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Strictly Confidential (FR) Class II FOMC

August 14, 1991

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

Overview of the Staff Forecast

The information we have received since the last FOMC meeting has provided mixed signals on the current course of the economy. For some sectors, most notably manufacturing and housing, the evidence has continued to point to a substantial strengthening in activity, consistent with the solid, if unspectacular, recovery projected in the June Greenbook. In other sectors, however, the data have been less favorable, and the heightened stress in the insurance industry and unexpected weakness in money and bank credit have raised the specter of greater problems of credit availability.

The ambiguity of the present situation is not entirely surprising, in light of our expectation that this would be a far less dynamic cyclical upswing than has been typical in the postwar era. Given the crosscurrents in the economy and the erratic behavior of some key statistics, there is the clear risk of being whipsawed by incoming information. All that said, our bottom-line judgment is that the recovery probably has begun with less vigor than we previously thought, but that it nonetheless will be sustained in the months ahead. Real GNP is projected to expand at an annual rate of about 3 percent in the current quarter, considerably below the pace anticipated in the last Greenbook. Growth still picks up to a bit less than 4 percent at an annual rate on average in the fourth and first quarters, however, and it continues to exceed the pace of potential output growth over the remainder of 1992. Slightly lower paths for domestic interest rates and the exchange value of the dollar have helped to hold growth over the projection period as a whole close to that in our prior forecast, in the face of the recent negative news.

On the price front, it remains our view that continued slack in labor and product markets will contribute to a significant diminution in the underlying trend of inflation over the forecast period--even though recent disappointing figures on compensation rates have suggested that labor cost pressures may not be abating as quickly as we earlier anticipated.

Recent Developments and Near-Term Prospects

The Commerce Department's advance estimates of real GNP and GDP in the second quarter were not materially different from the projections in the last Greenbook. There were some compositional surprises, one of potential importance being the shallower reported liquidation of nonfarm inventories, which, taken at face value, suggests less potential for a substantial contribution to the current upturn in production from a positive swing in inventory investment. However, subsequent data point to a number of revisions in the GNP figures, including a downward adjustment in manufacturing and trade inventories, bringing them somewhat closer to the staff's prior forecast.[1]

The industrial sector registered a sharp upturn in the spring, and it appears that there was an appreciable further gain in production in July. As in previous months, the July improvement was paced by the auto industry. With dealer stocks falling to exceptionally low levels, the rate of motor vehicle assemblies has moved up substantially and has now retraced

1. One implication of this is that, owing to the "best-change" technique used in our projections, in order to get GNP growth rates right, the inventory investment levels in the forecast for 1991:Q3 on are consistently overstated by several billion dollars.

about half of the steep decline that occurred between last September and February. Vehicle production should contribute almost 1-1/2 percentage points to real GNP growth in the current quarter, about the same as in the second quarter. Outside of motor vehicles--and the supplier industries--manufacturing activity has been mixed in recent months; however, even that situation is a significant improvement from what we saw through the winter. Lean inventories and lengthening delivery times probably have spurred orders and output in some materials-producing and other industries.

A distinct increase in residential construction activity is also providing impetus to the recovery. The strengthening in homebuilding has occurred entirely in the single-family sector, where the improvement in starts through June should translate into a sizable increase in real construction spending this quarter. A jump in sales of existing and new homes in June was consistent with readings on affordability and buying sentiment, and the recent easing of mortgage rates increases the probability of further expansion in single-family building.

CURRENT-QUARTER PROJECTIONS
(Percent change from preceding period; annual rate)

	1991		
	Q1	Q2	Q3
	-----actual-----		
Real GNP	-2.8	.4	2.9
(previous)	-2.8	.2	4.8
Real PCE	-1.5	3.6	2.1
(previous)	-1.5	3.3	2.2
Real disposable personal income	-1.5	1.2	1.0
(previous)	-1.5	2.2	1.3
Industrial production	-9.7	1.7	6.1
(previous)	-9.6	.0	7.2

Outside of manufacturing and residential construction, however, the economy still appears relatively weak. Key evidence on this score comes from the recent labor market reports, which, on balance, show a fairly sluggish pace of increase in employment and hours in recent months. Although the weakness in labor demand undoubtedly is attributable, in part, to cost-reduction efforts that are enhancing productivity and profits, the direct implications for wage and salary income are clearly negative. Growth of real disposable personal income in the second quarter was meager, and the July contraction in hours suggests a poor start for DPI in the current quarter. We are anticipating a sharp bounceback from the extraordinary July plunge in the average workweek, but even so, with hiring likely to remain slow and layoffs numerous, we foresee a real DPI increase of only 1 percent this quarter.

Such weak income growth would not seem to bode well for consumer spending. However, the latest retail sales data suggest that outlays in July were well above the second-quarter pace, and it will take a noticeable slackening in subsequent months to hold real consumer outlays to the 2 percent growth (annual rate) we have forecast for the current quarter. Under the circumstances, the chances that consumer demand will provide a greater lift to the economy in the near term seem as great as those that employment and income will prove disappointing.

In the business sector, recent information suggests that firms remain cautious in making capital expenditures. Apart from the influence of the normal uncertainty about sales prospects that exists in the early stages of a recovery, strained balance sheets and tightened credit availability are making it difficult for at least some businessmen with a more optimistic outlook to finance fixed investment or inventory accumulation. New orders for nondefense capital goods have been erratic in recent months, and backlogs continued to shrink through June; advance indicators for construction remain decidedly negative. In light of these data, real BFI is projected to decline at about a 2 percent pace this quarter. Surveys and anecdotal evidence also suggest that businesses are still keeping a tight rein on inventories, although, as suggested above, a rebuilding of stocks seems to have begun in some industries as demand has firmed and the possibility of losing sales has become more of a concern. We expect that inventories, in the aggregate, will decline further in the current quarter, but at a slower pace than in the spring.

Incoming data on price inflation have been in line with our forecast in the June Greenbook. The year-over-year change in consumer prices has moved down to 4-1/2 percent from around 6 percent at the end of last year. Much of this deceleration has been in the food and energy categories. Food prices fell in July and are expected to be little changed this quarter, owing to increased supplies of fresh vegetables and meat; in the near term, these effects will likely dominate any early pressures that may arise from the drought. And, energy prices are projected to move up only 1 percent this quarter, held down by the sharp declines posted in June and July; energy prices are expected to move up in coming months, however. The increase in the "core" CPI of 0.4 percent in July likely overstates somewhat the current trend; among other things, it reflected hikes in sales taxes (which also may affect the August index, given BLS sampling procedures).

Recent developments in labor costs have not been especially encouraging: In particular, the employment cost index measure of hourly compensation showed no further deceleration in the second quarter. The second-quarter ECI data reflect, in part, the legislated increase in the minimum wage as well as sharply rising benefit costs, which are less influenced by labor market slack in the short run. Be that as it may, pay inflation has moved down less to date than we had anticipated. This suggests not only that employers are encountering difficulty in reining in benefit costs but that the large consumer price increases seen over the past year may be exerting a stronger influence on wage adjustments than previously seemed likely to us, given the degree of labor market slack and the quick reversal this year of the energy price bulge.

The Outlook through 1992

While recent developments have underscored some of the risks in the outlook--and their possible asymmetry toward the negative side--the staff continues to believe that the most likely outcome is a sustained expansion of economic activity, though at a pace well below that observed in the early phases of most postwar upturns. Real GNP is projected to advance roughly 3 percent over the first year of this expansion, compared with a norm of 6 percent or more. As in previous postwar cycles, a positive swing in inventory investment should provide much of the initial impetus to production and income. A boost to homebuilding from lower interest rates also is contributing importantly to the upturn, albeit with less force than in the past. In contrast, consumer spending rises only moderately in the forecast, as an already low saving rate and sluggish income growth constrain demand. And, with a large overhang of unoccupied real estate damping nonresidential construction (and creating unusual strains on financial intermediaries), budgetary limitations at all levels restricting government purchases, and little net lift to demand from the foreign sector, final sales rise only gradually in comparison with prior upswings.

PROJECTIONS OF REAL GNP AND FINAL SALES
(Percent change; annual rate)

	1991			1992		
	Q2	Q3	Q4	Q1	Q2	H2
Real GNP	.4	2.9	3.6	3.9	3.1	2.7
Final sales ex. CCC	-.6	2.6	1.6	2.1	2.3	2.7

The forecast continues to show a slowing in wage and price inflation over the projection period. The unemployment rate is expected to remain near its current level of 6-3/4 percent through the end of this year and to edge down only to 6-1/2 percent by the end of 1992. Given this slack in labor markets and the ample availability of industrial capacity, inflation as measured by the CPI excluding food and energy is projected to move down to around 4 percent over the second half of this year, compared with the 5 percent pace seen in the first half. In 1992, consumer prices decelerate further, to about 3-1/2 percent in the second half.

STAFF INFLATION PROJECTIONS
(Percent change; annual rate)

	1991				1992	
	Q1	Q2	Q3	Q4	H1	H2
Consumer price index	3.6	2.1	3.3	4.1	3.8	3.5
CPI ex. food and energy	6.8	3.5	4.2	3.9	4.0	3.5
ECI hourly compensation	4.6	4.9	4.4	4.3	4.2	4.0
Civilian unemployment rate (percent)	6.5	6.8	6.8	6.8	6.5*	6.4*

*Final quarter of period.

Key assumptions. The System's recent easing has pushed the federal funds rate 25 basis points below the level assumed in the June projection; the current projection is based on a funds rate that remains near 5-1/2 percent. Although long-term rates were expected to trend lower in the last forecast, the recent decline in bond yields has come ahead of schedule; further declines still are expected over the coming year as the disinflationary trends in the economy are fully recognized. Credit availability should increase gradually as the expansion progresses and the quality of assets improves, but the intensification of pressures on insurance companies suggests that the "credit crunch" will prove a more stubborn problem than we had previously anticipated. On balance, despite the recent easing step, the financial stimulus to aggregate demand in this upturn continues to look relatively mild by historical standards.

The broader monetary aggregates are projected to accelerate modestly over the remainder of 1991, boosted by a pickup in nominal income growth and the recent easing of monetary policy. However, ongoing declines in depository credit growth will damp growth in M2 and M3. M2 is expected to have come in just a bit above the lower end of its 2-1/2 to 6-1/2 percent target range this year. Similarly, M3 is expected to finish 1991 only a little above the lower bound of its 1 to 5 percent range. In 1992, M2 is expected to accelerate broadly in line with the pickup in nominal GNP growth. Nevertheless, growth of M2 is projected to remain below that of GNP, and its velocity should increase again. Growth of M3 is expected to increase only moderately next year as the restructuring of the thrift industry proceeds and banks continue to be cautious lenders.

On the fiscal side, we continue to assume that the FY1992 budget will adhere closely to last year's budget agreement.[2] As a result, federal fiscal policy is assumed to impose a moderate degree of restraint on aggregate demand. The staff has raised its estimate of the unified deficit in FY1991 to $270 billion, reflecting lower-than-expected tax receipts. With lower tax receipts also projected for FY1992 and with somewhat higher outlays anticipated for Medicaid and deposit insurance, the staff's projection for the FY1992 deficit has been raised as well, to $343 billion. Excluding Desert Storm and outlays for deposit insurance, the deficit is expected to be $228 billion in FY1991 and $212 billion in FY1992.

The foreign exchange value of the dollar has declined somewhat in recent weeks in response to lower U.S. interest rates, and the projected path of the dollar is now about 2 percent lower, on average, than in the June forecast. This change is too small to have a major effect on either real activity or prices. In addition, we have made only minor changes to the projections for economic activity in the other G-10 countries: Economic activity abroad is expected to strengthen in the second half of this year after its recent weakness and to expand at a fairly brisk pace in 1992. Crude oil prices have firmed since the June Greenbook, and the average posted price in the third quarter for West Texas Intermediate is projected at about $20.50 per barrel ($1.00 above the previous assumption). Prices

2. In particular, we assume that the pending legislation calling for extended unemployment insurance benefits will either not be signed by the President or not be funded by an emergency declaration. The enrolled bill, which the President must act upon by August 17, would authorize between 4 and 20 weeks of extended benefits to currently unemployed workers if the President were to declare an emergency under the budget agreement.

are expected to be maintained at this higher level through year-end and then to drift back down to $19.25 per barrel by the middle of 1992.

Consumer spending and income. Real personal consumption expenditures are expected to rise about 2 percent at an annual rate in the second half of 1991 and 3 percent in 1992, a weak upturn in spending by the standards of previous cycles. In the main, this reflects our projection of slow growth in real disposable income and the current and prospective position of household balance sheets. Because residential real estate values are unlikely to rise substantially and stock prices seem already to be anticipating a hefty improvement in profits, household wealth is projected to change little relative to income. This argues against any further decline in the personal saving rate from the current historically low level. Recent negative news from the financial sector undoubtedly has caused some additional concerns among consumers; uncertainty about the value of insurance policies and retirement savings obviously could prompt greater precautionary saving and thus weaken aggregate demand in the short run. No major change in behavior has been built into this projection: While the risk is clear, so is the fact that consumers seem to have responded rather mildly to several years of negative news about financial institutions (albeit news generally focused on institutions with federal backing).

Among the components of PCE, purchases of cars and light trucks are expected to increase further over the next several quarters, but rather mildly by prior cyclical standards. Likewise, with respect to other durable goods, we have not incorporated any significant surge in outlays in the projection partly because of our assessment that little pent-up demand developed during the recession.

Business fixed investment. Real BFI is projected to show little, if any, growth over the remainder of 1991. With regard to nonresidential construction, spending is projected to tumble sharply in coming months because of continued excess supply and the lack of credit availability. Continuing price reductions are expected to stimulate purchases of computing equipment, but a broader pickup in equipment spending is not likely to occur until the economic recovery is more firmly established in the minds of businessmen.

In 1992, real outlays for business fixed investment are projected to rise 6 percent. A sharp rise in profits next year boosts cash flow and, when coupled with better sales expectations, prompts widespread advances in spending for equipment. Computers and other high-tech equipment likely will be the major components of investment, but some recovery should be visible as well for heavy trucks and industrial machinery. Rising capacity utilization is expected to stimulate construction of industrial plants in some sectors next year, but longstanding problems are likely to keep commercial construction quite depressed.

Housing. Residential construction is expected to continue to increase over the projection period, but only at a moderate rate. The reduced pace of household formations represents a basic impediment to a return to the 1980s pace of homebuilding, as does the overhang of vacant space in many locales. And, while affordability in cash-flow terms has improved recently--and is expected to continue to improve--weak growth in income and a sober view of investment opportunities in this sector will likely damp the upswing in the demand for new homes. By the end of 1992, starts are expected to move back only to the lackluster 1.2 million unit pace seen last year, with virtually all of the improvement in the single-family sector. The outlook for multifamily construction remains dismal, because of especially high rental vacancy rates, relatively slow growth in the young-adult population, and continued credit availability problems.

Government sector. Real federal purchases of goods and services are expected to trend downward at nearly a 5 percent annual rate over the next year and a half. The downturn in spending results entirely from cutbacks in defense purchases, where appropriations actions already taken and planned reductions in forces indicate sizable declines in procurement and personnel outlays. In contrast, nondefense purchases are expected to rise at a 4-1/2 percent annual rate over the next five quarters, reflecting increases in spending on space exploration, law enforcement, and health research.

In the state and local sector, budgetary problems are expected to restrain spending through next year. An unusually large number of states have encountered difficulties balancing their books and have consequently trimmed planned budget outlays and raised taxes. As a result, we expect real purchases of goods and services to rise only 1-1/4 percent at an annual rate, on average, through 1992. Moreover, we anticipate further increases in sales and income taxes over the next year. The spending restraint and additional taxes, coupled with the recovery in business activity, are expected to improve the fiscal position of this sector significantly, with the NIPA deficit (excluding retirement funds) coming into balance by the end of 1992.

Net exports. The external sector, on balance, is projected to make a marginally negative contribution to GNP growth over the projection period. Given our outlook for a pickup in activity abroad, exports are expected to continue to grow at a fairly brisk pace through 1992. However, merchandise imports are projected to rise somewhat more in absolute terms, as the anticipated strengthening in U.S. economic activity and further declines in the relative price of imports boost the demand for foreign goods. A more detailed discussion of these projections is presented in the International Developments section.

Labor costs and prices. With evidence in hand suggesting less deceleration in compensation costs this year than we had anticipated previously, hourly compensation (as measured by the employment cost index) now is projected to average between 4-1/4 and 4-1/2 percent in the second half of 1991--down from the first half of the year, but about 1/2 percentage point higher than assumed in the June forecast. Soaring health insurance costs and upward adjustments to employer tax liability for unemployment insurance are expected to keep benefits growing rapidly for some time. However, with the unemployment rate still high and consumer prices having risen more slowly this year, employers are expected to make further downward adjustments to wage increases in 1992. Overall, increases in ECI hourly compensation in the forecast slow to a 4 percent pace by the second half of next year.

The persistent slack in product markets and continued competition from foreign producers, coupled with the assumed deceleration in labor costs, are projected to push consumer price increases down further over the projection period. The rate of rise in food prices is projected to rebound in the fourth quarter of 1991 but to move with the overall rate of inflation in 1992. At this point, this year's drought looks less severe than the droughts of 1983 and 1988. And, with sluggish farm exports and expanding livestock supplies, we think that food price increases will be only slightly larger than in the absence of the drought. Energy prices, meanwhile, are expected to move up somewhat more rapidly over the remainder of this year but to rise only about 2-3/4 percent next year, reflecting the projected path of oil prices. Excluding food and energy, CPI inflation is projected to run about 4 percent over the rest of 1991 and to move down to 3-1/2 percent by the second half of 1992.

August 14, 1991

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STAFF GNP PROJECTIONS

Percent changes, annual rate

		Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
		6/26/91	8/14/91	6/26/91	8/14/91	6/26/91	8/14/91	6/26/91	8/14/91	6/26/91	8/14/91
Annual changes:											
1989	<2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990	<2>	5.1	5.1	1.0	1.0	4.6	4.6	5.4	5.4	5.5	5.5
1991		3.9	3.6	.1	-.1	4.2	4.0	4.4	4.3	6.7	6.7
1992		6.6	6.5	3.2	3.1	3.6	3.6	3.7	3.7	6.4	6.5
1993			5.8		2.9		3.3		3.4		6.2
Quarterly changes:											
1990	Q1 <2>	6.7	6.7	1.7	1.7	6.6	6.6	7.5	7.5	5.3	5.3
	Q2 <2>	5.1	5.1	.4	.4	3.9	3.9	3.8	3.8	5.3	5.3
	Q3 <2>	5.3	5.3	1.4	1.4	4.2	4.2	7.0	7.0	5.6	5.6
	Q4 <2>	.9	.9	-1.6	-1.6	4.7	4.7	6.9	6.9	5.9	5.9
1991	Q1 <2>	2.5	2.2	-2.6	-2.8	5.1	5.2	3.6	3.6	6.5	6.5
	Q2 <2>	3.3	4.6	.2	.4	3.1	3.0	2.2	2.1	6.8	6.8
	Q3	8.1	4.9	4.8	2.9	3.6	2.5	4.0	3.3	6.8	6.8
	Q4	7.6	7.0	4.1	3.6	3.5	3.9	3.8	4.1	6.6	6.8
1992	Q1	7.3	7.9	3.3	3.9	4.1	4.3	4.1	4.1	6.5	6.6
	Q2	6.0	6.6	2.7	3.1	3.5	3.5	3.6	3.6	6.4	6.5
	Q3	5.6	5.8	2.6	2.8	3.3	3.3	3.5	3.6	6.4	6.5
	Q4	5.5	5.5	2.5	2.7	3.3	3.2	3.5	3.5	6.3	6.4
1993	Q1		6.4		3.0		3.8		3.4		6.3
	Q2		5.5		2.8		3.1		3.3		6.2
	Q3		5.5		2.9		2.9		3.2		6.1
	Q4		5.2		2.7		2.9		3.1		6.0
Two-quarter changes: <3>											
1990	Q2 <2>	5.9	5.9	1.1	1.1	5.3	5.3	5.6	5.6	.0	.0
	Q4 <2>	3.1	3.1	-.1	-.1	4.4	4.4	6.9	6.9	.6	.6
1991	Q2 <2>	2.9	3.4	-1.2	-1.2	4.2	4.1	2.9	2.8	.9	.9
	Q4	7.8	5.9	4.4	3.2	3.5	3.2	3.9	3.7	-.2	.0
1992	Q2	6.6	7.2	3.0	3.5	3.8	3.9	3.8	3.9	-.2	-.3
	Q4	5.6	5.7	2.5	2.7	3.3	3.2	3.5	3.5	-.1	-.1
1993	Q2		6.0		2.9		3.4		3.4		-.2
	Q4		5.4		2.8		2.9		3.2		-.2
Four-quarter changes: <4>											
1989	Q4 <2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990	Q4 <2>	4.5	4.5	.5	.5	4.8	4.8	6.3	6.3	.6	.6
1991	Q4	5.3	4.7	1.6	1.0	3.9	3.7	3.4	3.2	.7	.9
1992	Q4	6.1	6.4	2.8	3.1	3.5	3.6	3.7	3.7	-.3	-.4
1993	Q4		5.7		2.9		3.2		3.3		-.4

<1> For all urban consumers.
<2> Actual.
<3> Percent change from two quarters earlier.
<4> Percent change from four quarters earlier.

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August 14, 1991

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1985	1986	1987	1988	1989	1990	Projection 1991	1992	1993
EXPENDITURES										
Nominal GNP	Billions of $	4014.9	4231.6	4515.6	4873.7	5200.8	5465.1	5662.9	6029.2	6379.9
Real GNP	Billions of 82$	3618.7	3717.9	3845.3	4016.9	4117.7	4157.3	4151.4	4280.9	4403.0
Real GNP	Percent change*	3.6	1.9	5.0	3.5	1.8	.5	1.0	3.1	2.9
Gross domestic purchases		4.3	2.1	4.2	2.6	1.1	-.5	1.1	3.3	2.9
Final sales		4.6	2.7	3.1	4.5	1.7	1.6	.2	2.5	2.9
Private dom. final purchases		4.6	2.9	2.5	4.0	1.2	-.1	.5	3.6	3.4
Personal consumption expend.		4.6	3.8	2.3	4.1	1.2	.1	1.6	2.9	2.6
Durables		7.0	11.5	-1.2	9.3	-1.4	-1.8	1.3	3.9	2.8
Nondurables		3.3	2.9	1.3	2.4	.6	-2.4	.7	2.1	2.0
Services		5.0	2.1	4.1	3.7	2.4	2.5	2.3	3.0	2.9
Business fixed investment		3.7	-5.5	6.1	5.3	4.5	2.2	-5.1	6.0	6.3
Producers' durable equipment		4.6	.4	8.2	8.2	5.4	4.6	-3.4	9.1	8.1
Nonresidential structures		1.9	-17.7	.8	-2.7	1.7	-5.4	-11.3	-5.7	-1.6
Residential structures		5.8	11.6	-2.2	-.1	-7.1	-10.2	.1	7.8	7.5
Exports		-2.4	10.6	19.8	14.0	10.1	5.8	4.5	6.2	6.0
Imports		4.5	10.0	10.4	5.5	4.5	-.5	4.8	7.3	6.2
Government purchases		8.6	3.1	2.0	1.1	.3	3.8	-.6	-1.1	.9
Federal		13.3	.5	1.5	-1.6	-2.8	5.2	-.9	-4.8	-2.2
Defense		7.1	6.0	4.0	-1.8	-2.1	4.0	-3.7	-8.1	-4.5
State and local		4.9	5.2	2.3	3.1	2.6	2.7	-.3	1.6	3.0
Change in business inventories	Billions of 82$	9.1	5.6	22.8	23.6	23.8	-3.6	-13.1	32.0	34.8
Nonfarm	Billions of 82$	13.4	8.0	28.7	26.5	18.7	-5.1	-11.4	31.9	33.2
Net exports	Billions of 82$	-104.3	-129.7	-118.5	-75.9	-54.1	-33.8	-8.7	-17.0	-21.1
Nominal GNP	Percent change*	6.6	4.6	8.2	7.8	5.6	4.5	4.7	6.4	5.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	97.5	99.5	102.2	105.5	108.3	110.0	109.0	110.5	112.3
Unemployment rate	Percent	7.2	7.0	6.2	5.5	5.3	5.5	6.7	6.5	6.2
Industrial production index	Percent change*	1.9	1.4	6.5	4.5	1.1	.3	.6	4.9	3.3
Capacity utilization rate-mfg.	Percent	79.5	79.0	81.4	83.9	83.9	82.3	78.3	79.8	80.3
Housing starts	Millions	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.15	1.25
Auto sales	Millions	11.03	11.44	10.23	10.65	9.89	9.53	8.63	9.20	9.44
Domestic	Millions	8.22	8.22	7.06	7.55	7.06	6.92	6.29	6.68	6.86
Foreign	Millions	2.82	3.22	3.18	3.10	2.83	2.61	2.35	2.53	2.57
INCOME AND SAVING										
Nominal personal income	Percent change*	6.6	5.8	8.1	7.6	6.8	5.6	4.0	6.9	6.3
Real disposable income	Percent change*	2.7	3.3	2.7	4.3	1.7	-.4	1.0	3.0	3.0
Personal saving rate	Percent	4.4	4.1	2.9	4.2	4.6	4.6	3.8	3.9	4.4
Corp. profits with IVA & CCAdj	Percent change*	9.2	-5.6	17.4	8.2	-16.8	-.7	8.1	9.3	3.9
Profit share of GNP	Percent	7.0	6.7	6.8	6.9	6.0	5.5	5.3	5.6	5.5
Federal govt. surplus/deficit	Billions of $	-196.9	-206.9	-158.2	-141.7	-134.3	-166.0	-169.1	-188.2	-191.5
State and local govt. surplus		65.1	62.8	51.0	46.5	46.4	35.4	43.0	71.5	81.9
Exc. social insurance funds		13.8	5.6	-8.3	-16.4	-19.9	-34.0	-29.2	-4.2	2.7
PRICES AND COSTS										
GNP implicit deflator	Percent change*	2.9	2.6	3.0	4.1	3.7	4.0	3.6	3.2	2.7
GNP fixed-weight price index		3.3	2.6	3.8	4.6	4.0	4.8	3.7	3.6	3.2
Cons. & fixed invest. prices		3.4	2.5	4.5	4.3	4.3	5.3	3.2	3.4	3.0
CPI		3.5	1.3	4.5	4.3	4.6	6.3	3.2	3.7	3.3
Exc. food and energy		4.3	3.9	4.3	4.5	4.3	5.3	4.5	3.8	3.3
ECI hourly compensation		3.9	3.2	3.3	4.8	4.8	4.6	4.5	4.1	3.8
Nonfarm business sector										
Output per hour		1.6	1.3	2.3	1.8	-1.4	-.1	1.8	1.6	1.3
Compensation per hour		4.6	4.9	3.8	4.2	2.5	4.6	4.5	4.3	3.9
Unit labor costs		3.0	3.6	1.5	2.3	4.0	4.7	2.7	2.7	2.6

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

August 14, 1991

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 Q2
EXPENDITURES											
Nominal GNP	Billions of $	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3	5514.6	5527.3	5557.7	5620.5
Real GNP	Billions of 82$	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1	4170.0	4153.4	4124.1	4128.4
Real GNP	Percent Change	3.6	1.6	1.7	.3	1.7	.4	1.4	-1.6	-2.8	.4
Gross domestic purchases		1.2	1.8	2.8	-1.2	.5	1.3	1.6	-5.1	-4.3	2.9
Final sales		2.4	1.7	1.8	.9	3.8	-.7	1.9	1.4	-2.9	.1
Private dom. final purchases		.8	1.4	4.1	-1.5	2.4	-1.2	2.3	-3.8	-5.1	2.7
Personal consumption expend.		-.3	1.3	4.6	-.8	1.1	.2	2.7	-3.4	-1.5	3.6
Durables		-6.0	5.6	9.6	-13.0	14.4	-9.5	2.6	-12.3	-11.7	5.2
Nondurables		.6	-1.7	3.9	-.2	-3.2	-1.9	2.3	-6.5	-1.8	1.0
Services		.9	2.1	3.5	3.1	.1	5.1	3.0	1.8	2.1	4.8
Business fixed investment		8.9	6.9	6.3	-3.8	5.0	-4.7	8.9	.1	-16.3	-2.3
Producers' durable equipment		9.5	12.2	6.1	-5.2	5.7	-3.3	10.2	6.3	-18.4	-1.6
Nonresidential structures		7.5	-8.2	7.1	1.3	2.3	-9.0	5.1	-18.2	-9.0	-4.5
Residential structures		-3.6	-11.3	-7.6	-5.5	15.1	-11.2	-19.8	-20.6	-25.3	3.7
Exports		15.8	12.4	-.5	13.5	11.2	-5.0	6.9	11.0	.5	3.7
Imports		-2.3	12.8	6.4	1.7	2.5	.7	7.6	-11.8	-8.8	21.2
Government purchases		-3.3	4.0	-2.4	3.0	2.9	6.2	1.2	4.7	-1.3	2.1
Federal		-9.1	7.0	-7.9	-.4	.4	16.4	.1	4.6	-.5	5.0
Defense		-10.9	3.2	7.2	-7.0	-1.7	3.3	2.7	12.1	2.7	-9.2
State and local		1.3	1.8	1.8	5.6	4.8	-.6	2.0	4.9	-1.9	.0
Change in business inventories	Billions of 82$	26.1	25.5	24.6	18.9	-2.2	9.5	4.7	-26.4	-25.0	-21.2
Nonfarm	Billions of 82$	16.4	21.5	21.7	15.3	-8.2	11.6	4.7	-28.5	-28.1	-16.3
Net exports	Billions of 82$	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6	-46.5	-8.8	7.1	-18.6
Nominal GNP	Percent change	7.5	5.8	5.1	3.9	6.7	5.1	5.3	.9	2.2	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	107.6	108.1	108.5	109.0	109.7	110.2	110.2	109.8	109.2	108.8
Unemployment rate	Percent*	5.2	5.3	5.3	5.3	5.3	5.3	5.6	5.9	6.5	6.8
Industrial production index	Percent change	2.7	2.8	-1.2	.2	.6	4.2	3.9	-7.0	-9.7	1.7
Capacity utilization rate-mfg.	Percent*	84.7	84.5	83.7	82.9	82.7	82.8	82.9	80.8	78.0	77.8
Housing starts	Millions	1.46	1.36	1.35	1.35	1.43	1.20	1.13	1.04	.92	1.00
Auto sales	Millions	10.03	10.26	10.20	9.09	10.01	9.53	9.68	8.93	8.25	8.46
Domestic	Millions	7.08	7.26	7.36	6.56	7.11	6.78	7.21	6.59	6.00	6.10
Foreign	Millions	2.95	3.00	2.84	2.53	2.90	2.75	2.47	2.34	2.25	2.36
INCOME AND SAVING											
Nominal personal income	Percent change	11.6	5.8	3.7	6.2	8.6	5.3	5.0	3.5	1.5	3.7
Real disposable income	Percent change	4.2	-1.2	2.7	1.2	2.5	.3	-.7	-3.5	-1.5	1.2
Personal saving rate	Percent*	5.2	4.6	4.1	4.6	4.9	5.0	4.2	4.2	4.2	3.7
Corp. profits with IVA & CCAdj	Percent change	-23.2	-7.0	-17.1	-19.1	8.4	13.9	-7.5	-14.8	-3.7	10.8
Profit share of GNP	Percent*	6.4	6.2	5.9	5.5	5.5	5.6	5.5	5.2	5.1	5.2
Federal govt. surplus/deficit	Billions of $	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0	-145.7	-184.3	-126.9	-173.9
State and local govt. surplus		48.9	50.3	48.1	38.5	38.1	38.6	39.3	25.7	30.0	39.5
Exc. social insurance funds		-16.2	-15.6	-18.7	-29.1	-30.2	-30.4	-30.5	-44.8	-41.0	-32.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	3.9	3.9	3.2	3.8	4.8	4.7	3.7	2.8	5.2	3.9
GNP fixed-weight price index		4.9	4.6	3.1	3.8	6.6	3.9	4.2	4.7	5.2	3.0
Cons. & fixed invest. prices		5.0	5.3	2.3	4.6	6.8	2.6	5.4	6.4	3.1	2.6
CPI		5.1	6.0	3.3	3.9	7.5	3.8	7.0	6.9	3.6	2.1
Exc. food and energy		4.9	4.2	3.8	4.7	5.9	4.9	6.1	4.2	6.8	3.5
ECI hourly compensation**		4.2	4.9	5.3	4.4	5.6	5.1	4.3	3.8	4.6	4.9
Nonfarm business sector											
Output per hour		-2.8	.1	-.7	-2.2	-1.1	1.2	.6	-.8	.0	1.9
Compensation per hour		3.1	2.2	2.3	2.6	4.0	5.9	5.0	3.7	4.2	4.5
Unit labor costs		6.0	2.0	3.0	5.0	5.2	4.7	4.4	4.6	4.2	2.6

* Not at an annual rate.
** Private industry workers

CONFIDENTIAL - FR
CLASS II FOMC

August 14, 1991

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

		Projection									
		1991		1992				1993			
	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	5688.2	5785.1	5895.4	5989.7	6074.9	6156.7	6253.3	6337.4	6423.2	6505.8
Real GNP	Billions of 82$	4158.3	4194.9	4235.1	4267.1	4296.6	4324.9	4357.4	4387.2	4418.8	4448.5
Real GNP	Percent Change	2.9	3.6	3.9	3.1	2.8	2.7	3.0	2.8	2.9	2.7
Gross domestic purchases		2.2	3.5	4.0	3.4	2.9	2.8	3.0	2.8	2.9	2.8
Final sales		2.1	1.6	2.1	2.3	2.8	2.7	2.9	2.9	3.0	2.7
Private dom. final purchases		2.2	2.3	3.2	3.5	3.8	3.7	3.5	3.4	3.4	3.2
Personal consumption expend.		2.1	2.1	2.8	3.0	2.9	2.8	2.7	2.6	2.6	2.5
Durables		6.8	6.1	4.2	4.1	3.9	3.5	2.9	2.9	2.9	2.4
Nondurables		2.4	1.1	2.1	2.2	2.2	2.1	2.1	2.0	2.0	1.9
Services		.6	1.6	2.9	3.1	3.1	3.0	3.0	2.9	2.9	2.9
Business fixed investment		-2.2	1.3	4.1	5.2	7.2	7.6	6.5	6.2	6.3	6.3
Producers' durable equipment		2.4	5.9	7.9	8.5	10.0	10.0	8.5	8.0	8.0	8.0
Nonresidential structures		-17.2	-14.0	-9.4	-7.1	-3.8	-2.2	-1.9	-1.7	-1.5	-1.3
Residential structures		18.8	9.1	6.9	7.9	8.8	7.8	8.6	8.3	7.6	5.6
Exports		6.9	7.0	6.5	6.0	5.8	6.3	5.7	6.4	5.8	6.2
Imports		2.4	6.8	7.5	7.8	6.6	7.3	5.5	6.8	5.7	6.8
Government purchases		-1.5	-1.5	-1.5	-1.2	-1.0	-.7	.2	.9	1.2	1.3
Federal		-3.3	-4.7	-5.0	-4.9	-4.7	-4.6	-2.8	-1.8	-2.1	-2.1
Defense		.0	-7.7	-8.2	-8.2	-7.9	-7.9	-5.3	-4.1	-4.3	-4.3
State and local		-.1	.9	1.1	1.5	1.7	2.0	2.3	2.8	3.4	3.6
Change in business inventories	Billions of 82$	-13.2	7.1	25.4	33.7	34.4	34.3	35.7	34.9	34.3	34.2
Nonfarm	Billions of 82$	-10.0	8.9	25.7	33.8	34.0	33.9	34.0	33.3	32.7	32.7
Net exports	Billions of 82$	-11.7	-11.6	-13.3	-16.5	-18.1	-20.0	-20.0	-21.0	-21.0	-22.4
Nominal GNP	Percent change	4.9	7.0	7.9	6.6	5.8	5.5	6.4	5.5	5.5	5.2
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.9	109.2	109.8	110.3	110.7	111.1	111.6	112.1	112.5	113.0
Unemployment rate	Percent*	6.8	6.8	6.6	6.5	6.5	6.4	6.3	6.2	6.1	6.0
Industrial production index	Percent change	6.1	5.0	6.1	5.3	4.2	4.0	3.4	3.3	3.3	3.3
Capacity utilization rate-mfg.	Percent*	78.4	78.8	79.4	79.8	80.0	80.1	80.2	80.2	80.3	80.4
Housing starts	Millions	1.05	1.08	1.11	1.14	1.16	1.20	1.22	1.25	1.27	1.30
Auto sales	Millions	8.91	8.93	9.10	9.17	9.24	9.30	9.36	9.42	9.48	9.48
Domestic	Millions	6.54	6.50	6.60	6.65	6.70	6.75	6.80	6.85	6.90	6.90
Foreign	Millions	2.36	2.43	2.50	2.52	2.54	2.55	2.56	2.57	2.58	2.58
INCOME AND SAVING											
Nominal personal income	Percent change	3.7	7.4	8.5	6.5	6.0	6.6	7.9	5.9	5.6	5.9
Real disposable income	Percent change	1.0	3.1	4.1	2.4	2.4	3.1	5.7	2.1	1.9	2.3
Personal saving rate	Percent*	3.5	3.7	4.0	3.9	3.8	3.9	4.6	4.5	4.3	4.3
Corp. profits with IVA & CCAdj	Percent change	11.5	14.7	21.1	10.4	1.5	5.1	5.5	1.1	3.0	6.3
Profit share of GNP	Percent*	5.3	5.4	5.6	5.6	5.5	5.5	5.5	5.5	5.4	5.5
Federal govt. surplus/deficit	Billions of $	-172.3	-203.2	-202.8	-189.7	-178.8	-181.6	-204.7	-195.4	-183.0	-182.8
State and local govt. surplus		49.4	53.0	63.0	69.6	75.4	77.9	80.7	81.1	82.3	83.7
Exc. social insurance funds		-23.1	-20.4	-11.3	-5.6	-.7	.9	2.8	2.3	2.6	3.1
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.0	3.3	3.8	3.4	2.9	2.8	3.3	2.7	2.5	2.5
GNP fixed-weight price index		2.5	3.9	4.3	3.5	3.3	3.2	3.8	3.1	2.9	2.9
Cons. & fixed invest. prices		2.8	4.1	3.7	3.4	3.3	3.2	3.1	3.0	2.9	2.9
CPI		3.3	4.1	4.1	3.6	3.6	3.5	3.4	3.3	3.2	3.1
Exc. food and energy		4.2	3.9	4.2	3.8	3.6	3.5	3.4	3.3	3.2	3.1
ECI hourly compensation**		4.4	4.3	4.2	4.1	4.0	4.0	3.9	3.8	3.7	3.7
Nonfarm business sector											
Output per hour		3.4	1.8	1.8	1.7	1.5	1.4	1.3	1.3	1.3	1.3
Compensation per hour		4.7	4.6	4.8	4.3	4.2	4.1	4.4	3.9	3.7	3.7
Unit labor costs		1.2	2.8	2.9	2.6	2.7	2.7	3.1	2.6	2.4	2.4

* Not at an annual rate.
** Private industry workers

CONFIDENTIAL - FR
CLASS II FOMC

August 14, 1991

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

	1989				1990				1991		1988	1989	1990	Proj. 1991
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	36.4	16.5	17.5	3.5	17.4	4.5	14.9	-16.6	-29.3	4.3	138.6	73.9	20.2	41.5
Gross domestic purchases	11.8	18.7	28.3	-12.7	4.9	13.7	16.8	-54.3	-45.2	30.0	103.0	46.1	-18.9	44.2
Final sales	24.4	17.0	18.5	9.3	38.4	-7.2	19.7	14.5	-30.8	.6	172.9	69.2	65.4	8.0
Private dom. final purchases	6.5	11.4	34.1	-12.9	20.2	-10.3	19.1	-32.8	-44.0	22.0	128.7	39.1	-3.8	15.3
Personal consumption expend.	-2.1	8.6	30.0	-5.4	7.4	1.5	18.0	-23.2	-9.9	23.5	104.6	31.1	3.7	41.9
Durables	-6.6	5.8	9.9	-15.0	14.5	-10.8	2.7	-13.9	-12.7	5.1	36.4	-5.9	-7.5	5.4
Nondurables	1.4	-3.9	8.8	-.4	-7.4	-4.4	5.2	-15.2	-4.1	2.2	21.9	5.9	-21.8	6.0
Services	3.0	6.7	11.3	10.0	.4	16.6	10.0	5.9	7.0	16.1	46.4	31.0	32.9	30.7
Business fixed investment	10.5	8.4	7.8	-4.9	6.2	-6.2	10.9	.1	-22.6	-2.9	24.3	21.8	11.0	-26.7
Producers' durable equipment	8.4	10.9	5.7	-5.2	5.4	-3.3	9.5	6.1	-20.0	-1.5	27.7	19.8	17.7	-13.7
Nonresidential structures	2.2	-2.6	2.1	.4	.7	-2.9	1.5	-6.0	-2.7	-1.3	-3.4	2.1	-6.7	-13.1
Residential structures	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-9.8	-9.7	-11.5	1.4	-.2	-13.8	-18.5	.1
Change in business inventories	12.1	-.6	-.9	-5.7	-21.1	11.7	-4.8	-31.1	1.4	3.8	-34.4	4.9	-45.3	33.5
Nonfarm	-10.8	5.1	.2	-6.4	-23.5	19.8	-6.9	-33.2	.4	11.8	-28.2	-11.9	-43.8	37.4
Farm	22.9	-5.7	-1.1	.7	2.4	-8.1	2.1	2.1	1.0	-8.1	-6.3	16.8	-1.5	-3.9
Net exports	24.6	-2.2	-10.8	16.2	12.5	-9.2	-1.9	37.7	15.9	-25.7	35.6	27.8	39.1	-2.8
Exports	20.8	17.1	-.7	19.1	16.5	-8.0	10.4	16.7	.8	5.9	68.3	56.3	35.6	29.0
Imports	-3.7	19.2	10.1	2.8	4.1	1.2	12.3	-21.0	-15.0	31.6	32.7	28.4	-3.4	31.8
Government purchases	-6.7	7.8	-4.8	6.0	5.7	12.3	2.5	9.6	-2.7	4.3	8.6	2.3	30.1	-4.6
Federal	-8.1	5.7	-6.9	-.3	.3	12.9	.1	3.9	-.4	4.3	-5.4	-9.6	17.2	-3.3
Defense	-7.4	2.0	4.5	-4.7	-1.1	2.1	1.7	7.5	1.8	-6.4	-4.9	-5.6	10.2	-9.8
Nondefense	-.8	3.8	-11.4	4.4	1.4	10.8	-1.6	-3.6	-2.2	10.7	-.5	-4.0	7.0	6.5
State and local	1.5	2.1	2.1	6.3	5.5	-.7	2.4	5.7	-2.3	.0	13.9	12.0	12.9	-1.3

August 14, 1991

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

	Projection											Projection		
	1991		1992				1993				1990	1991	1992	1993
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	29.9	36.6	40.2	32.0	29.5	28.3	32.5	29.8	31.7	29.7	20.2	41.5	130.0	123.6
Gross domestic purchases	23.0	36.5	41.9	35.3	31.1	30.2	32.4	30.8	31.7	31.2	-18.9	44.2	138.5	126.1
Final sales	21.9	16.3	21.9	23.7	28.8	28.4	31.1	30.6	32.3	29.8	65.4	8.0	102.8	123.7
Private dom. final purchases	18.1	19.3	26.7	29.5	32.4	31.8	30.5	29.7	29.9	28.6	-3.8	15.3	120.4	118.7
Personal consumption expend.	14.1	14.2	19.0	20.0	19.9	19.1	18.6	18.1	18.2	17.6	3.7	41.9	78.0	72.5
Durables	6.7	6.2	4.3	4.3	4.2	3.8	3.2	3.1	3.2	2.7	-7.5	5.4	16.5	12.1
Nondurables	5.4	2.5	4.7	5.0	5.0	4.8	4.8	4.6	4.6	4.4	-21.8	6.0	19.5	18.5
Services	2.1	5.5	10.0	10.7	10.8	10.5	10.6	10.3	10.4	10.5	32.9	30.7	42.0	41.8
Business fixed investment	-2.8	1.6	5.0	6.3	8.8	9.5	8.3	8.0	8.2	8.4	11.0	-26.7	29.6	33.0
Producers' durable equipment	2.3	5.5	7.5	8.2	9.8	10.0	8.8	8.4	8.6	8.8	17.7	-13.7	35.4	34.5
Nonresidential structures	-5.2	-4.0	-2.5	-1.8	-.9	-.5	-.5	-.4	-.4	-.3	-6.7	-13.1	-5.9	-1.6
Residential structures	6.7	3.5	2.7	3.2	3.6	3.3	3.7	3.6	3.4	2.5	-18.5	.1	12.8	13.2
Change in business inventories	8.0	20.3	18.3	8.3	.7	-.1	1.4	-.8	-.6	-.1	-45.3	33.5	27.2	-.1
Nonfarm	6.3	18.9	16.8	8.1	.2	-.1	.1	-.7	-.6	.0	-43.8	37.4	25.0	-1.2
Farm	1.8	1.4	1.5	.2	.5	.0	1.3	-.1	.0	-.1	-1.5	-3.9	2.2	1.1
Net exports	6.9	.1	-1.7	-3.2	-1.6	-1.9	.0	-1.0	.0	-1.5	39.1	-2.8	-8.4	-2.4
Exports	11.0	11.3	10.8	10.1	9.9	10.9	10.0	11.3	10.6	11.3	35.6	29.0	41.8	43.2
Imports	4.0	11.2	12.5	13.4	11.5	12.8	10.0	12.3	10.6	12.8	-3.4	31.8	50.2	45.7
Government purchases	-3.1	-3.1	-3.1	-2.5	-2.0	-1.5	.5	1.9	2.4	2.7	30.1	-4.6	-9.1	7.5
Federal	-3.0	-4.2	-4.4	-4.3	-4.0	-3.9	-2.3	-1.5	-1.7	-1.7	17.2	-3.3	-16.6	-7.2
Defense	.0	-5.2	-5.4	-5.3	-5.0	-4.9	-3.2	-2.4	-2.5	-2.5	10.2	-9.8	-20.6	-10.6
Nondefense	-3.0	1.0	1.0	1.0	1.0	1.0	.9	.9	.8	.8	7.0	6.5	4.0	3.4
State and local	-.1	1.1	1.3	1.8	2.0	2.4	2.8	3.4	4.1	4.4	12.9	-1.3	7.5	14.7

FEDERAL SECTOR ACCOUNTS[1]
(Billions of dollars)

	Fiscal years				1991				1992				1993			
	1990a	1991	1992	1993	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
BUDGET									Not seasonally adjusted							
Budget receipts[2]	1031	1060	1147	1219	233	307	270	257	256	348	286	278	268	364	309	289
Budget outlays[2]	1252	1330	1490	1509	299	333	363	383	368	373	366	393	375	372	369	385
Surplus/deficit(-)[2]	-220	-270	-343	-290	-66	-25	-93	-126	-112	-25	-80	-115	-107	-9	-60	-96
(On-budget)	-277	-328	-405	-358	-80	-50	-101	-137	-124	-57	-88	-127	-118	-44	-70	-123
(Off-budget)	57	58	63	68	15	24	9	11	12	32	8	12	11	35	10	27
Surplus excluding deposit insurance[3]	-162	-202	-227	-223	-63	-11	-55	-96	-82	5	-55	-92	-89	5	-47	-89
Means of financing:																
Borrowing	263	296	332	289	56	43	98	91	113	51	77	107	95	30	57	88
Cash decrease	1	-10	10	0	0	-12	-6	38	-3	-20	-5	10	10	-15	-5	10
Other[4]	-44	-17	1	2	9	-6	1	-2	2	-6	8	-2	2	-6	8	-2
Cash operating balance, end of period	40	50	40	40	32	44	50	12	15	35	40	30	20	35	40	30
NIPA FEDERAL SECTOR									Seasonally adjusted annual rates							
Receipts	1092	1143	1227	1304	1135	1147	1164	1189	1220	1242	1259	1279	1293	1312	1332	1354
Expenditures	1249	1308	1421	1495	1261	1321	1337	1392	1423	1431	1438	1460	1497	1507	1514	1536
Purchases	415	444	444	443	444	447	447	444	447	444	441	438	445	445	445	444
Defense	307	327	316	304	331	325	326	320	319	314	309	304	306	304	302	299
Nondefense	107	117	128	139	113	121	121	123	128	130	132	134	139	141	143	145
Other expend.	835	864	977	1052	818	875	890	949	976	987	997	1022	1052	1062	1070	1092
Surplus/deficit	-158	-164	-194	-191	-127	-174	-172	-203	-203	-190	-179	-182	-205	-195	-183	-183
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-150	-101	-127	-137	-63	-98	-97	-130	-136	-126	-117	-122	-149	-143	-134	-136
Change in HEB, percent of potential GNP	0	-.9	.5	.2	-1.5	.6	0	.6	.1	-.2	-.1	.1	.4	-.1	-.1	0
Fiscal impetus measure (FI), percent	-3.3 *	-3.1 *	-5.3 *	-3.5 *	-3.8	-.6	.2	-1.3	-2.7	-1.2	-1.1	-.9	-1.5	-.4	-.4	-.4

a--actual *--calendar year

Note: Details may not add to totals due to rounding.

1. Staff projections. OMB's July deficit estimates are $282 billion in FY1991 and $348 billion in FY1992. CBO's March deficit estimates are $309 billion in FY1991 and $294 billion in FY1992.
2. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. 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 FY1990.
3. OMB's July deficit estimates, excluding deposit insurance spending, are $199 billion in FY1991 and $230 billion in FY1992. CBO's March deficit estimates, excluding deposit insurance spending, are $205 billion in FY1991 and $196 billion in FY1992.
4. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.3% potential output growth in the forecast period. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Recent Developments

Interest rates generally have fallen about one-quarter to one-half percentage point across the maturity spectrum since the last FOMC meeting. Weaker-than-expected economic data and soft money stock figures spurred the rally in fixed-income markets which then was reinforced by the easing in reserve availability signalled on August 6. Currently, federal funds are trading around 5-1/2 percent, down 1/4 percentage point from the level prevailing in early July.

In equity markets, broad stock price indexes have risen by around 3 to 5 percent over the intermeeting period, with announcements of major bank mergers boosting bank share prices even higher. However, intensified concerns about potential losses on commercial real estate and other assets depressed insurance company stocks and bonds. In the wake of the run on Mutual Benefit and the downgradings of several other major companies in the industry, life insurers have become concerned about liquidity, likely diminishing further the availability of credit to developers and to less-than-prime business borrowers.

M2 fell at a 4 percent annual rate in July, and information for early August provides little evidence of a turnaround. Flows into liquid retail deposits, although still running at a double-digit pace in July, had slowed in response to a leveling off of opportunity costs. Moreover, the rise in liquid deposits last month was more than offset by further sharp declines in small time deposits and money market fund shares. Households evidently have found returns offered on bond and equity funds attractive and also appear to have increased purchases of Treasury securities. Banks, meanwhile, have shown less interest in attracting time deposits by curtailing promotional activity and by holding down rates on such accounts: This hesitation perhaps reflects expectations of continued weak needs for funding. M3 was down in July as well. The runoff in large time deposits and other managed liabilities, which continued last month, was consistent with the weakness in depository credit.

Commercial banks added to their holdings of government securities in July, but, for the third time in the past four months, loans contracted, and total bank credit was left virtually unchanged. Some of the weakness in loans last month can be traced to transfers of assets from two failed banks to the FDIC's portfolio. However, even after adjustment for these transfers, total business loans declined, and real estate and consumer loans remained weak. A survey of senior loan officers at large banks taken in late July and early August indicates that a number of these institutions have further tightened standards on commercial real estate and business loans; a few banks, however, said that they had eased standards on business loans between May and August. The willingness to make consumer loans was unchanged.

Aggregate debt of nonfinancial business apparently remained sluggish in July, after historically low growth in the second quarter. Public offerings of bonds by investment-grade firms slowed in July, although the decline in long-term interest rates has spurred a pickup in issuance in August. Commercial paper outstanding rose last month, but the rise was more than offset by the decline in bank loans. Weak capital spending and fairly robust gross equity issuance has held down business borrowing. A significant portion of recent stock offerings were by lower-rated companies that had been taken private in LBOs and by corporations offering stock publicly for the first time.

In the residential mortgage market, interest rates on both adjustable- and fixed-rate home loans have fallen in recent weeks, with the latter down about 40 basis points. Lending standards in this market appear to have firmed a bit, and higher fees for FHA-insured loans, effective July 1, have significantly raised closing costs for that small segment of the market. The contraction in consumer credit that began last fall continued in June and bank data indicate weakness in July as well. Auto credit declined sharply again in July; to some extent, households may be substituting leasing arrangements for auto loans or relying more heavily on home equity lines for purchases of autos and other big-ticket items. Even excluding auto loans, however, installment credit growth in June was relatively weak.

The sluggishness in private sector borrowing contrasts sharply with the federal government's financing of a deficit of more than $90 billion in the current quarter. Borrowing is expected to reach about $100 billion for the quarter, boosted in part by acceleration in RTC spending to around $25 billion. In the market for tax-exempt securities, gross issuance dropped in July following an unusually strong pace in June. Because of widespread budget problems, capital projects in the state and local sector, which are typically financed partly out of current revenues and partly with long-term debt, have been curtailed. Moreover, credit quality remains a concern in the state and local sector, where the number of downgrades in the second quarter was nearly twice as large as upgrades. More recently, premiums on municipal bonds guaranteed by multi-line insurance companies increased following company downgradings.

Outlook

Although recent loan officer comments suggest that the tightening of credit availability at banks is diminishing, the weakness in the monetary aggregates and bank credit lately may indicate that earlier adjustments in lending practices are biting harder than we anticipated. And the liquidity concerns of life insurance companies appear to have led them to tighten credit supplies to private borrowers. With the commercial real estate sector faltering--and the declines to date in market values not fully recognized on the books of intermediaries--there clearly remains a risk that credit could tighten further. Even so, firms of some size that are deemed to be good credit risks have been able to borrow on relatively attractive terms, especially in the securities markets, and they likely will retain ready access to funds. As balance sheets improve over the coming year for both borrowers and lenders, intermediaries may be more inclined to expand their portfolios, and the impediments currently faced by smaller and lesser-rated borrowers should begin to dissipate.

The recent reductions in interest rates should help to limit the negative effects on credit market conditions of the problems at financial institutions. We assume that the federal funds rate will remain around its current level through the projection period. Other short-term market interest rates also are projected to remain near present levels while long-term rates edge lower. The decline in bond rates is consistent with a relatively mild pace of economic recovery and with downward revisions in the inflation expectations of investors, which should develop if wages and prices follow the path projected by the staff.

In the private sector, use of external funds by business should begin to pick up later this year as inventory restocking resumes and spending for equipment begins to recover. The increase in external financing through 1992 will be restrained, however, by continued difficulties in the commercial real estate sector. Moreover, despite the possibility of a modest step-up in debt-financed merger activity over the coming year, the generally more cautious attitude toward leveraging is likely to damp the growth of borrowing and encourage continued substantial equity issuance.

Demands for credit by the household sector are expected to increase slowly, reflecting the projected moderate rise in durable goods consumption and in residential construction. The supply of credit for this sector is not expected to be a restricting influence: The staff is not anticipating the kind of rise in consumer delinquencies that would hinder securitization or otherwise lessen the willingness of banks and finance companies to lend. Similarly, home mortgage credit is expected to remain in good supply, largely because of strong demand by investors for high quality, mortgage-backed securities, purchased either directly or through CMOs.

A significant rise in the growth of state and local government debt from current levels is not expected over the projection period. Budgetary difficulties are likely to inhibit borrowing well into the recovery even though there is, without doubt, an increasing backlog of capital spending programs requiring bond financing.

On balance, growth of debt in the nonfederal sectors is projected to remain well below the rise in nominal GNP. However, demand for credit by the federal government is expected to boost total debt growth to a rate above that of GNP. Over the remainder of this year, federal borrowing remains sizable partly because of the winding down of payments by foreign governments to the Defense Cooperation Fund and to an increase in outlays to support the operations of the FDIC and RTC. In 1992, federal borrowing is expected to be even larger, with deposit insurance needs again contributing significantly to the deficit.

GROWTH RATES OF DEBT BY SECTOR[1]
(Period-end to period-end)

	Domestic Nonfinancial Sectors			Households					Memo	
	Total[2]	U.S. govt.[2]	Non-federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets[3]	Nominal GNP[4]
Annual (percent)										
1982	9.3	19.4	6.9	5.4	4.5	4.4	7.8	9.1	10.3	3.1
1983	11.5	18.8	9.6	11.4	11.0	12.6	8.3	7.1	11.8	10.4
1984	14.4	16.9	13.7	12.9	11.7	18.7	15.6	7.9	13.4	8.6
1985	14.2	16.2	13.6	14.1	11.9	15.9	11.4	23.7	12.0	6.6
1986	12.3	13.4	12.0	12.8	14.9	9.6	12.0	7.6	9.1	4.6
1987	9.0	8.0	9.3	11.6	14.0	5.1	7.0	9.6	7.8	8.2
1988	9.1	8.0	9.5	10.9	12.2	7.2	8.2	8.2	8.7	7.8
1989	7.5	7.2	7.5	8.9	10.5	5.3	6.7	4.9	7.4	5.6
1990	6.5	12.0	4.9	7.3	9.1	1.8	2.9	2.3	4.4	4.5
1991	5.7	11.2	3.9	5.8	7.9	-1.2	2.0	3.0	4.5	4.7
1992	7.2	12.2	5.4	6.8	8.4	2.6	4.3	3.0	4.4	6.4
Quarterly (percent-SAAR)										
1989 -- Q1	8.2	7.0	8.6	9.2	10.6	5.1	8.4	6.6	7.5	7.5
Q2	7.2	4.6	7.9	8.0	9.7	4.9	8.3	5.4	8.0	5.8
Q3	7.2	8.0	6.9	8.7	10.2	4.8	5.6	4.6	8.4	5.1
Q4	6.4	8.3	5.9	8.5	9.6	5.7	3.8	2.6	4.6	3.9
1990 -- Q1	8.2	10.9	7.5	10.4	12.1	3.8	5.5	1.4	7.4	6.7
Q2	6.1	9.7	5.0	7.4	9.4	0.4	2.9	2.8	5.1	5.1
Q3	6.4	11.8	4.7	5.9	7.1	2.6	3.4	4.5	3.7	5.3
Q4	4.6	13.2	1.9	4.2	5.8	0.3	-0.2	0.5	1.0	0.9
1991 -- Q1	4.5	8.0	3.4	5.0	7.1	-2.9	2.0	1.1	5.8	2.5
Q2	4.6	9.2	3.1	5.6	7.8	-2.4	0.1	4.0	3.3	4.3
Q3	7.0	15.1	4.4	6.1	8.0	-0.0	2.6	3.7	4.7	4.9
Q4	6.2	10.7	4.6	6.1	8.0	0.6	3.3	2.8	3.9	7.0
1992 -- Q1	7.6	14.9	5.1	6.4	7.8	2.5	4.0	3.0	5.6	7.9
Q2	6.4	9.4	5.3	6.6	8.1	2.5	4.2	3.0	3.2	6.6
Q3	6.7	10.6	5.4	6.7	8.1	2.7	4.3	2.9	3.9	5.8
Q4	7.2	11.8	5.5	7.0	8.5	2.7	4.3	2.9	4.5	5.5

1. Published data through 1991:1; projections for other periods.
2. Deposit insurance activity adds roughly .8 percentage points to total debt and about 3 percentage points to federal debt growth in both 1991 and 1992.
3. Sometimes referred to as the "Kaufman debt proxy"; includes liquid assets and credit market instruments.
4. Annual figures are Q4 to Q4.

2.6.3 FOF

FLOW OF FUNDS PROJECTION HIGHLIGHTS[1]
(Billions of dollars, seasonally adjusted annual rates)

		Calendar year				----1990----		----------1991----------				----1992----	
		1989	1990	1991	1992	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
	Net funds raised by domestic												
1	nonfinancial sectors	554.0	578.2	596.5	784.9	581.7	421.6	457.7	499.8	766.0	662.4	773.3	796.6
2	Net equity issuance	-124.2	-63.0	-4.0	-15.0	-74.0	-61.0	-17.0	11.0	5.0	-15.0	-15.0	-15.0
3	Net debt issuance	678.2	641.2	600.5	799.9	655.7	482.6	474.7	488.8	761.0	677.4	788.3	811.6
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	33.9	37.1	-1.8	41.0	50.9	33.1	-17.5	-3.8	1.1	13.1	33.9	48.1
5	Net equity issuance	-124.2	-63.0	-4.0	-15.0	-74.0	-61.0	-17.0	11.0	5.0	-15.0	-15.0	-15.0
6	Credit market borrowing	211.9	99.8	69.8	152.8	119.4	-8.3	70.3	2.3	91.4	115.1	147.8	157.7
	Households												
7	Net borrowing, of which:	285.0	254.3	224.4	278.6	221.7	159.4	192.6	218.5	240.8	245.5	267.6	289.6
8	Home mortgages	221.6	214.1	211.1	240.0	183.7	150.9	189.3	209.9	220.0	225.0	230.0	250.0
9	Consumer credit	39.1	14.3	-9.7	20.8	21.3	2.5	-23.6	-19.6	-0.3	4.8	19.8	21.9
10	Debt/DPI (percent)[3]	89.8	93.1	96.9	96.9	95.9	96.1	96.9	97.3	97.9	97.6	96.6	97.0
	State and local governments												
11	Net borrowing	29.6	14.6	19.2	20.1	28.5	3.1	7.1	26.2	24.5	18.9	20.2	20.0
12	Current surplus[4]	-25.7	-30.9	-21.2	8.3	-35.7	-36.8	-37.9	-23.0	-14.6	-9.2	3.7	13.0
	U.S.government												
13	Net borrowing from public	151.6	272.5	287.2	348.5	286.1	328.4	204.7	241.8	404.2	297.9	352.7	344.3
14	Net borrowing from public[5]	151.6	272.5	287.2	348.5	68.4	98.7	55.8	43.0	97.8	90.6	164.0	184.5
15	Unified budget deficit[5]	155.0	236.1	309.7	331.9	57.9	86.2	65.6	25.7	92.6	125.8	137.2	194.7
	Funds supplied by												
16	depository institutions	92.8	-22.1	-59.1	-19.0	-60.6	-92.8	-10.0	-108.9	-67.2	-50.3	-28.4	-9.6
	Memoranda: As percent of GNP:												
17	Dom. nonfinancial debt[3]	181.7	186.3	191.7	191.7	189.3	191.1	192.0	192.2	193.2	192.9	191.1	192.3
18	Dom. nonfinancial borrowing	13.0	11.7	10.6	13.3	11.9	8.7	8.5	8.7	13.4	11.7	13.3	13.3
19	U.S. government[6]	2.9	5.0	5.1	5.8	5.2	5.9	3.7	4.3	7.1	5.2	5.9	5.6
20	Private	10.1	6.7	5.5	7.5	6.7	2.8	4.9	4.4	6.3	6.6	7.3	7.6

1. Published data through 1991:1; projections for other periods.
2. For corporations: excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by annual GNP.
4. NIPA surplus, net of retirement funds.
5. Quarterly data at quarterly rates, nsa.
6. Excludes gov't-insured mortgage pool securities.

2.6.4 FOF

Recent Developments

The weighted-average value of the dollar in terms of the other G-10 currencies has declined about 4 percent, on balance, since the July FOMC meeting. After rising early in the intermeeting period, the dollar fell sharply and then continued to decline throughout most of the period in response to news of sluggish U.S. money supply growth and weaker-than-expected economic data, including a drop in U.S. employment in July. These developments contributed to market expectations of U.S. monetary easing that were realized late in the period. The dollar has declined about 5 percent against the mark, as a surprisingly sharp rise in German consumer price inflation in July strengthened expectations that the Bundesbank would soon tighten monetary policy. The dollar is 2 percent lower against the Japanese yen. Scandals within the Japanese financial system have weakened the yen, and market expectations have formed that the Bank of Japan, which cut the discount rate early in July, might ease again in coming months. During the intermeeting period, German three-month interest rates rose about 30 basis points while Japanese three-month rates fell nearly that amount.

. The Desk's only intervention was sales of $100 million

Recent data present a mixed picture of economic performance in the major foreign industrial countries. Economic activity in the two strongest economies among the foreign G-7, Japan and Germany, has decelerated from extremely robust first-quarter rates. In Japan, industrial production, registrations of new passenger cars, and housing starts all dropped in recent months to rates below their first-quarter averages, while retail sales showed no net growth, bankruptcies increased, and labor market conditions eased. However, new machinery orders have remained strong, and capacity utilization, through May, was near its record high. In western Germany, industrial production and manufacturing orders rose in June, although their averages for the second quarter were below those for the first. Retail sales have also been weak. Unemployment in both eastern and western Germany increased in July. Several other G-7 countries where activity had been weak--particularly Canada--have recently shown signs of a pickup. Canadian industrial production and retail sales have continued to improve, suggesting that the economy revived significantly in the second quarter. Trends are less clear in France and Italy, but both countries show signs of improving performance. Indicators for the second quarter suggest that the recession continued in the United Kingdom. Industrial production and retail sales declined on average in the second quarter, but both rebounded in June.

The rate of inflation has changed little in most foreign G-7 countries, but Germany recorded a large increase in its year-on-year rate of consumer price inflation in July to 4-1/2 percent, only part of which is attributable to the introduction of new excise taxes. Earlier weakness of the DM in terms of the dollar has also been a factor behind recent increases in German prices. Consumer price inflation in Japan has edged up to about

3-3/4 percent in recent months, but underlying price pressures do not appear to have intensified.

The preliminary U.S. merchandise trade deficit was little changed in May from its revised April figure. Both exports and imports declined slightly in May, with most of the decline in exports accounted for by commercial aircraft while the decline in imports was widespread across most major trade categories. For April and May combined, the deficit narrowed moderately from the substantially improved first-quarter average. The fixed-weight price index for non-oil imports, reported in the GNP accounts, declined 2.7 percent at an annual rate during the second quarter, following increases of 4 to 5 percent at an annual rate in the previous three quarters. The average price for nonagricultural exports also fell in the second quarter, but by less than non-oil imports prices, after a smaller drop in the first quarter.

Outlook

Compared with the June Greenbook, the projected nominal trade and current account deficits for 1991 are slightly improved, largely because incoming data suggest that second-quarter merchandise trade was stronger than initially anticipated. The current forecast incorporates a slightly lower level for the dollar, weaker near-term growth in the United States, and about unchanged near-term growth abroad in comparison with the June projection. As a result, the projected decline in real net exports of goods and services over the forecast period is somewhat smaller. By the end of 1992, the current account deficit is projected to be about $40 billion.

The Dollar. The staff expects the foreign exchange value of the dollar against the other G-10 currencies to remain unchanged from recent levels over the forecast interval. Compared with the June Greenbook, the projected path of the dollar has been revised down by about 2 percent, an adjustment that appears consistent with the recent easing by the Federal Reserve. Against the currencies of eight developing countries, the dollar is expected to show a small depreciation on a CPI-adjusted basis through the end of the forecast period.

Foreign Industrial Countries. The staff outlook for real growth in the major foreign industrial countries is little changed from that presented in the June Greenbook. When weighted by shares in U.S. export sales, average growth in the foreign G-7 countries is projected to be about 1-3/4 percent at an annual rate during the second half of 1991, after no growth, on balance, during the first half of the year. This rate of growth is expected to be followed by continued steady recovery to average growth of about 3 percent by the end of the forecast period. Expectations of stronger growth in 1992 than during the second half of this year reflect the expected revival of activity in countries lately experiencing recessions or very weak growth and also a return to more rapid growth in Germany and Japan, after near-term adjustments.

The outlook for average consumer-price inflation in the major foreign industrial countries in 1991 has been nudged up slightly from that in June to just over 4 percent (fourth quarter to fourth quarter, GNP weights) reflecting mainly an upward revision (by about 1/2 percentage point) in German inflation this year to over 4-1/4 percent. Reassessment of the effects on prices of new taxes in Germany and of DM weakness earlier this year were factors in the revision. After a marked rise in the current quarter, German inflation is expected to remain near 3 percent during the balance of the forecast period. Average inflation in the foreign G-7 group is still expected to continue to ease to about 3-1/2 percent next year.

Although the staff has made some allowance for higher German interest rates in the very near term, on balance foreign monetary authorities are expected to maintain stances consistent with cautious easing of short-term nominal rates in a context of slowing inflation and recovering real demand. Short-term interest rates, on average, are expected to move down moderately during the forecast period; long-term interest rates are expected to decline as well, but by less.

Developing Countries. Growth in developing countries that are major U.S. trading partners is projected to increase moderately in 1991 to about 5-1/4 percent, on average, and to rise slightly further in 1992. All countries in this group are likely to have been affected negatively by the decline in growth in industrial countries earlier this year. However, government policies are sufficiently expansionary in several key developing countries to offset slower growth in external demand. In Mexico, for example, declines in domestic interest rates are expected to contribute to a moderate increase in growth to more than 4 percent this year. Lower average oil prices expected for this year also will be a net positive factor for developing country growth.

U.S. Real Net Exports of Goods and Services. Real net exports are expected to be little changed, on balance, over the forecast period. An improvement in the third quarter is expected to be unwound gradually over the remainder of the period. The contribution of real net exports to GNP growth is less negative in the current forecast than in the previous one, primarily because U.S. economic activity is expected to recover from recession less rapidly than previously projected and because of the slightly lower projected path for the dollar.

The growth of real exports of nonagricultural goods is projected to increase to a 9 percent annual rate in the second half of 1991 and in 1992 as growth abroad recovers. The quantity of computer exports is expected to continue to expand rapidly and to contribute nearly 2 percentage points to the growth rate for total export volume over the projection period. Agricultural exports are expected to strengthen somewhat in the second half of this year, largely because of the recent provision of credit guarantees to the Soviet Union, but to remain sluggish over the rest of the forecast period.

After increasing rapidly in the second quarter, the quantity of non-oil imports is projected to rise at about a 7-1/2 percent annual rate in the second half of the year and then to expand slightly more rapidly next year. The U.S. economic recovery and recent declines in the relative price of imports associated with the rise in the dollar are expected to stimulate demand for imports. Constant-dollar imports of computers are expected to grow especially rapidly and will add several percentage points to the growth rate for total non-oil imports. After increasing rapidly over the past two quarters, because of stockbuilding behavior, oil imports are projected to increase at a more moderate rate on average over the forecast period as oil consumption rebounds and U.S. production resumes its secular decline.

TRADE QUANTITIES*
(Percent change from end of preceding comparable period, annual rate)

				--- Projection ---	
	1990		1991		1992
		Q1	Q2	H2	
Nonagricultural exports	8.6	6.6	14.9	8.8	9.1
Agricultural exports	-6.1	13.1	-22.2	12.8	-1.4
Non-oil imports	1.4	-10.0	17.5	7.4	8.9
Oil imports	-12.3	23.4	83.6	0.4	9.1

* GNP basis, 1982 dollars.

Oil Prices. The outlook for oil prices in the near term has been raised somewhat since the June forecast, reflecting the market's concern over potentially tight supply conditions during the winter. The forecast now incorporates the assumption that oil import prices will rise to more than $19 per barrel by the end of this year, before returning to a flat $18-per-barrel path by the middle of next year (a level consistent with a posted price of $19.25 per barrel for West Texas Intermediate crude).

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports is projected to increase only slightly in the near term, reflecting recent and projected moderate increases in domestic producer prices. Export prices are expected to expand a bit faster next year. Non-oil import prices are projected to increase moderately in the current quarter and to rise only somewhat faster during the remainder of the forecast period; the rise in the dollar through the middle of this year should continue to depress the growth in import prices, outweighing the effects of the slight decline in the dollar from recent highs.

SELECTED PRICE INDICATORS
(Percent change from the end of preceding comparable period, annual rate)

				--- Projection ---	
	1990	1991			1992
		Q1	Q2	H2	
PPI (export-share wts.)	4.8	-1.9	-3.8	1.6	2.1
Nonagric exports (Fx-Wt)	4.0	-1.0	-1.8	0.5	1.9
Non-oil imports (Fx-Wt)	2.9	4.0	-2.7	1.5	2.5
Oil imports ($/barrel)	20.57	20.33	17.45	18.94	18.22

Nominal Trade and Current Account Balances. The merchandise trade deficit is estimated to have narrowed further in the second quarter, to just over $60 billion (annual rate), as a result of sluggish imports and expanding exports. Thereafter, the deficit is projected to widen gradually, returning to a level of close to $70 billion next year. Excluding the effects of transfer payments associated with the Gulf War, the current account deficit this year is projected to be roughly $40 billion, or about $25 billion less than the trade deficit. In 1992, the projected current account deficit fluctuates narrowly as a slight widening of the trade deficit is expected to be partly offset by net improvements in the nontrade portions of the current account (other than transfers), resulting in a current account deficit of about $40 billion at the end of the projection period.

NOMINAL EXTERNAL BALANCES
(Billions of dollars, SAAR)

		------- Projection -------			
	1990	1991			1992
		Q1	Q2	H2	
Trade Balance	-108.1	-73.5	-61.5	-64.2	-70.3
Current Account excl. Gulf War Cash Grants	-87.8	-49.9	-37.7	-37.0	-37.2
Gulf War Cash Grants	4.3	90.8	46.4	18.0	0.0
Current Account	-92.1	40.9	8.7	-19.0	-37.2

Within the nontrade portions of the current account, net service receipts are expected to expand steadily over the forecast period. Net investment income receipts are expected to decline from a level in the first quarter that had been pushed to abnormal heights by a transitory surge in the earnings of U.S. oil companies abroad. Through the forecast period, increases in net investment income receipts are projected to make a small positive contribution to narrowing the current account deficit, as they did in 1990.

With respect to transfer payments, total cash grants from foreign governments to support Operation Desert Storm are expected to amount to $43 billion this year. Payments received in the first quarter of this year totaled about $23 billion (not at an annual rate). An additional $11 billion was received in the second quarter, and a remaining $9 billion is expected in the third quarter. As a result, a current account surplus of $41 billion was recorded in the first quarter while a surplus of under $10 billion is projected for the second quarter. The current account is expected to move significantly into deficit over the remainder of this year.

August 14, 1991

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REAL GNP AND CONSUMER PRICES, SELECTED COUNTRIES, 1989-93
(Percent change from fourth quarter to fourth quarter)

Measure and country	1989	1990	Projection 1991	Projection 1992	Projection 1993
REAL GNP					
Canada	2.9	-1.1	-0.7	2.7	3.1
France	3.9	1.9	1.3	2.3	2.7
Western Germany	3.2	5.3	2.5	2.9	3.1
Italy	2.9	1.0	1.6	2.4	2.6
Japan	4.8	4.8	3.6	3.6	3.8
United Kingdom	1.3	-1.3	-0.1	2.0	2.1
Average, weighted by 1987-89 GNP	3.5	2.5	1.9	2.8	3.1
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	3.7	2.0	2.0	3.3	3.6
G-6	3.2	0.9	0.8	2.8	3.1
Developing countries	5.0	4.8	5.5	5.6	6.1
CONSUMER PRICES					
Canada	5.2	4.9	5.2	3.4	3.6
France	3.6	3.6	2.7	3.3	3.4
Western Germany	3.0	3.0	4.3	3.0	2.9
Italy	6.6	6.3	6.2	5.2	5.1
Japan	2.9	3.5	3.1	3.0	2.7
United Kingdom	7.6	10.0	4.7	4.6	4.1
Average, weighted by 1987-89 GNP	4.4	4.9	4.1	3.6	3.5
Average, weighted by share of U.S. non-oil imports	4.2	4.5	4.2	3.4	3.3

OUTLOOK FOR U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	ANNUAL			1991				1992				1993
	1991-P	1992-P	1993-P	Q1	Q2	Q3-P	Q4-P	Q1-P	Q2-P	Q3-P	Q4-P	Q4-P
1. GNP Real Net Exports (82$)	-8.6	-16.9	-21.0	7.1	-18.6	-11.6	-11.5	-13.2	-16.4	-18.0	-19.9	-22.3
a. Exports of G+S	660.8	702.3	744.5	648.0	653.9	664.9	676.2	687.0	697.1	707.0	717.9	761.2
Merchandise	458.3	498.5	536.1	441.4	453.3	465.0	473.5	484.2	493.9	503.2	512.6	550.8
Services	202.6	203.9	208.5	206.7	200.7	200.1	202.7	202.9	203.3	204.0	205.5	210.5
b. Imports of G+S	669.5	719.2	765.6	641.0	672.6	676.6	687.8	700.3	713.6	725.1	737.9	783.6
Merchandise	530.6	580.5	626.2	501.7	533.2	538.5	549.0	562.2	575.1	586.8	597.9	643.2
Oil	98.5	108.3	117.4	87.8	102.2	101.5	102.4	104.8	107.1	109.5	111.7	120.9
Non-oil	432.2	472.2	508.8	414.0	431.0	437.0	446.6	457.4	467.9	477.3	486.1	522.2
Services	138.9	138.8	139.4	139.2	139.4	138.1	138.8	138.1	138.6	138.3	140.1	140.4
Memo:												
Percent Changes (AR) 1/												
Exports G+S	4.5	6.2	6.0	0.5	3.7	6.9	7.0	6.5	6.0	5.8	6.3	6.2
of which: Merchandise	9.2	8.2	7.5	7.2	11.2	10.7	7.6	9.3	8.3	7.7	7.7	7.6
Imports G+S	4.8	7.3	6.2	-8.8	21.2	2.4	6.8	7.5	7.8	6.6	7.3	6.8
of which: Non-oil Merch.	5.1	8.9	7.4	-10.0	17.5	5.7	9.0	10.0	9.6	8.3	7.6	7.1
2. U.S. Current Account Balance	2.9	-37.2	-39.1	40.9	8.7	0.2	-38.1	-34.7	-35.9	-36.4	-41.8	-42.2
a. Merchandise Trade, net	-65.8	-70.3	-78.0	-73.5	-61.5	-62.2	-66.1	-68.0	-69.3	-71.0	-72.7	-80.4
Exports	422.0	461.8	495.6	403.4	418.5	428.6	437.5	447.9	457.7	466.5	475.1	508.5
Agricultural	40.1	41.8	43.2	39.7	38.6	41.3	40.7	41.4	41.9	41.8	42.2	44.1
Nonagricultural	381.9	420.0	452.3	363.7	379.8	387.4	396.8	406.4	415.8	424.7	432.9	464.4
Imports	487.8	532.1	573.6	476.9	479.9	490.8	503.6	515.9	526.9	537.6	547.8	588.9
Oil	55.1	58.9	63.2	52.6	52.8	56.4	58.4	58.8	58.1	58.7	60.0	65.1
Non-oil	432.7	473.2	510.4	424.3	427.1	434.4	445.2	457.2	468.8	478.9	487.8	523.7
b. Other Current Account	68.7	33.1	38.9	114.3	70.2	62.4	28.0	33.4	33.4	34.6	30.9	38.2
Investment Income, net	11.1	8.1	9.6	18.6	10.0	8.0	7.9	9.1	8.5	8.4	6.4	9.5
Direct, net	50.4	43.6	46.5	60.6	51.7	44.5	44.7	43.8	43.8	43.3	43.5	47.8
Portfolio, net	-39.2	-35.5	-36.9	-42.0	-41.7	-36.5	-36.8	-34.7	-35.3	-35.0	-37.2	-38.2
of which: Gov't Payments	37.1	36.5	38.8	38.5	37.3	36.7	35.8	35.7	36.1	36.7	37.4	39.4
Military Transactions, net	-5.6	-2.1	-1.3	-8.7	-6.8	-4.8	-2.0	-2.4	-2.8	-2.0	-1.2	-1.6
Other Services, net	39.2	44.8	48.3	36.7	37.6	40.2	42.2	43.7	44.7	45.2	45.8	50.3
Unilateral Transfers, net	24.0	-17.8	-17.8	67.8	29.4	19.0	-20.0	-17.0	-17.0	-17.0	-20.0	-20.0

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