STRICTLY CONFIDENTIAL (FR) CLASS I-FOMC

Material for

Staff Presentation to the Federal Open Market Committee

July 6, 1993

Chart 1

Second Quarter Activity Indicators

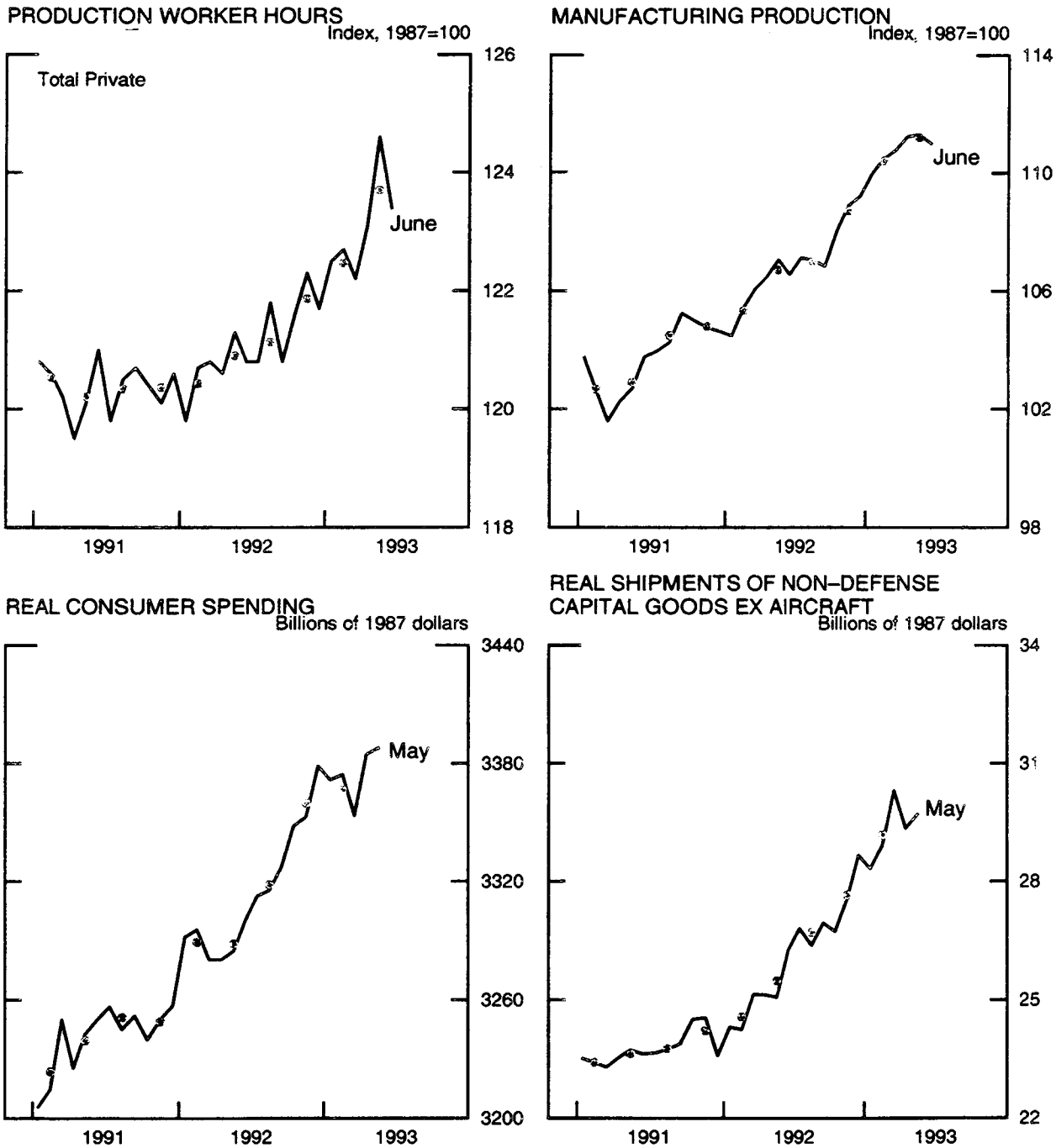
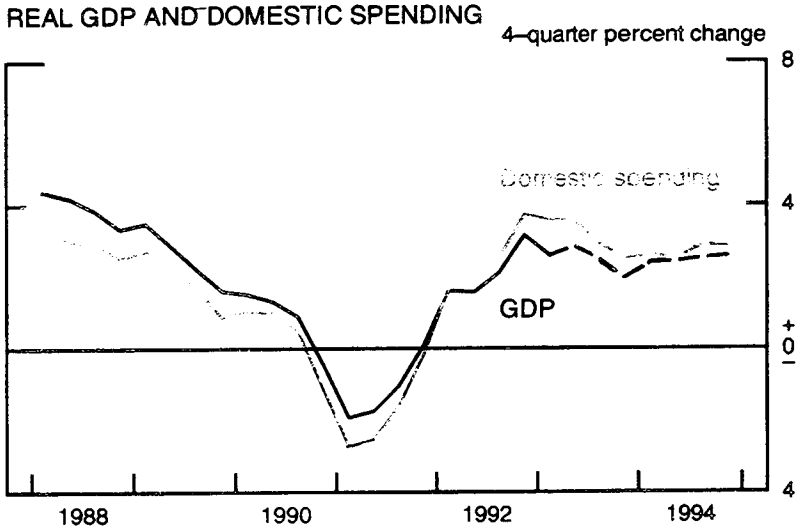


Chart 2

Summary of Staff Forecast

REAL GDP AND DOMESTIC SPENDING

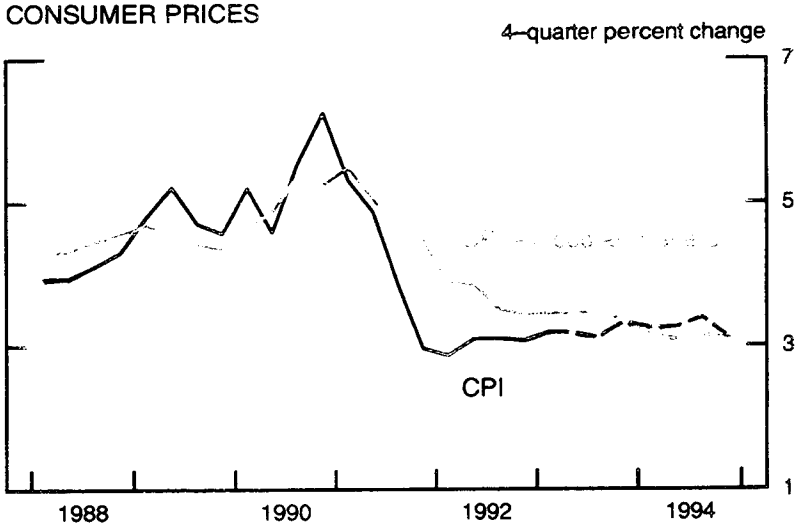


OUTPUT AND SPENDING

Percent change, Q4 to Q4

	GDP	Domestic spending
1990	–.5	–1.2
1991	.1	–.2
1992	3.1	3.7
1993	2.0	2.5
1994	2.6	2.9

CONSUMER PRICES



INFLATION

Percent change, Q4 to Q4

	CPI	Ex food & energy
1990	6.2	5.2
1991	3.0	4.5
1992	3.1	3.4
1993	3.3	3.3
1994	3.1	3.1

CIVILIAN UNEMPLOYMENT RATE

UNEMPLOYMENT RATE

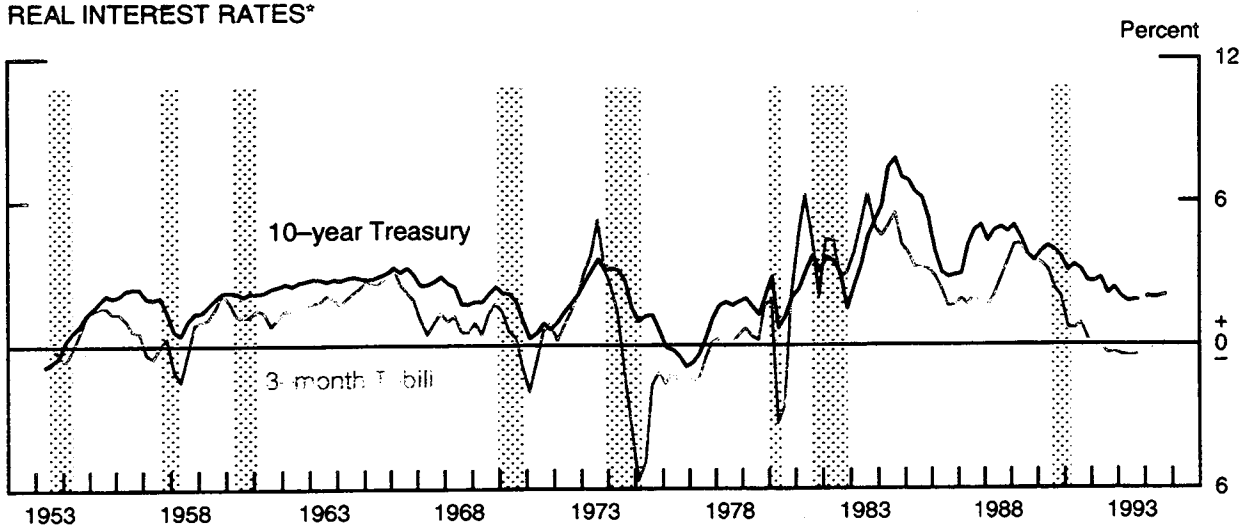
Level, Q4

1990	6.0
1991	7.0
1992	7.3
1993	6.9
1994	6.8

Chart 3

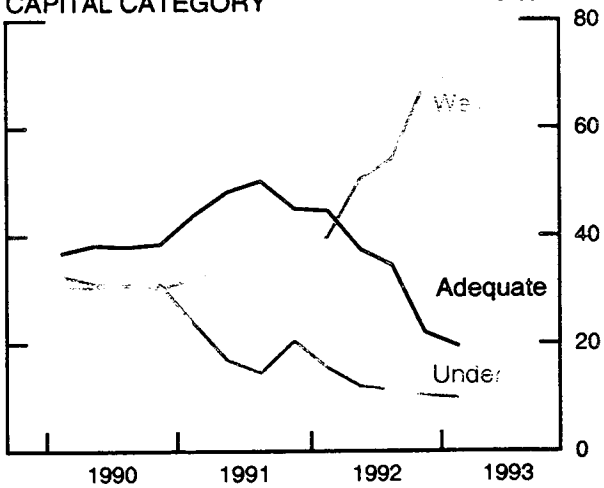
Financial Environment

REAL INTEREST RATES*

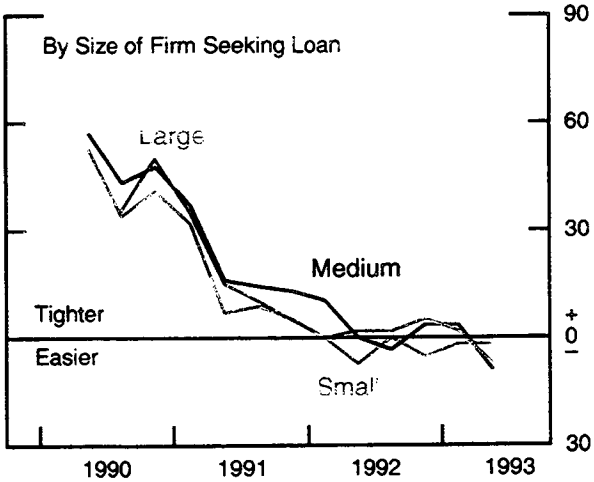


*Nominal rate minus percent change in core CPI over prior year for bill and over prior 3 years for 10–year Treasury.

SHARE OF BANK ASSETS BY CAPITAL CATEGORY

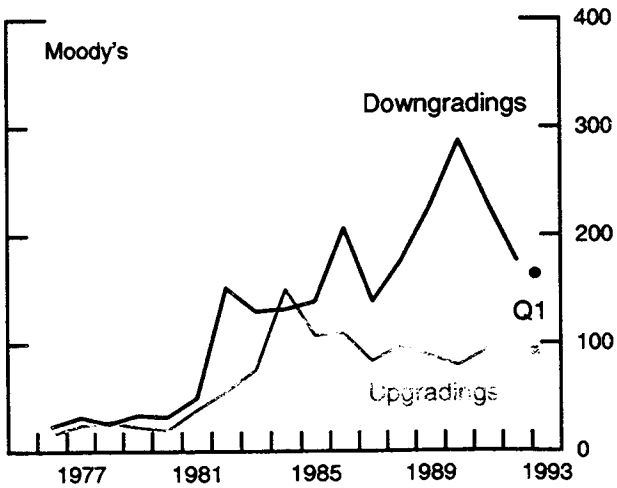


BANK LENDING TERMS

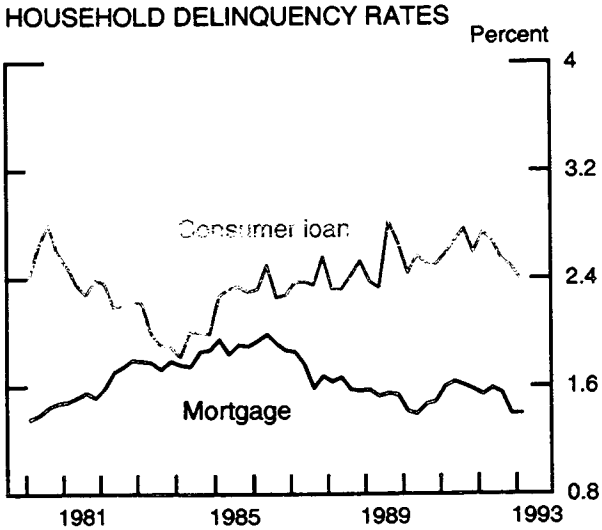


*Net percentage reporting tighter standards and terms.

RATING CHANGES ON NONFINANCIAL BONDS



HOUSEHOLD DELINQUENCY RATES



Consumer – ABA – 30 or more days.
Mortgage – MBA – 60 or more days.

Chart 4

Government Sector

KEY FISCAL POLICY ASSUMPTIONS

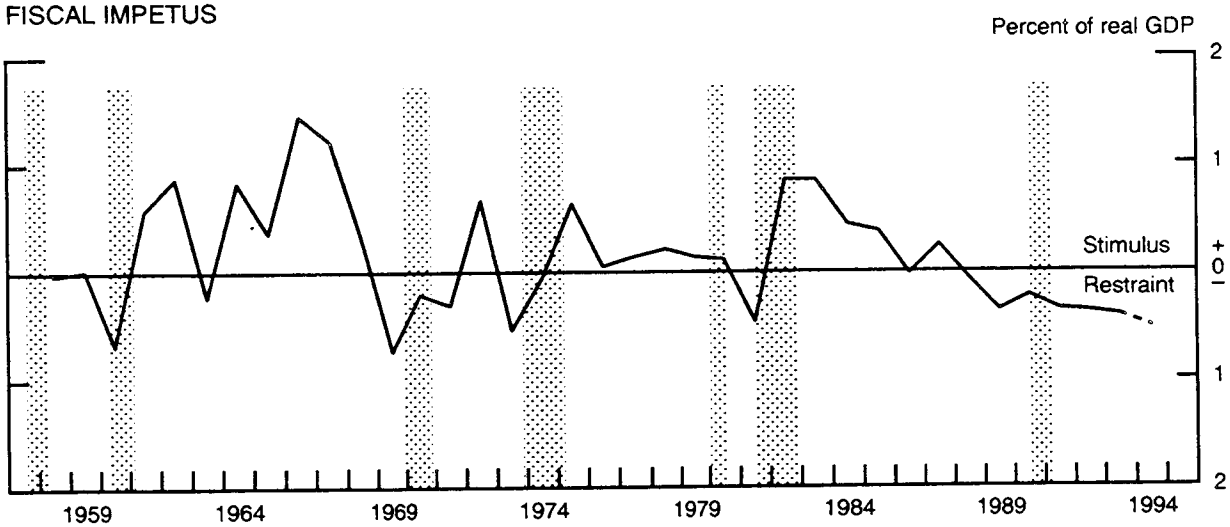
Compromise reached this summer between House and Senate bills.

Income tax provisions similar to Senate, with half of rate increase taking effect in 1993.

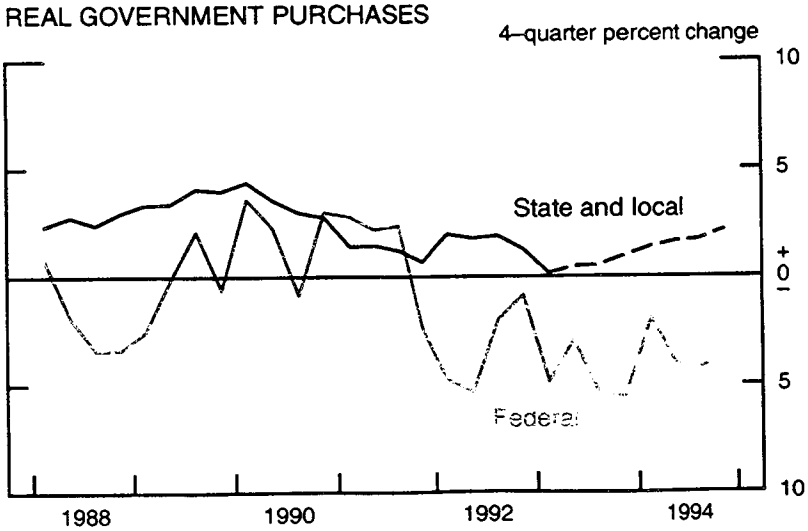
Energy tax a broadened, somewhat larger version of Senate's transportation fuel levy, starting this fall.

Total deficit reduction FY 1994 is $37 billion, of which $33 billion is taxes.

FISCAL IMPETUS



REAL GOVERNMENT PURCHASES

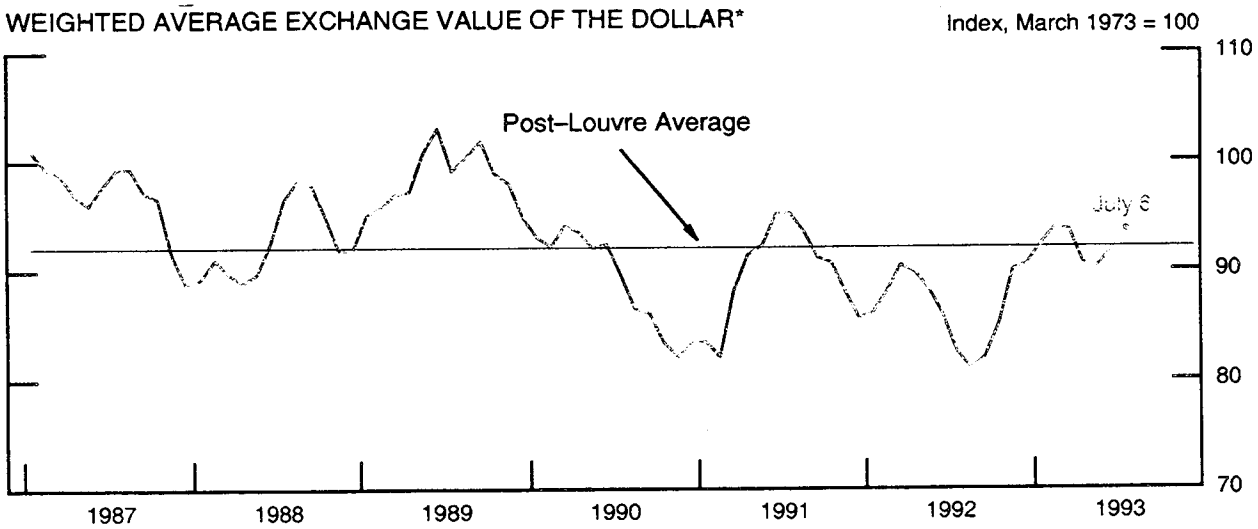


TOTAL REAL PURCHASES

Percent change, Q4 to Q4	
1990	2.8
1991	–.6
1992	.4
1993	–1.6
1994	–.2

Chart 5

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR*



* Multilateral trade–weighted average in terms of other G–10 currencies.

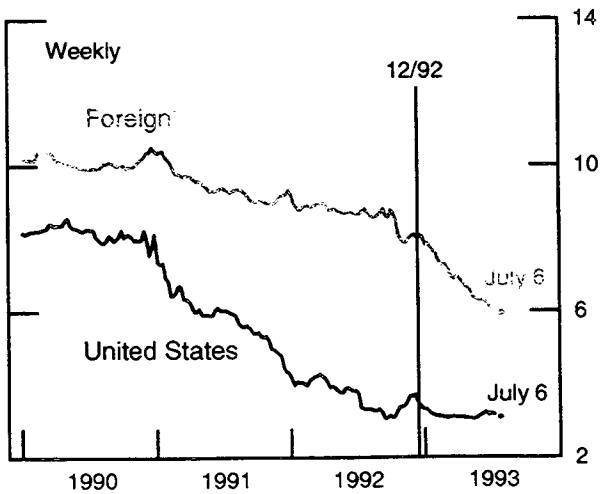
DOLLAR EXCHANGE RATES

	Percent change 12/92 to 7/6/93
Italian lira	9
Deutschemark	7
Swiss franc	6
Pound sterling	3
Canadian dollar	1
Yen	-13
G-10 Average	**3**

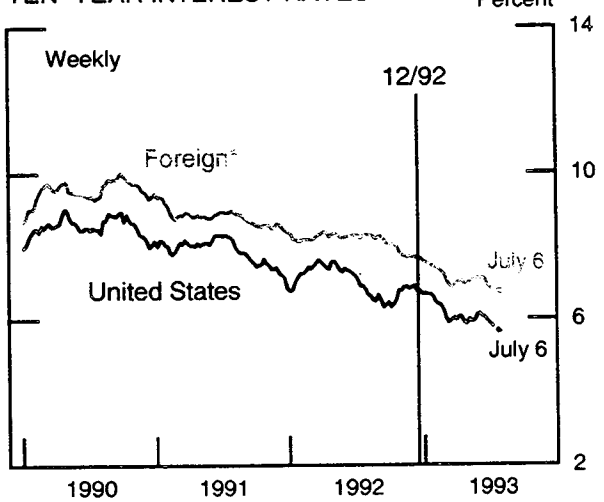
INTEREST RATES

	Percent	
	Level 7/6/93	Change 12/92 to 7/6/93
Three-month		
Germany	7.30	-1.63
Japan	3.22	-0.54
United States	3.12	-0.36
Ten-year		
Germany	6.70	-0.61
Japan	4.47	-0.23
United States	5.71	-1.06

THREE–MONTH INTEREST RATES



TEN–YEAR INTEREST RATES



* Multilateral trade–weighted average for foreign G–10 countries.

Chart 6

Foreign Industrial Production and Consumer Prices

Excluding food and energy prices, 3–month moving averages

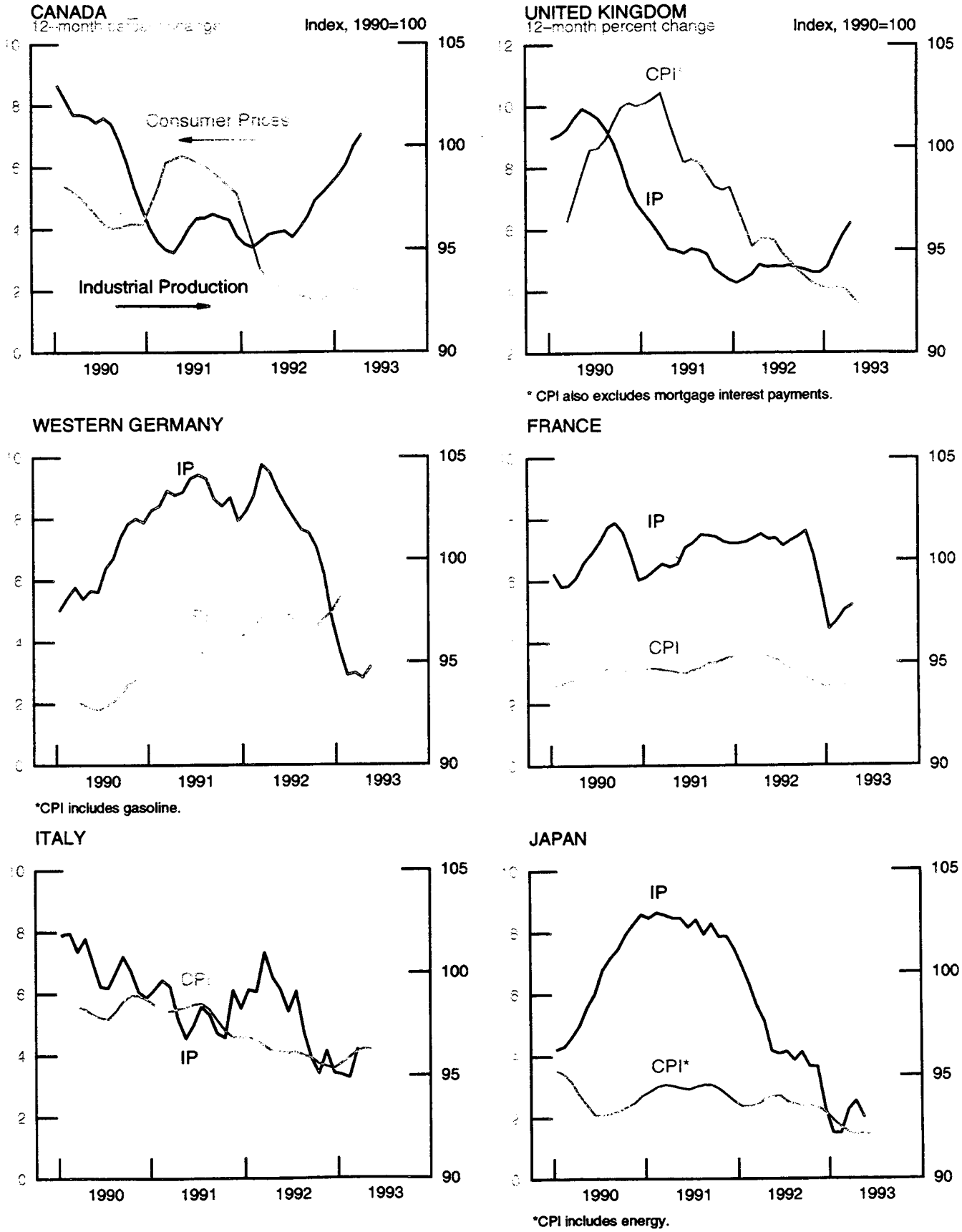
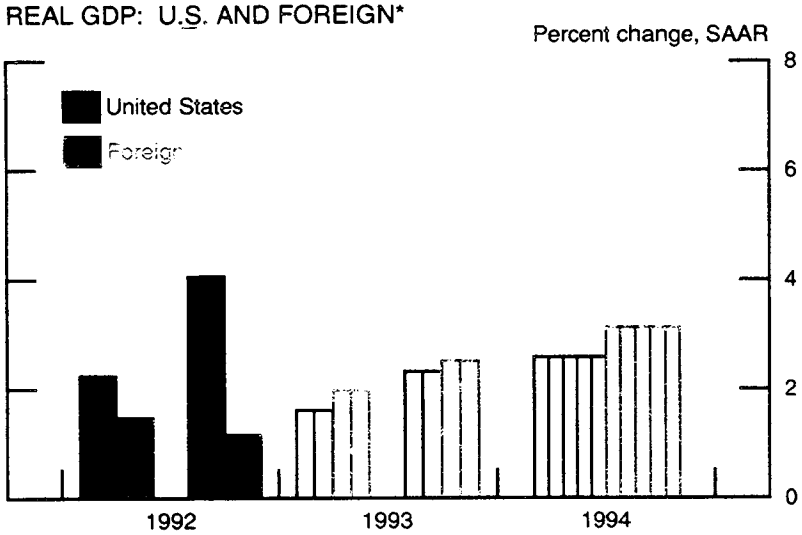


Chart 7

Foreign Outlook

REAL GDP: U.S. AND FOREIGN*

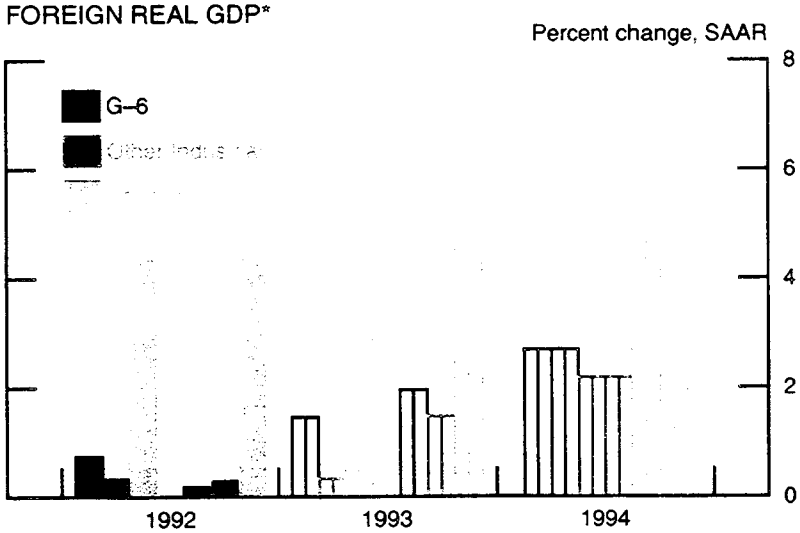


GDP: GROUP OF SIX

Percent change, SAAR

	1993 H1	1993 H2	1994
Japan	1.4	1.4	2.7
Canada	3.2	3.0	3.2
U.K.	1.5	2.3	2.5
Germany	–4.7	–1.1	1.6
France	–1.3	0.5	2.0
Italy	–0.5	1.3	1.7
G-6	**1.4**	**2.0**	**2.7**

FOREIGN REAL GDP*

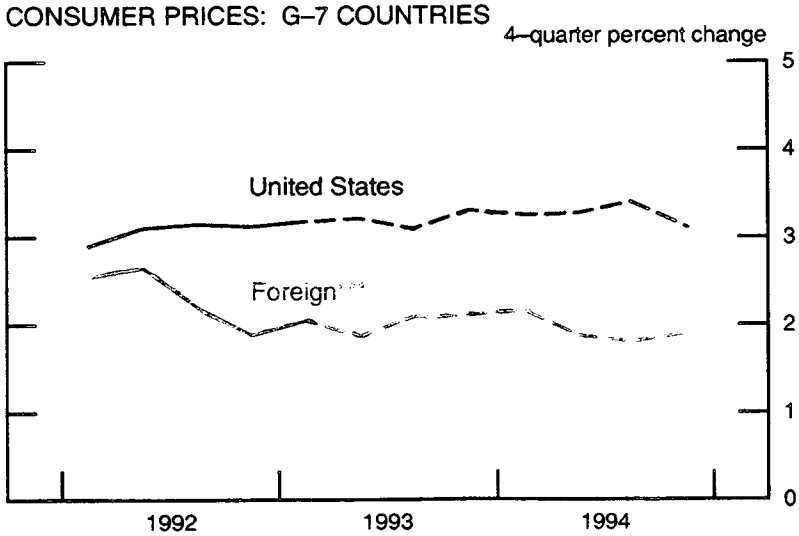


GDP: DEVELOPING COUNTRIES

Percent change, annual

	1992	1993	1994
Mexico	2.6	2.0	2.5
NIEs**	5.6	5.7	6.3
China	12.8	11.0	10.5
Total	**4.6**	**4.6**	**4.9**

CONSUMER PRICES: G–7 COUNTRIES



CONSUMER PRICES

Percent change, Q4 to Q4

	1992	1993	1994
Germany	3.7	3.6	2.4
France	1.8	2.6	1.9
U.K.****	3.7	3.0	4.0
Japan	0.9	1.2	1.2
Canada	1.8	2.0	1.7
U.S.	3.1	3.3	3.1

*G–6 countries, 16 other industrial and 9 developing countries, U.S. nonagricultural export weights.
**Hong Kong, Singapore, South Korea, and Taiwan, U.S. nonagricultural export weights.
***G–6 countries, U.S. non–oil import weights.
****Excludes mortgage interest payments.

Chart 8

Exports

DESTINATION

Percent, current dollars

	1992 Share*	1993** Growth
1. Total	100	3
2. Canada	21	8
3. United Kingdom	5	4
4. Japan	11	–2
5. Other Industrial	24	–8
6. Mexico	9	5
7. Other Latin America	8	6
8. Asia	20	10
9. All Other	2	2

* Total U.S. exports were $440 billion in 1992.
** Jan–Apr 1992 to Jan–Apr 1993.

CATEGORY

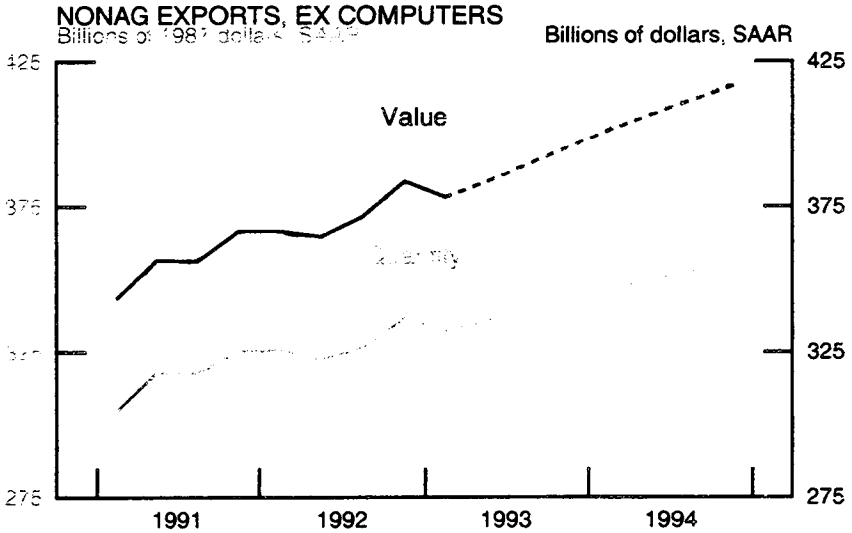
Percent, 1987 dollars

	1992 Share*	1993** Growth
1. Total	100	4
2. Agricultural	10	0
3. Nonagricultural	90	5
4. Computers	12	23
5. Machinery ex Comp.	23	9
6. Automotive Products	10	16
7. Consumer Goods	10	5
8. Industrial Supplies	22	–2
9. Aircraft & Parts	8	–20
10. Other	5	–5
Memo: Nonag. ex Comp.	78	2

* Total U.S. exports were $413 billion 1987$ in 1992.
** Jan–Apr 1992 to Jan–Apr 1993.

NONAG EXPORTS, EX COMPUTERS

Billions of 1987 dollars, SAAR

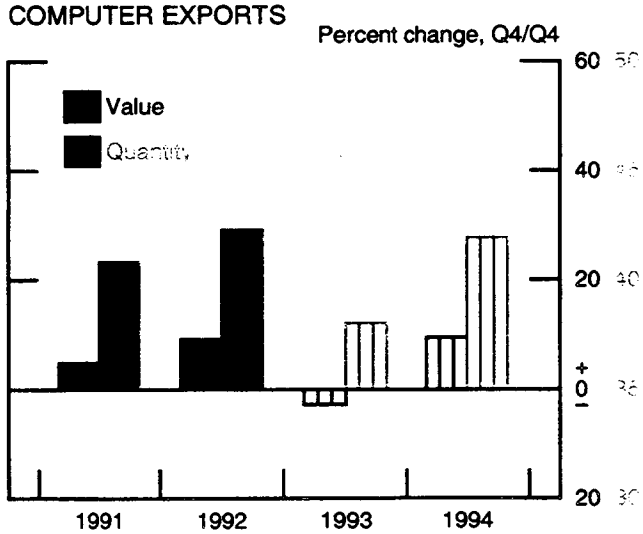


GROWTH

Real Nonag Exports ex Computers
Percent change, SAAR

1991	6.4
1992 H1	–1.9
1992 H2	9.1
1993 H1	–0.6
1993 H2	4.6
1994	3.4

COMPUTER EXPORTS



AGRICULTURAL EXPORTS

Billions of 1987$ SAAR

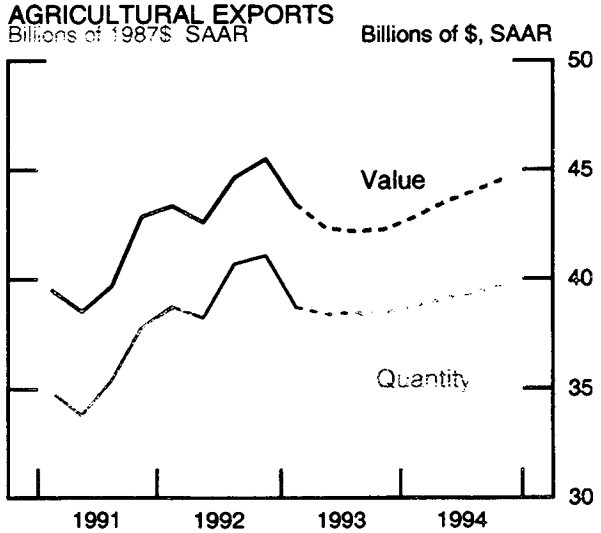


Chart 9

Imports

ORIGIN

Percent, current dollars	1992 Share*	1993** Growth
1. Total	100	10
2. Canada	19	13
3. United Kingdom	4	11
4. Japan	18	10
5. Other Industrial	18	3
6. Mexico	7	15
7. Other Latin America	6	6
8. Asia	26	12
9. All Other	3	3

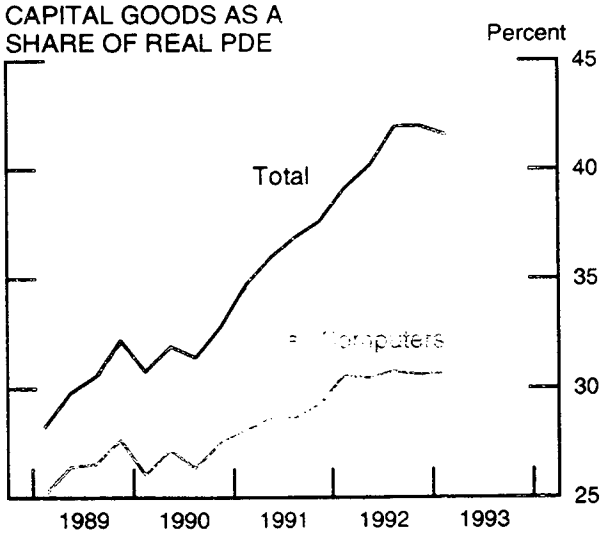
* Total U.S. imports were $536 billion in 1992.
** Jan–Apr 1992 to Jan–Apr 1993

CATEGORY

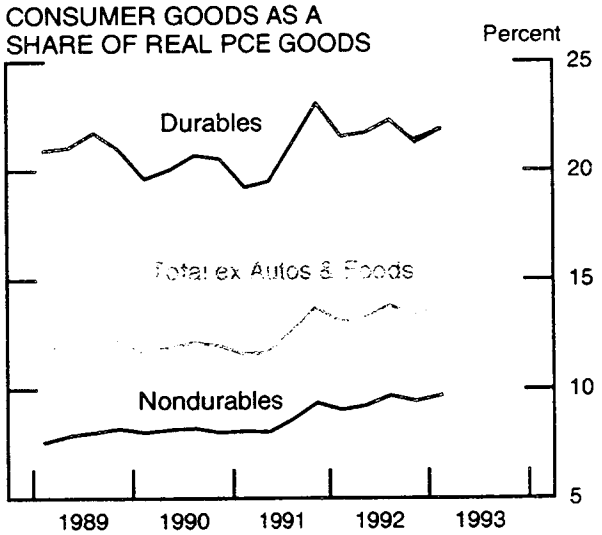
Percent, 1987 dollars	1992 Share*	1993** Growth
1. Total	100	13
2. Oil	10	14
3. Non-oil	90	13
4. Computers	12	49
5. Cap. Goods ex Comp.	18	9
6. Consumer Goods	21	9
7. Automotive Products	15	13
8. Industrial Supplies	14	7
9. Food & Other	11	0
Memo: Non-oil ex Comp.	79	9

* Total U.S. imports were $507 billion 1987$ in 1992.
** Jan–Apr 1992 to Jan–Apr 1993.

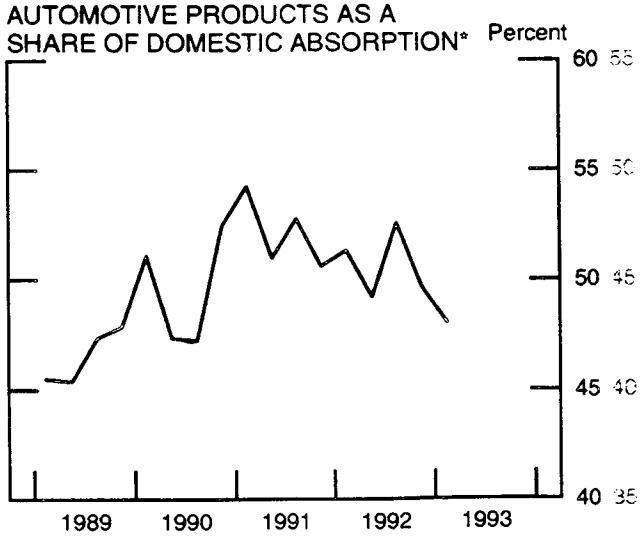
CAPITAL GOODS AS A SHARE OF REAL PDE



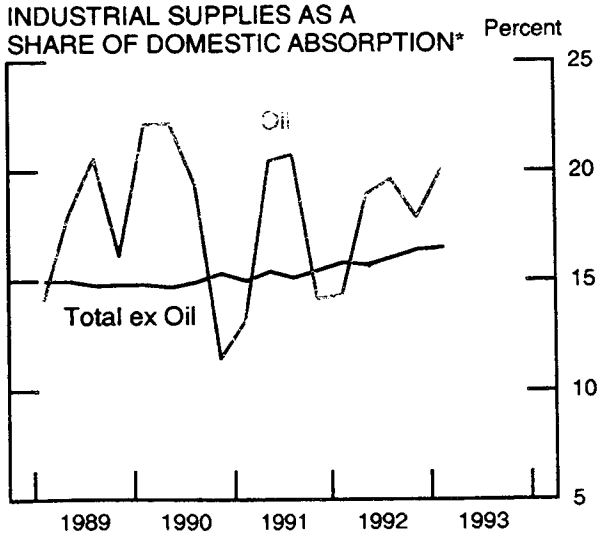
CONSUMER GOODS AS A SHARE OF REAL PCE GOODS



AUTOMOTIVE PRODUCTS AS A SHARE OF DOMESTIC ABSORPTION*



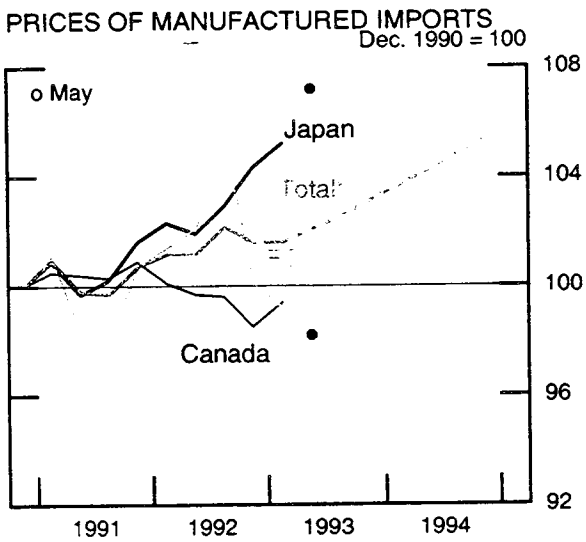
INDUSTRIAL SUPPLIES AS A SHARE OF DOMESTIC ABSORPTION*

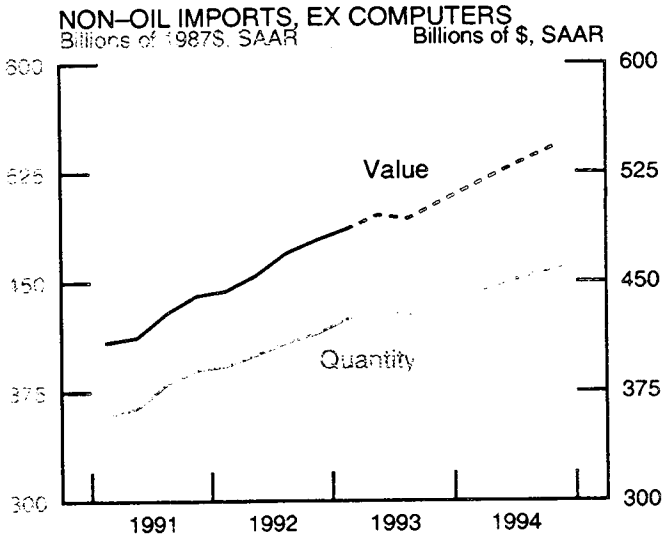


* Real gross value of output + imports – exports.

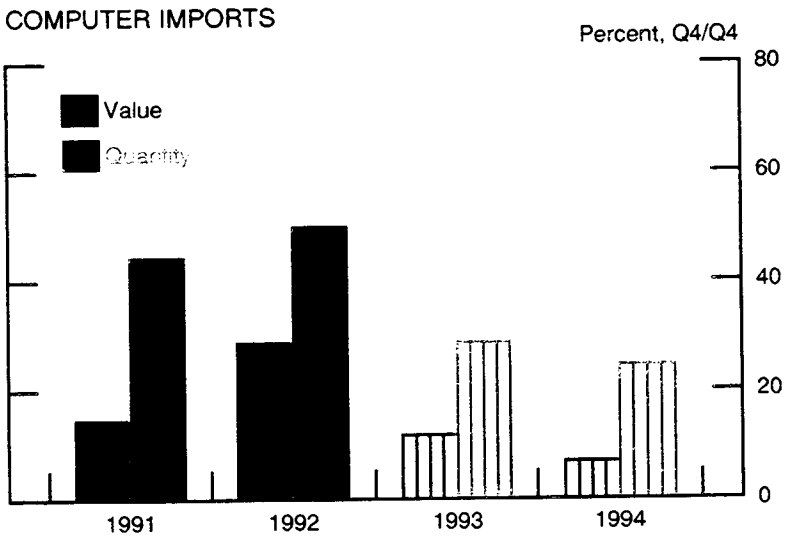
Chart 10

Imports





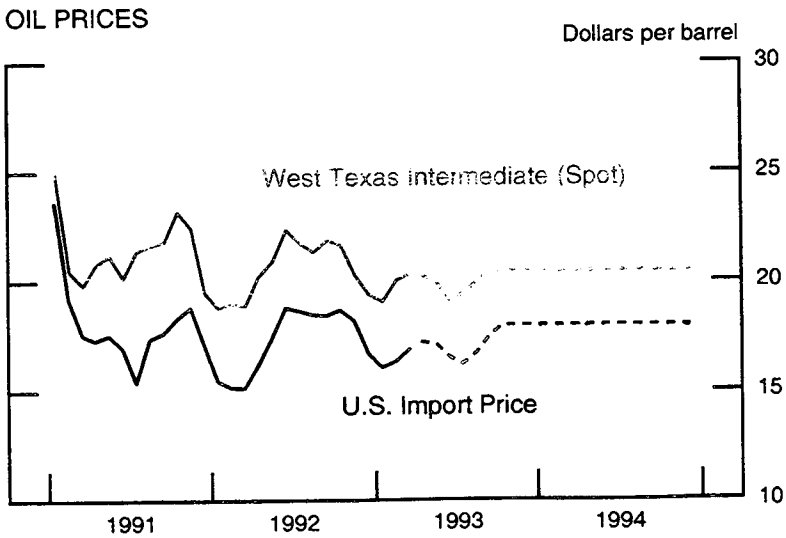
* Projection based on non–oil ex computer fixed–weight price index.



COMPUTER TRADE BALANCE

Billions of 1987 dollars

1991	0
1992	–10
1993	–23
1994	–29



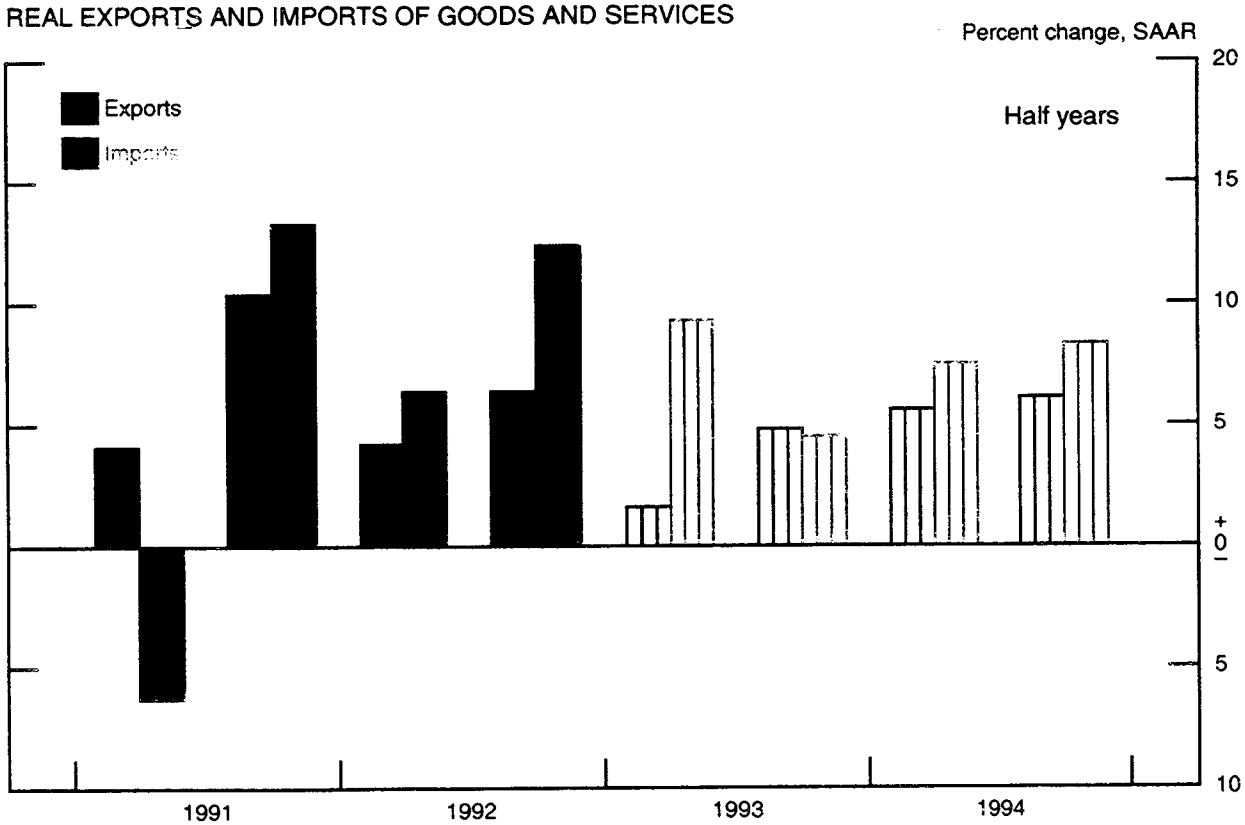
OIL IMPORTS

	Quantity (mbd)	Value (bil.$)
1991	7.9	52
1992	8.1	52
1993	8.8	55
1994	9.1	60

Chart 11

Summary for the External Sector

REAL EXPORTS AND IMPORTS OF GOODS AND SERVICES

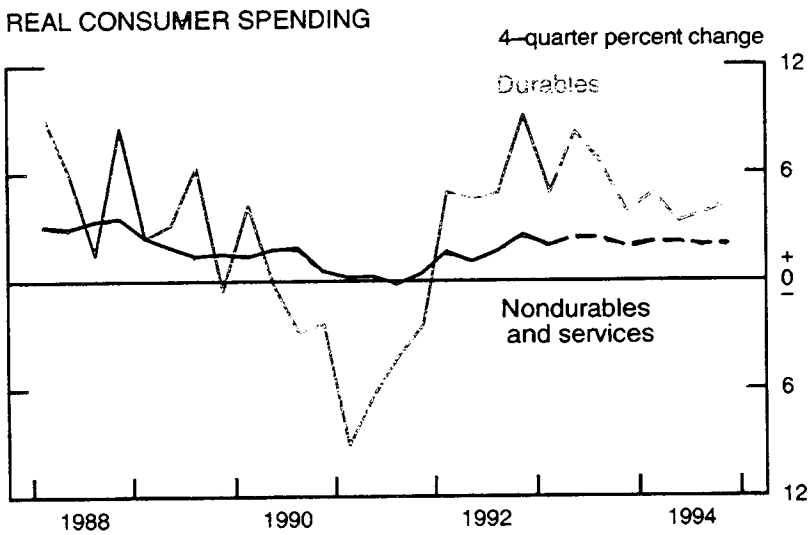


EXTERNAL BALANCE

	Billions of dollars, SAAR			
	1992	1993H1	1993H2	1994
1. Current account balance	–66	–94	–97	–108
2. Goods	–96	–122	–124	–140
3. Services	56	59	61	66
4. Investment income	6	1	–1	–1
5. Real net exports of goods and services, NIPA, 1987$	–42	–75	–76	–89

Chart 12

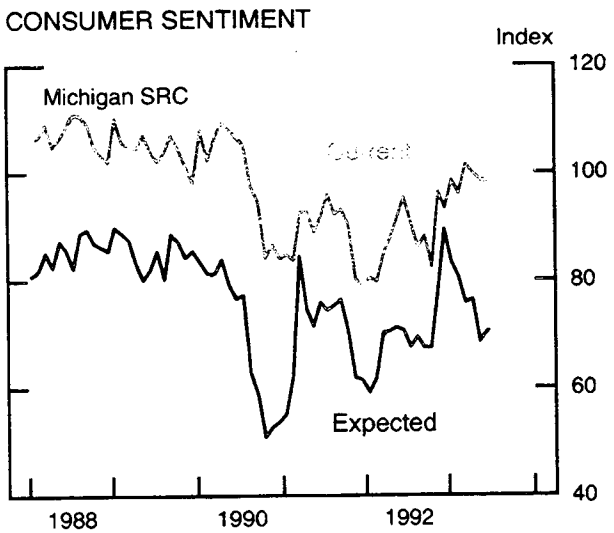
Household Sector

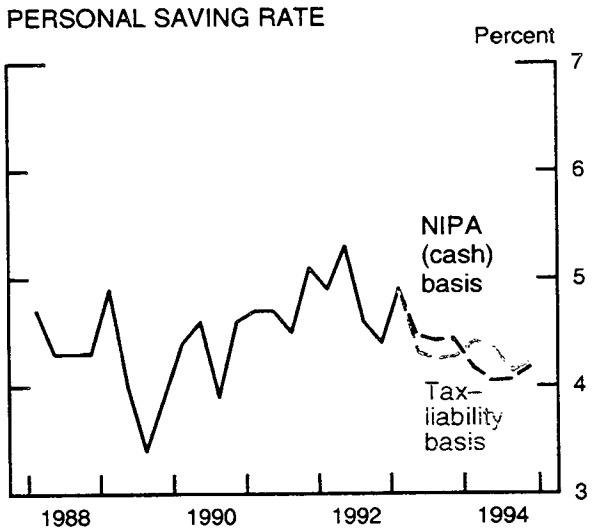


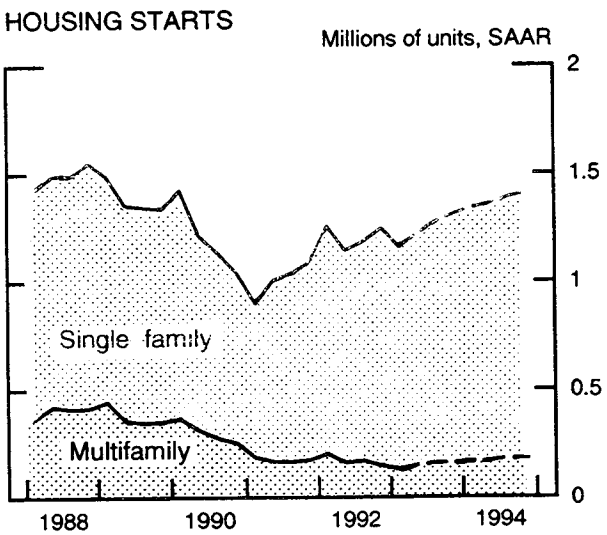
TOTAL REAL PCE

Percent change, Q4 to Q4

1990	.2
1991	.0
1992	3.4
1993	2.2
1994	2.3







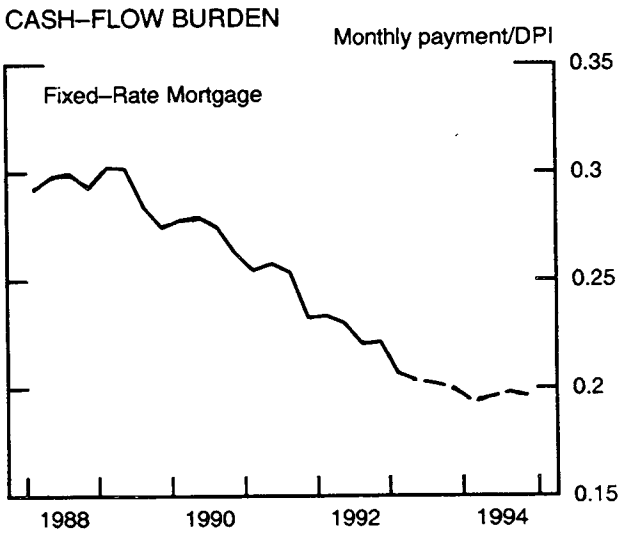
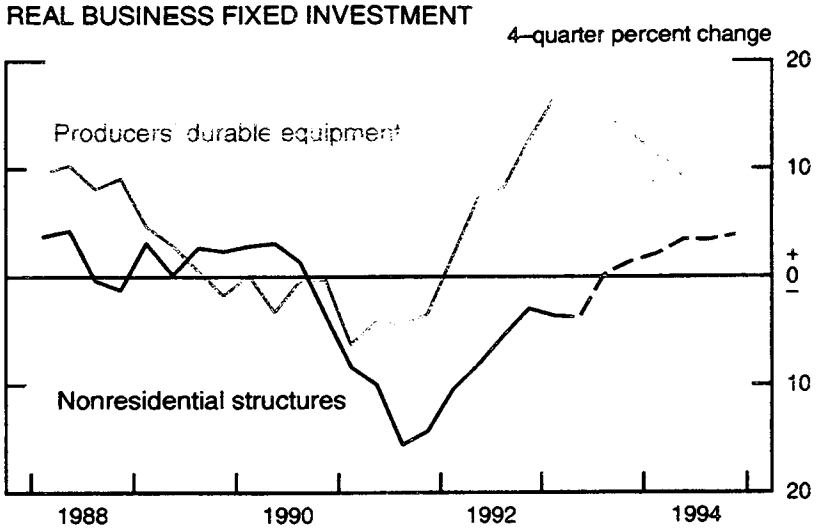


Chart 13

Business Spending

REAL BUSINESS FIXED INVESTMENT

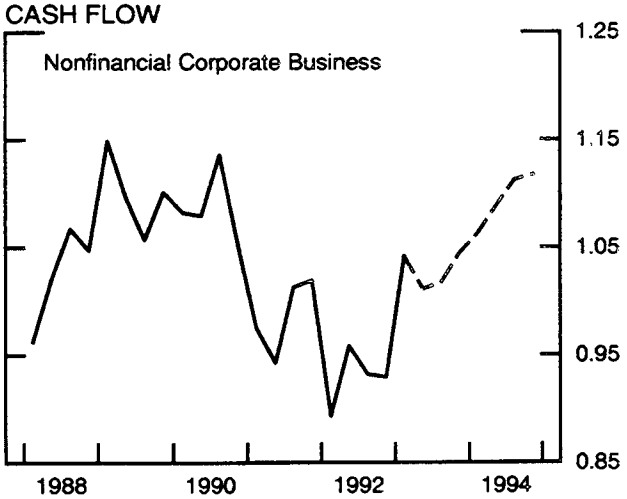


TOTAL REAL BFI

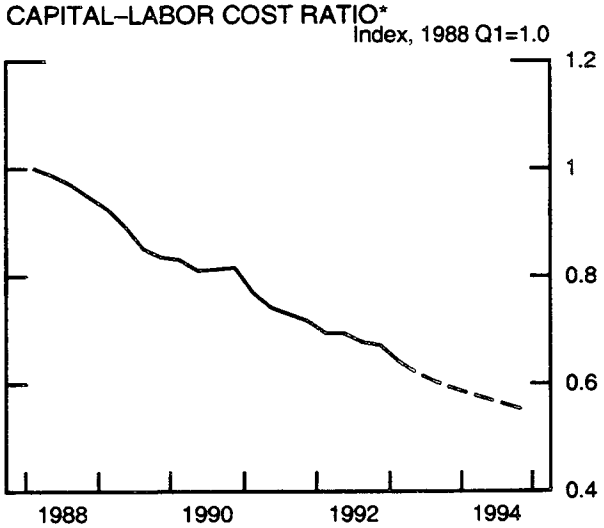
Percent change, Q4 to Q4

1990	–1.4
1991	–7.0
1992	7.9
1993	10.2
1994	8.3

RATIO OF CAPITAL SPENDING TO CASH FLOW

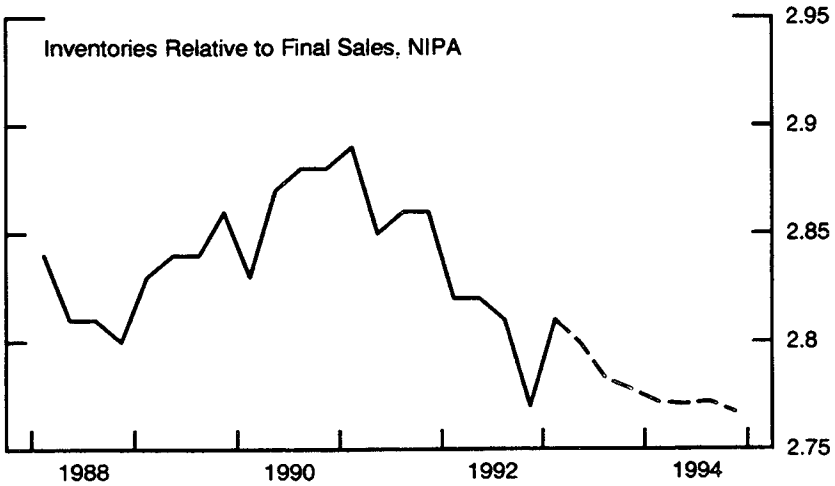


CAPITAL–LABOR COST RATIO*



*Ratio of user cost of capital to compensation rate.

REAL INVENTORY–SALES RATIO



REAL INVENTORY INVESTMENT

Billions of 1987 dollars

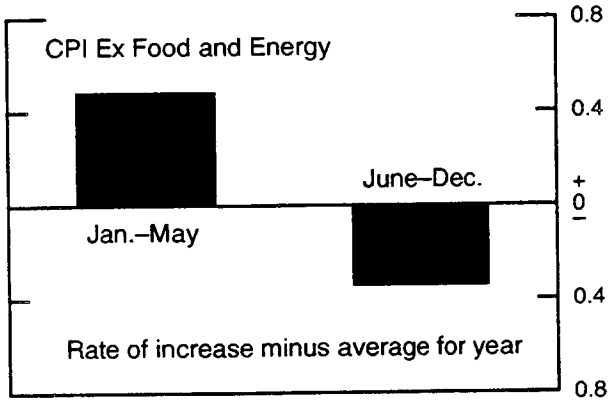
1990	6.2
1991	–9.4
1992	5.0
1993	22.5
1994	23.5

Chart 14

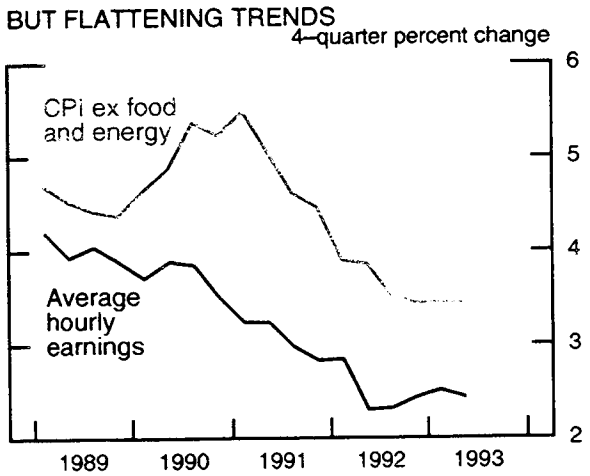
Why Has Inflation Picked Up, With Unemployment at 7 Percent?

1. MEASUREMENT PROBLEMS

SEASONAL PATTERNS – 1989–1992

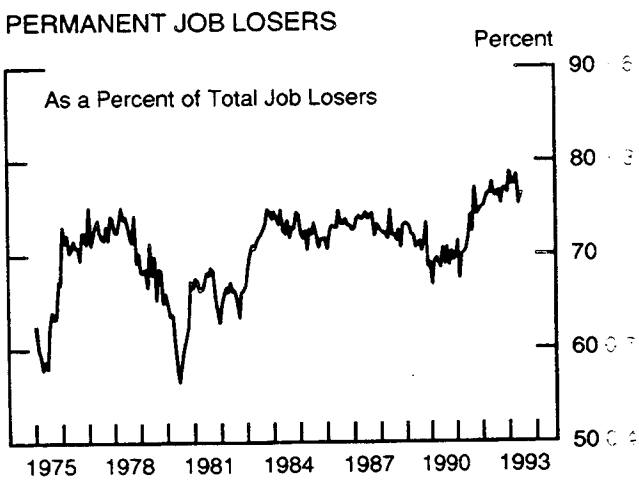


BUT FLATTENING TRENDS

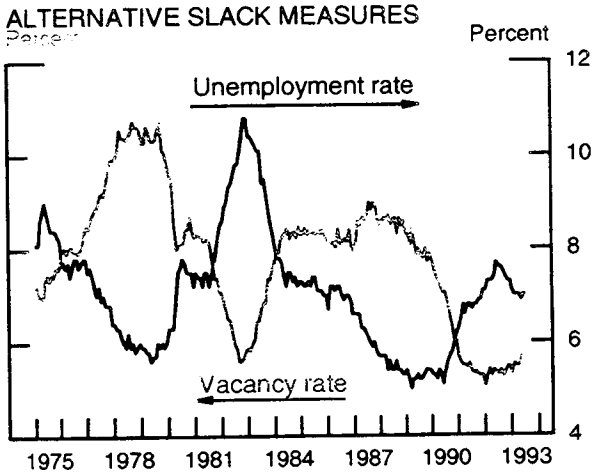


2. STRUCTURAL UNEMPLOYMENT AND LABOR MARKET SLACK

PERMANENT JOB LOSERS

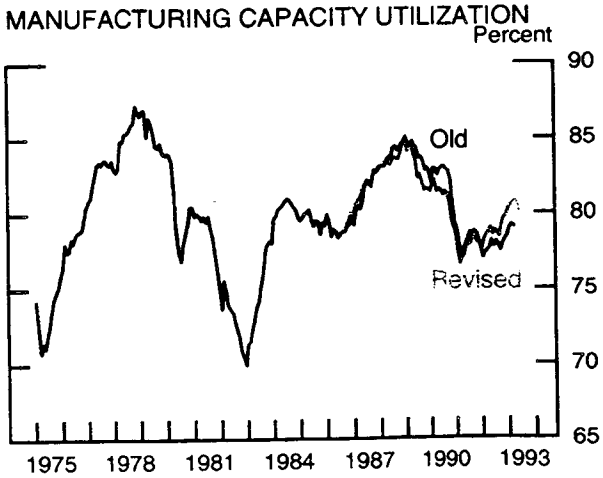


ALTERNATIVE SLACK MEASURES

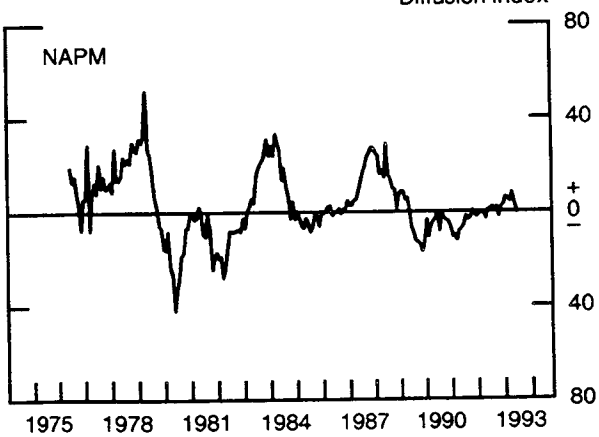


3. INDUSTRIAL CAPACITY TIGHTNESS

MANUFACTURING CAPACITY UTILIZATION



VENDOR PERFORMANCE*

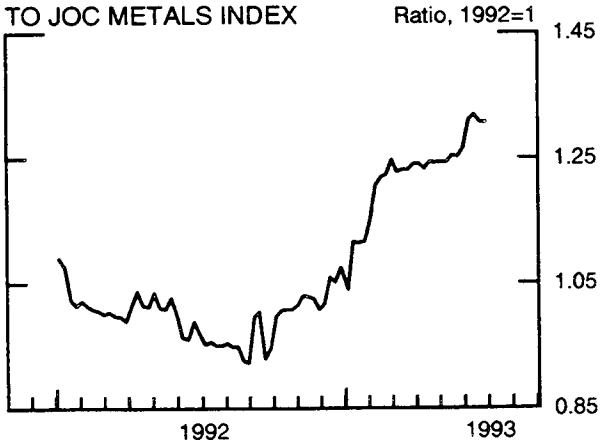


*Slower minus faster deliveries.

Chart 15

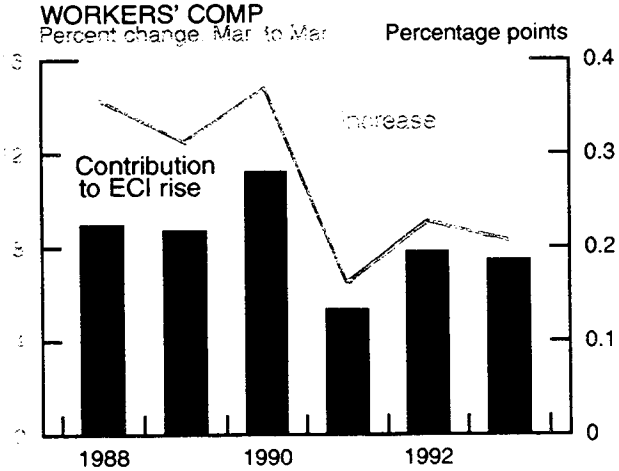
4. PROTECTION

STEEL SCRAP PRICE RELATIVE TO JOC METALS INDEX



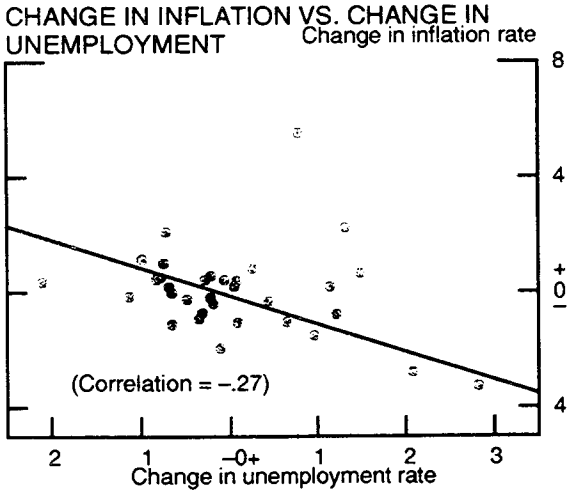
5. MANDATES

WORKERS' COMP



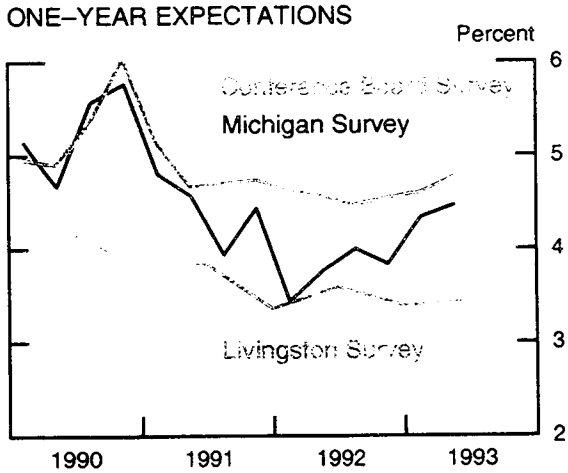
6. "SPEED" EFFECTS

CHANGE IN INFLATION VS. CHANGE IN UNEMPLOYMENT



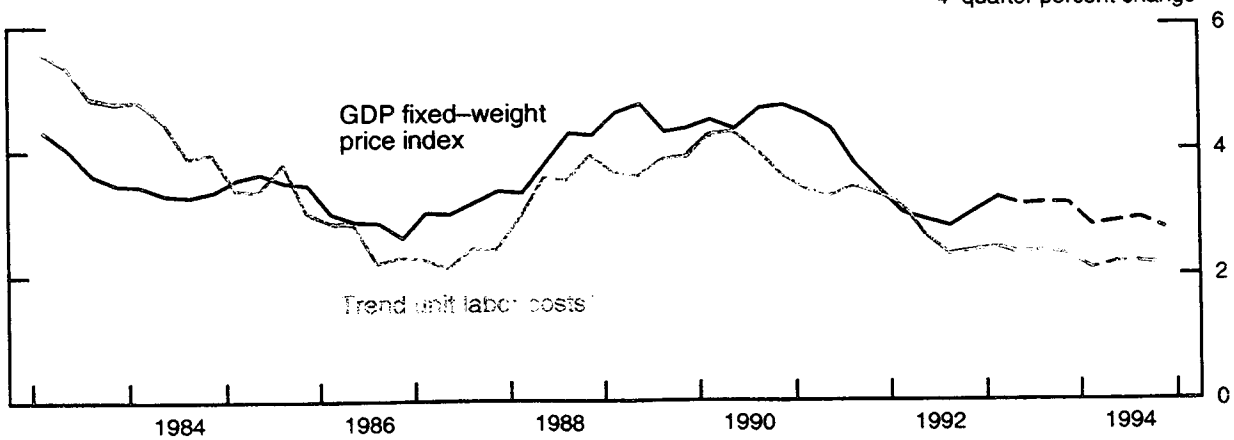
7. INFLATION EXPECTATIONS

ONE–YEAR EXPECTATIONS



THE BOTTOM LINE

PRICES AND TREND UNIT LABOR COSTS



* ECI–Comp per hour relative to trend productivity.

ECONOMIC PROJECTIONS FOR 1993

	FOMC		
	Range	Central Tendency	Staff
	Percent change, Q4 to Q4		
Nominal GDP	$4^3/_4$ to $6^1/_4$	5 to $5^3/_4$	4.8
previous estimate	$5^1/_4$ to $6^1/_4$	$5^1/_2$ to 6	5.4
Real GDP	2 to $3^1/_2$	$2^1/_4$ to $2^3/_4$	2.0
previous estimate	$2^1/_2$ to 4	3 to $3^1/_4$	2.8
CPI	3 to $3^1/_2$	3 to $3^1/_4$	3.3
previous estimate	$2^1/_2$ to 3	$2^1/_2$ to $2^3/_4$	2.6
	Average level, Q4, percent		
Unemployment rate	$6^1/_2$ to 7	$6^3/_4$	6.9
previous estimate	$6^1/_2$ to 7	$6^3/_4$ to 7	7.0

ECONOMIC PROJECTIONS FOR 1994

	FOMC		
	Range	Central Tendency	Staff
	Percent change, Q4 to Q4		
Nominal GDP	$4^1/_2$ to $6^3/_4$	5 to $6^1/_2$	5.0
Real GDP	2 to $3^1/_4$	$2^1/_2$ to $3^1/_4$	2.6
CPI	2 to $4^1/_4$	3 to $3^1/_2$	3.1
	Average level, Q4, percent		
Unemployment rate	$6^1/_4$ to 7	$6^1/_2$ to $6^3/_4$	6.8

NOTE: Central tendencies constructed by dropping top and bottom three from distribution, and rounding to nearest quarter percent.