoing strikes in France. For 1996, somewhat weaker projected growth in Europe and Canada is partly offset by a slightly stronger outlook for Japan.

Growth of real output in Germany is expected to recover from a pause during the second half of this year and to average 2-1/2 percent over the next two years. Tax reductions scheduled to take effect in January combined with strong growth in real wages will boost consumption while investment should rebound from this year's slump in response to lower interest rates. In France, real GDP is projected to decline this quarter, largely as a result of the strikes, and then to rebound in the first quarter. We have assumed that the strikes will be over by the end of this year and that the outcome will not substantially alter the macroeconomic impact of the government's program as announced. Over the remainder of the forecast period, output growth is projected to strengthen, reaching 2-3/4 percent in 1997, as consumption and investment support growth in domestic demand and net exports contribute positively.

Japanese real GDP is projected to improve from weak positive growth during the current quarter to about a 2-3/4 percent rate of increase during 1996 as expansionary fiscal spending boosts demand and net exports respond positively to the depreciation of the yen since mid-year. In 1997, consumption and investment sustain moderate growth. After recovering during the second half of this year from very weak growth during the first half, Canadian real GDP is expected to reach annual average growth of about 2-1/2 percent over the forecast period, with domestic demand and net exports both contributing positively.

For the major European industrial countries, the weakening in the pace of growth during the second half of this year and the downward revision, on average, to the forecast for next year imply more slack in these economies than we expected in the November Greenbook. As a result, the outlook for inflation in European countries has been lowered somewhat. Consumer prices in Japan are expected to fall over the forecast period, as forecast in the November Greenbook. Accordingly, average consumer price inflation in the foreign G-7, when weighted by shares in U.S. non-oil imports, is projected to decline next year to only 1 percent and to rise slightly in 1997.

The staff forecast incorporates the assumption that short-term market interest rates abroad will decline slightly during the first half of next year, on average. Rates in Germany are expected to move down with a bit more easing by the Bundesbank while rates in France follow. Japanese rates are assumed to remain little changed. From mid-1996 through the end of the forecast period, short-term rates are expected to rise nearly 100 basis points on average with the strengthening in the pace of foreign economic activity. Average long-term rates abroad are assumed to be at or near a trough and to rise gradually from present levels through the end of 1997.

Other countries. The real GDP growth rate of major developing countries that are 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 5-1/2 percent during 1996-97.

The pickup in growth on average in 1996-97 largely reflects projected recovery in Mexico, following a decline of about 9-1/2 percent during 1995. Recent data indicating that real GDP expanded at an annual rate of 5-1/2 percent during the third quarter are overstated for statistical reasons. However, those data and figures showing that industrial production stabilized are consistent with our projection that Mexico has already reached its recession trough. We have lowered our forecast for 1996 output growth 1 percentage point to reflect the economic consequences of increased financial market volatility in the fourth quarter and higher-than-expected interest rates. We now project that real GDP in Mexico will grow at an average annual rate of about 5 percent during 1996-97, not recovering to its pre-recession level until early 1998.

Among other major U.S. trading partners in Latin America, we have revised our forecast for real GDP growth in Argentina substantially downward over the 1995-97 forecast period because recent data suggest that the current recession is much deeper than previously thought. We now project that Argentina will contract 3 percent in 1995 but resume moderate growth in 1996-97. We have also lowered our forecast for real GDP growth in Brazil during 1995 to reflect the contraction in real activity during the third quarter, but we continue to project that a recent shift toward a more accommodative monetary policy will allow growth to pick up again in 1996-97. Our major developing country trading partners in Asia are expected to grow at annual rates of about 7 percent during 1996-97, somewhat slower than the nearly 8 percent growth rate for 1995.

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

		-----------Projection-----------			
	1995			1996	1997
	Year	Q3	Q4		
Exports of G&S	10.7	18.0	13.8	10.1	10.5
Services	1.3	5.7	2.7	4.4	5.2
Computers	46.5	105.1	40.8	29.8	31.0
Other goods[1]	7.6	4.7	13.6	6.3	4.7
Imports of G&S	10.7	9.7	12.8	8.9	8.9
Services	4.4	4.5	0.5	3.0	2.8
Oil	0.8	24.8	-12.4	3.3	3.8
Computers	42.1	84.9	48.8	22.6	21.5
Other goods[2]	5.3	-6.1	8.6	6.0	5.7

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

U.S. real net exports. Growth of real exports of goods and services (measured in 1987 dollars) is projected at about 15 percent for the second half of 1995 and is expected to remain at double-digit rates through the forecast period. Very strong exports of computers boost the figures for the third and fourth quarters of this year, and computer exports remain a major source of strength for total real exports throughout the forecast. Growth of nonagricultural merchandise exports other than computers is projected to average 9 percent, annual rate, during the second half of 1995 and then to slow to about 5 percent by 1997. The lagged effects from depreciation of the dollar in 1994 and early 1995 stimulate exports in 1996, but those effects diminish over 1997. Staff estimates of total real exports measured in 1994 prices (an approximation to the new chain-weighted data) suggest growth of 7 percent in 1995 (Q4/Q4) and similar rates of growth over the next two years.

Real imports of goods and services (in 1987 dollars) are projected to rise at an annual rate of 11 percent on average during the final two quarters of this year and at a slightly slower rate in 1996 and 1997. Non-oil imports other than computers are expected to rebound in the fourth quarter from the third-quarter decline and then to average nearly 6 percent annual growth over the rest of the forecast period. In 1996, the negative effect of slowing U.S. real GDP growth on expansion of these imports is expected to be partly offset by the positive effect of a small decline in their relative prices. The growth of computer imports is projected to remain strong during 1996-97, but somewhat below the 1995 pace. Staff estimates of total imports measured in 1994 prices suggest growth of 7 percent in 1995 (Q4/Q4) and 6-1/2 percent in 1996 and 1997.

We expect the quantity of oil imports to decline this quarter in line with a seasonal drawdown in inventories. During the remainder of the forecast period, imports of oil are projected to increase as oil consumption rises and production declines in the United States.

Oil prices. Since September, spot and future oil prices (WTI) have firmed. Given these developments, we have raised the projected price of imported oil for the fourth and first quarters $0.16 and $0.46 per barrel, to $15.60 and $15.62 respectively. Our long-run projections for the spot price and the oil import unit value remain at $18.50 and $16.00 per barrel respectively.

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

		----------Projection---------			
	1995			1996	1997
	Year	Q3	Q4		
U.S. PPI[1]	2.8	0.6	-0.4	2.2	2.1
Nonag.exports[2]	3.5	-0.9	-0.7	2.4	2.1
Non-oil imports[2]	2.1	1.9	-2.6	0.8	1.7
Oil imports (Q4 level, $bl)	15.60	16.00	15.60	16.00	16.00

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

Prices of non-oil imports and exports. Non-oil import prices (excluding computers) are projected to decline on average in the current and next quarters, largely as a result of the recent recovery in the exchange value of the dollar. Import prices on balance rise slightly in 1996 and then accelerate in 1997 as foreign inflation shows through with no change in the dollar and little projected change in commodity prices. Prices of nonagricultural exports excluding computers are projected to decline this quarter and then to rise moderately in line with comparable U.S. producer prices.

Nominal trade and current account balances. The nominal U.S. trade balance is expected to improve somewhat on balance through the end of 1996, reaching a deficit of about $90 billion (annual rate) in the fourth quarter, and then to remain near that level in 1997. This deficit is slightly smaller than that forecast in the November

Greenbook. Net investment income is projected to deteriorate over the forecast period, partly offsetting the lower trade deficit. Accordingly, the current account balance is expected to be about $150 billion in 1996 and 1997, about 2 percent of GDP.

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December 14, 1995

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1994-97
(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	1.2	2.7	2.5	-0.6	2.1	1.8	2 6	2.7	2.7	2.8
France	4.4	0.9	2.6	2.8	0.8	0.8	-1.0	2.5	2.5	2.7	2.8
Germany	3.7	1.3	2.5	2.6	4.3	-0.1	0.2	2.8	2.5	2.3	2.6
W. Germany	3.1	1.1	2.1	2.1	3.8	0.2	-0.1	2.5	2.0	2.0	1.9
Italy	3.1	3.0	2.7	2.4	-1.5	4.8	3.2	2.9	2.7	2.6	2.5
Japan	0.4	1.0	2.8	2.2	2.6	0.6	0.3	3.6	2.8	2.5	2.4
United Kingdom	4.0	2.0	2.2	2.5	1.9	1.6	2.0	2.1	2.3	2.3	2.3
Average, weighted by 1987-89 GDP	2.8	1.5	2.6	2.4	1.7	1.4	0.9	2.9	2.6	2.5	2.5
Average, weighted by share of U.S. nonagricultural exports											
Total foreign	4.4	1.8	3.5	3 4	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	3 9	1.3	2 6	2 5	0.8	1.5	1.2	2.7	2.7	2 6	2.6
Developing countries	5.8	2.4	5 3	5.5	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
Canada	0.0	2.3	1.9	2.2	3.1	0.9	1.0	1.6	1.8	2.0	2.0
France	1.6	2.0	1.7	1.8	2.1	1.2	2 7	1.6	1.6	1.7	1.8
Western Germany	2.5	1.6	1.9	2.0	2.2	1.5	-0.2	3.3	2.2	1.8	0.3
Italy	3.8	5 8	4.6	4 1	8.0	3.9	5.0	5.3	6.7	2.6	3.9
Japan	0.8	-0.5	-0.9	-0 5	0.7	-1.0	0.8	-0.4	-0.8	-1.0	-1.4
United Kingdom(2)	2.2	3.0	3.0	3.0	6.4	0.8	1.7	3.2	6.2	0.9	1.7
Average, weighted by 1987-89 GDP	1.7	1.8	1.5	1.6	3.1	0.8	1.6	1.9	2.3	0.9	0 8
Average, weighted by share of U.S. non-oil imports	1.0	1.3	1.0	1.2	2.4	0.4	1.1	1.3	1.3	0.7	0.5

Note. Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.
2. CPI excluding mortgage interest payments; the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

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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	-127.6	-32.4	-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	717.6	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	43.1	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	107.7	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	403.7	332.8	340.8	372 3
Services	155.3	156.9	156.7	157.1	155.2	159.2	161.3	164.3	163.0	163.1	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	845.2	611.2	676.4	766.9
Goods	546.6	567.4	577 1	599.9	615.2	648.3	674.6	695.9	711.5	732.6	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	59.5
Computers	73.3	80.0	87 8	94.6	99.7	106.9	115.4	128.9	133.0	142.2	60.4	83.9	112.7
Other Goods	419.9	429.7	432 6	447.2	458.9	481.0	494.9	510.0	523.1	534.1	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	112.6	98.4	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	6.6	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	-22.3	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	24.3	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	8.8	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	0.2	-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	10.4	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	30.7	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	8.7	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	-2.2	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	-154.3*	-173.1	-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	-116 0*	-133.7	-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	-178.4*	-195.2	-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	61.5	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	-10.5	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	58.9	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	-69.4	-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	-28.9	-32.1	-34.1	-35.8

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.
*/ Includes an upward revision to exports not yet shown in the published current account

Strictly Confidential (FR) Class II-FOMC

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$)	-117.0	-118.9	-123.9	-123.5	-130.4	-119 7	-119.8	-119.5	-125 4	-116.7	-120.5	-124.4	-120.4
Exports of G&S	747.9	772.5	786.6	810.2	821.6	850 7	869.0	897.1	910.5	939.9	736.0	817.3	904.1
Goods	582.5	606.0	619.5	640.9	650.5	676 9	693.0	718.6	730.0	757.1	571 6	647.0	724.7
Agricultural	45.2	44.0	44.0	44.6	45.5	46.4	47.0	47.6	48.2	48.8	44.6	45.1	47.9
Computers	128.9	140.4	149.5	159.2	170.3	182.2	195.0	208 6	223.2	238.8	119.7	165.3	216 4
Other Goods	408.4	421.7	426.1	437.1	434.7	448.3	451.0	462.3	458.6	469.5	407.3	436.5	460.3
Services	165.3	166.4	167.1	169.3	171.2	173.8	176.0	178.5	180.5	182.9	164.5	170.3	179.5
Imports of G&S	864.9	891.5	910.7	933.8	952.1	970.5	989.0	1016.7	1036.0	1056.8	856 5	941 8	1024 6
Goods	751.0	777.4	796.4	818.8	836.0	853.0	871.0	897.6	916.1	936.0	743.1	826.0	905.2
Oil	59.5	57.6	59.3	61.9	65.1	59.5	60.3	64.6	67.4	61.7	57 2	61 4	63 5
Computers	165.8	183 1	194.1	203.8	213.9	224.6	235.8	247.5	259.9	272.9	156.0	209.1	254.0
Other Goods	525.8	536 8	543.1	553.2	557.1	569.1	575.0	585.5	589.0	601.5	530.0	555 6	587.7
Services	113.8	114.0	114.2	114.9	116.0	117.4	117.9	119.0	119.8	120.7	113.4	115 6	119.3
Memo:(Percent change 1/)													
Exports of G&S	18.0	13.8	7.5	12.5	5.8	14.9	8.9	13.6	6.1	13.6	10.7	10.1	10.5
Agricultural	21.3	-10.7	-0.0	6.1	7.9	8 6	5.3	5.2	5 1	5.1	-4.2	5.6	5.2
Computers	105.1	40.8	28.6	28.6	31.0	31 0	31.0	31.0	31.0	31.0	46.5	29.8	31.0
Other Goods	4.7	13.6	4.2	10.8	-2.2	13.1	2.5	10.4	-3 2	9.8	7.6	6 3	4.7
Services	5.7	2.7	1.6	5.3	4.5	6.3	5.2	5.8	4 4	5.4	1.3	4.4	5.2
Imports of G&S	9.7	12.8	8.9	10.6	8.1	7.9	7.8	11.7	7 8	8 3	10.7	8.9	8.9
Oil	24.8	-12.4	12.7	18.5	22.2	-30.2	5.8	31.9	18 0	-29.5	0.8	3.3	3.8
Computers	84.9	48.8	26.1	21.5	21.5	21.5	21.5	21.5	21.5	21.5	42.1	22.6	21.5
Other Goods	-6.1	8.6	4.7	7.7	2.8	8.9	4.2	7 5	2.4	8 8	5 3	6.0	5.7
Services	4.5	0.5	0.9	2.6	3.9	4.7	1.9	3.7	2.7	3.0	4 4	3.0	2.8

			Projection										
Current Account Balance	-157.9	-151.4	-153.6	-145.5	-152.8	-157.1	-145.2	-148 3	-153.3	-162 4	-159 2	-152.3	-152.3
Goods & Serv (BOP), net	-110.1	-98.7	-98.1	-94.5	-102.6	-91.3	-92.4	-91.6	-98.9	-90.8	-114.6	-96.6	-93.4
Goods (BOP), net	-173.7	-165.7	-164.1	-162.6	-172.0	-162.9	-166.7	-168.2	-177.7	-172 4	-178.3	-165.4	-171.2
Services (BOP), net	63.7	67.0	66.0	68.1	69.4	71.7	74.3	76.7	78.8	81 6	63.7	68.8	77.8
Investment Income, net	-16.6	-19.2	-13.2	-18.0	-17.2	-22.4	-19.8	-23.7	-21.5	-28.1	-13.5	-17.7	-23.3
Direct, net	55.0	56.9	61.7	61.7	61.6	63.1	64.4	66.2	66.2	66.2	57.0	62.0	65.7
Portfolio, net	-71.6	-76.1	-74.8	-79.7	-78.8	-85.5	-84.2	-89.9	-87.7	-94.3	-70.5	-79.7	-89.0
Unilateral Transfers, net	-31.2	-33.6	-42.4	-33.0	-33.0	-43.5	-33.0	-33.0	-33.0	-43.5	-31.1	-38.0	-35.6

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