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Strictly Confidential (FR) Class II FOMC

September 25, 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 suggests, on balance, that the economy has held to a course of slow and uneven recovery from recession. Manufacturing activity has continued to grow at a substantial pace, but the recovery in housing construction showed signs of faltering at midsummer, and much of the service-producing sector remains engaged in a consolidation effort that has sharply limited the pace of new hiring.

Despite areas of weakness in the incoming data, the overall tone of recent information has been broadly consistent with the expectations incorporated in the past Greenbook. Accordingly, we still estimate real GNP to have expanded at an annual rate of almost 3 percent in the third quarter. Looking ahead, growth is expected to pick up a little in the next few quarters, boosted in part by the end of the inventory liquidation that persisted into the summer. Growth is then projected to taper a bit toward the end of 1992, as gains in production come into closer alignment with increases in final demand. This pattern is largely the same as that in the August Greenbook. Although the continuing weakness in credit flows certainly does nothing to allay concerns that the recovery is being hampered by the problems of intermediaries, the recent declines in interest rates and in the foreign exchange value of the dollar should help sustain growth in coming quarters.

The outlook for inflation in this projection is similar to that in the last Greenbook. As before, we expect continued slack in labor and product markets to reduce the trend rate of inflation significantly over the forecast period.

Current-Quarter Developments

Recent data on labor inputs support the projection of a moderate increase in aggregate activity in the third quarter, paced by gains in the industrial sector. The August employment report showed a sizable rise in aggregate hours worked in the private nonfarm economy, reversing much of the sharp decline registered in July; the average level of aggregate hours in July and August was about unchanged from its second-quarter average. Allowing for some cyclical upswing in labor productivity, these data on hours worked appear to be consistent with a moderate increase in real GNP this quarter.

CURRENT-QUARTER PROJECTIONS
(Percent change, annual rate)

	1991		
	Q1	Q2	Q3
			-Projection-
Real GNP	-2.8	-.1	2.8
(August projection)	(-2.8)	(.4)	(2.9)
Industrial production	-9.7	2.6	7.8
(August projection)	(-9.7)	(1.7)	(6.1)

In manufacturing, employment continued to trend higher in July and August, and the level of industrial production in August was about 1-3/4 percent above the second-quarter average (not at an annual rate). Domestic assemblies of motor vehicles turned down in August after rising sharply between February and July; however, weekly data indicate that the assembly rate rebounded smartly during the first half of September, and we expect vehicle production alone to contribute about 1 percentage point to the growth of real GNP in the third quarter.

In contrast to the continued recovery in the industrial sector, housing activity appears to have lost much of the momentum evident through the spring. Starts of new single-family homes edged only slightly higher between June and August, and a drop in permits calls into question even that uptrend. In addition, sales of new homes weakened in July, and sales of existing homes declined in both July and August. Meanwhile, activity in the multifamily market remains depressed. Despite the sluggish tone of these recent reports, real residential investment outlays should rise sharply in the third quarter, as construction continues to move up in lagged response to the earlier jump in single-family starts.

Real consumer spending appears likely to register a substantial gain in the current quarter. Even with the decline in retail sales in August, the staff estimates that the average level of real PCE for goods excluding motor vehicles in July and August was roughly 1 percent above the second-quarter average (not at an annual rate). Sales of light motor vehicles slipped in August after two months in which activity had been boosted by a bunching of purchases by the daily rental companies. However, during the first twenty days of September, sales of domestically produced vehicles moved back up to the average level recorded in June and July. On balance, we expect real consumer spending to advance at an annual rate of about 3-3/4 percent in the third quarter, a significant upward revision from the rise projected in the August Greenbook. At the same time, real disposable income is estimated to have grown at an annual rate of only 1-3/4 percent in the third quarter, with the personal saving rate having fallen to 3-3/4 percent.

In the business sector, recent information suggests that companies remain cautious about expanding capital outlays. New orders for nondefense capital goods (excluding aircraft) apparently hit bottom in the second quarter, but they have moved up little on net from that level in recent months; shipments of these capital goods have remained stagnant in nominal terms, though the downtrend in computer prices implies an appreciable rise in real shipments of office and computing equipment. Based on these data, we expect real equipment spending to edge up in the third quarter. Outlays for nonresidential construction are expected to post another large quarterly decline, as the July level of spending (the latest reading) stood well below the second-quarter average; contracts and permits do not signal any end in the near term to the ongoing slide.

With regard to inventory investment, the available data indicate that substantial drawdowns persisted through July.[1] However, anecdotal reports suggest that some businesses have moved to stem the depletion of stocks, and we have assumed that some of the increase in imports in July will show up in inventories. Taking account of these considerations, the staff estimates that the

1. The latest reports also show considerably larger liquidations of wholesale and retail stocks in June than previously reported. Accordingly, the final estimate of second-quarter GNP (to be released on September 26) likely will indicate that the pace of nonfarm inventory liquidation was faster than the $21 billion annual rate currently estimated. Because the staff's "best change" methodology forecasts the growth rate of activity, the projected levels of inventory investment are forced to conform with existing historical data, even when we expect these data to be revised. For this reason, the levels of inventory investment shown in the forecast for 1991:Q3 and later periods probably are overstated by several billion dollars.

liquidation of nonfarm inventories continued in the third quarter, but at a little slower pace than in the spring and early summer.

Recent information on inflation has been slightly more favorable than we had expected at the time of the last FOMC meeting, mainly because of developments in food and energy prices. Consumer food prices, pushed down by another decline in prices of fruits and vegetables, fell in August for the second straight month; although these declines are not likely to persist, price increases for other components of the CPI for food have continued to be only 0.1 percent to 0.2 percent per month. Consumer energy prices fell again in August and are expected to show a decline for the third quarter despite the probability that gasoline prices (after seasonal adjustment) will rise somewhat in September in lagged response to a tightening of inventories over the summer. The 0.4 percent increase in the CPI excluding food and energy in August likely overstates the current trend in "core" inflation; the increases reported for apparel and tuition undoubtedly were exaggerated by problems with seasonal adjustment. Overall, the CPI probably will increase this quarter at an annual rate of less than 3 percent.[2]

The Outlook through 1992

Much uncertainty still surrounds the strength of the recovery, and we cannot rule out the possibility that growth will flag under the weight of fiscal restraint, dislocations among financial

2. The GNP deflator is expected to rise at an annual rate of only 1-1/2 percent in the current quarter, due in part to BEA's use of seasonal factors that yield larger declines in consumer food and energy prices than in the CPI. The deflator also is expected to be held down because of differences between the CPI and the PCE deflator in the weights assigned to certain items. The small increase in the deflator implies that relatively slow growth in nominal GNP this quarter (4-1/2 percent at an annual rate) is expected to be consistent with an appreciable gain in real GNP.

intermediaries, and the working off of excess capacity in real estate markets. However, these problems have been afflicting the economy for some time now, and past Greenbook projections have attempted to account for their restraining effect on aggregate activity. Given little evidence to indicate that these problems have recently intensified, we continue to believe that the most likely outcome for the economy over the forecast period will be a relatively subdued, but sustained, upswing in activity.

We look for the growth of real GNP to pick up slightly in coming quarters to a 3-1/4 to 3-1/2 percent annual rate, lifted initially by a positive swing in inventory investment. As the boost from inventory investment begins to wane in mid-1992, growth is sustained at a pace above that of potential output by a strengthening of final sales.

PROJECTIONS OF REAL GNP AND RELATED ITEMS
(Percent change, annual rate)

	1991			1992		
	Q2	Q3	Q4	Q1	Q2	H2
		-----------Projection-----------				
Real GNP	-.1	2.8	3.2	3.6	3.5	3.2
Real GDP	.8	2.7	3.3	3.5	3.6	3.3
Final sales excl. CCC	-.6	2.8	1.7	2.2	2.6	2.8
Memo:						
Real GNP (1987 dollars)	1.2	2.4	2.7	3.3	3.5	3.1

The forecast continues to show a notable slowing in wage and price inflation over the projection period. We expect the unemployment rate to remain near its current level of 6-3/4 percent through year-end and then to edge down only to 6-1/2 percent by the end of 1992. As a result of this labor market slack and some further reduction in inflation expectations, increases in hourly compensation are expected to slow steadily over time. The underlying trend in inflation, as measured by the CPI excluding food and energy, is projected to move down as well, dropping to around 3-1/2 percent in late 1992.

PROJECTIONS OF INFLATION
(Percent change, annual rate)

	1991				1992	
	Q1	Q2	Q3	Q4	H1	H2
			---------Projection---------			
Consumer price index	3.6	2.1	2.8	3.8	3.9	3.4
Excl. food and energy	6.8	3.5	4.2	3.8	3.9	3.5
ECI hourly compensation	4.6	4.9	4.4	4.3	4.1	3.9
Memo: Civilian unemployment rate (percent)	6.5	6.8	6.8	6.8	6.7*	6.5*

*Projection for 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 August projection. In the current projection, we assume that the funds rate will remain around 5-1/4 percent throughout the forecast period. The decline in long-term rates since the last Greenbook has been greater than we had anticipated, but a further edging off in long rates is expected as private credit demands pick up only a little and disinflationary trends in the economy are fully recognized. Constraints on credit availability are expected to increase gradually as the expansion progresses and asset quality improves.

M2 and M3 are projected to accelerate slightly over the remainder of 1991, boosted by a pickup in nominal income growth and by an abatement of the unusual portfolio shifts in recent quarters; these shifts had been prompted by a widening of spreads of long-term yields and consumer credit rates over M2 own rates. However, ongoing declines in depository credit will continue to damp the increases in both aggregates. M2 is expected to end the year close to the bottom of its target range of 2-1/2 percent to 6-1/2 percent. Similarly, we project M3 to finish 1991 around the lower bound of its range of 1 percent to 5 percent. In 1992, M2 is expected to accelerate broadly in line with the rise in growth of nominal GNP. Nonetheless, the growth of M2 is projected to remain below that of GNP, implying a further increase in velocity. The 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.[3] As a result, federal fiscal policy is assumed to impose a small amount of restraint on aggregate demand. Nonetheless, the staff has raised its estimate of the unified deficit in FY1991 another $6 billion, to $276 billion, reflecting the continued shortfall of tax receipts relative to expectations and the lower path for personal income in this projection. With the weakness in tax receipts projected to persist, the deficit anticipated for FY1992

3. This forecast does not incorporate the modest increment to expenditures associated with pending legislation to provide additional unemployment insurance benefits to the long-term unemployed. See the appendix to part II of the Greenbook for further discussion of this legislation.

has been raised about $13 billion, to $356 billion. Excluding outlays for deposit insurance and foreign contributions related to Operation Desert Storm, the deficit is expected to be $251 billion in FY1991 and $245 billion in FY1992.

The foreign exchange value of the dollar has fallen somewhat further in recent weeks in response to the continued decline in U.S. interest rates. Over the forecast period, the dollar is expected to remain at its recent level, about 1-1/2 percent below that projected in the August Greenbook. This change has only marginal effects on the forecast for real activity and prices. The average pace of economic activity in the other G-7 countries was stronger in the second quarter than had been anticipated in the August Greenbook. Although the second-quarter surprise implies a somewhat higher level of foreign GNP over the forecast period, the outlook for growth abroad remains unchanged. We continue to expect that growth in the other major industrial countries will pick up to an average annual rate of nearly 3 percent by the middle of next year. The projected path for crude oil prices is little changed from that in the August Greenbook. We assume that the posted price for West Texas Intermediate, currently at about $20.50 per barrel, will decline to $19.25 by the middle of 1992, where it remains for the remainder of the forecast period.

Consumer spending and income. Real consumer expenditures are expected to rise at an average 2-3/4 percent annual rate over the second half of this year and about 3 percent during 1992, a modest expansion by the standards of previous cycles. Gains in real disposable income likely will be constrained not only by the slow recovery in real activity, but also by increases in excise and income taxes. In addition, we do not anticipate any substantial rise in household wealth relative to income; house prices are not likely to post large gains in the next few years, and stock prices have already been lifted by the expectation of a sizable improvement in profits. This outlook for asset values argues against any decline in the personal saving rate from its currently low level.

Among the components of PCE, spending for durable goods is likely to be limited by an additional factor--the absence of significant pent-up demand. Stocks of consumer durables grew rapidly over the 1980s and held up better during the recent mild recession than in previous cyclical downturns. Accordingly, although we expect purchases of motor vehicles and other durables to rise in coming quarters, these increases are quite small compared with the average experience during the early stages of past economic upswings.

Business fixed investment. Real BFI is expected to post little net change in the near term, as a projected firming in equipment spending is offset by further deterioration in nonresidential construction activity. Virtually all of the projected increase in equipment outlays through year-end reflects stronger spending on computing equipment; industry analysts indicate that computer purchases will be boosted by large-scale shipments of IBM's new generation of mainframes. The fall-off in construction outlays over the remainder of the year is expected to be most pronounced for office and other commercial buildings. Despite the substantial decline in commercial construction over the past several years, the sector remains severely overbuilt, and rents and property values continue to be marked down.

Over 1992, we expect real BFI to expand about 5-1/2 percent, paced by a widespread advance in equipment spending. These gains reflect our belief that business managers will become increasingly confident about the economy's growth prospects and that rising profits will increase the pool of internal funds to finance desired projects. In addition, the continued improvement in corporate balance sheets may better position firms for increased capital expenditures. Nonetheless, because the gains in overall economic activity are expected to be subdued over the forecast period, the 8 percent rise in real equipment outlays projected for 1992 is considerably smaller than the average gain recorded in the early part of past expansions. With regard to nonresidential construction, activity is projected to decline further next year, though at a slower pace than in recent quarters. Commercial building is expected to continue falling from its already low level, while factory construction is projected to firm in response to a rising rate of plant utilization.

Housing. The staff continues to expect a gradual expansion of housing construction through the end of next year. Total housing starts are projected to increase only to an annual rate of 1-1/4 million units by the end of 1992, well below the 1.7 to 1.8 million unit pace observed through most of the 1982-90 expansion. The bulk of the shortfall relative to this previous period is expected to be in the multifamily sector. The outlook for this sector remains bleak, reflecting the relatively slow growth projected for the young adult population and the historically high vacancy rates still prevailing in many locales. Starts in the single-family sector are expected to advance moderately over the forecast period, boosted by the recent and projected declines in mortgage rates, by growth in employment and real income, and by a diminution of uncertainty about the economic outlook. Nonetheless, the prospect of limited investment returns from homeownership is likely to damp the pickup in demand for new homes.

Government sector. Real federal purchases of goods and services are expected to trend down at an annual rate of about 4-1/2 percent through the end of 1992. The decline in spending is driven by sizable cutbacks in defense outlays for both personnel and procurement. The budget agreement reached last fall mandates annual reductions in real defense spending of 3 percent to 4 percent through 1993, and this restraint is compounded by a steady decline in purchases related to Operation Desert Storm. In contrast, nondefense purchases are expected to rise at an average annual rate of about 5 percent through the end of next year, reflecting increases in spending on space exploration, law enforcement, and health research.

In the state and local sector, we continue to expect that actions to deal with fiscal imbalances will restrain spending through the end of 1992. The sharp reduction in employment by state and local governments during July and August provides clear evidence of these actions. We expect real state and local purchases to edge up during the fourth quarter and to rise about 1-1/2 percent during 1992; these increases are well below the spending growth recorded in earlier expansions. In addition, state and local governments are expected to enact significant further increases in sales and income taxes over the next year. The spending restraint and additional taxes, in combination with the recovery in business activity, are expected to bring the sector's budget--as measured by the NIPA operating and capital accounts (excluding retirement funds)--into balance by late 1992.

Net exports. The external sector is anticipated to be essentially a neutral influence on real GNP growth over the projection period, a bit more favorable outlook than we had in the August Greenbook. This revision mainly reflects a small upward adjustment to the growth of merchandise exports, spurred by the slightly lower level of the dollar. With this revision, we now expect real exports of goods and services to advance about 7 percent during 1992. However, this increase is expected to be roughly matched by a rise in imports, as the U.S. expansion gains momentum and the rise in import prices remains a shade below the rate of inflation for domestically produced goods. A more detailed discussion of these projections is presented in the International Developments section.

Labor-market developments. Employment growth has been negligible thus far in this recovery, and we anticipate that hiring will remain quite slow for an extended period. In large part, these small gains in employment reflect the relatively slow recovery in output. Moreover, by making better use of workers already on their payrolls, firms should be able to meet increases in demand without much additional hiring, which implies sizable gains in labor productivity--a typical cyclical pattern. Employment growth also is likely to continue to be held down by structural adjustments in some service-producing industries. All told, we project that labor productivity in the nonfarm business sector will rise at an annual rate of more than 3 percent during the second half of this year and 2-1/4 percent next year.

The recent data also indicate that the perception of limited employment opportunities has discouraged potential job seekers from entering the labor force. We anticipate that this factor will continue to restrain labor force participation over the forecast period, though we do expect some recovery from the quite low participation rates in recent months. Compared with the projection in the August Greenbook, we have pared the expected growth of both employment and the labor force. These adjustments are largely offsetting and leave the projected unemployment rate at the end of 1992 only 0.1 percentage point above that in the past Greenbook.

Growth in hourly compensation (as measured by the employment cost index) is projected to average between 4-1/4 percent and 4-1/2 percent during the second half of 1991, a slowing of nearly 1/2 percentage point from the increases in the first half of the year. With the margin of labor market slack projected to remain relatively wide next year, and with year-on-year price increases down substantially from the levels of 1990 and early 1991, we expect employers to reduce nominal compensation increases further in 1992. However, the amount of deceleration in labor costs likely will be limited by the difficulty in slowing--or offsetting with lower wages--the ongoing increases in costs for employee benefits. Cost for health insurance, unemployment insurance, and workers' compensation are anticipated to be especially troublesome in the next several quarters. On balance, the rise in ECI hourly compensation is expected to move just below a 4 percent annual rate during the second half of next year, a touch more deceleration than was built into the August projection.

Prices. The underlying trend in consumer price inflation is expected to slow considerably over the projection period, reflecting the persistent slack in labor markets and plant utilization as well as intense competition from foreign producers. Accordingly, the CPI excluding food and energy is projected to run a bit less than 4 percent at an annual rate for the rest of the year and to slow another 1/2 percentage point by the latter part of 1992. However, this improvement in trend inflation is masked in the total CPI by an upturn in energy prices after the sizable decline earlier this year and by some pickup in food price inflation from the extremely low level anticipated for 1991 as a whole. Even so, the increases in consumer food and energy prices over 1992 are expected to be only 3-1/2 percent and 2-3/4 percent, respectively. The drought this past summer was not sufficiently severe or widespread to have much effect overall on agricultural supplies, and the projected easing in crude oil prices holds the rise in retail energy prices next year below the 3-1/2 percent increase expected for the total CPI.

September 25, 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)	
	8/14/91	9/25/91	8/14/91	9/25/91	8/14/91	9/25/91	8/14/91	9/25/91	8/14/91	9/25/91
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	3.6	3.4	-.1	-.3	4.0	4.0	4.3	4.2	6.7	6.7
1992	6.5	6.1	3.1	3.1	3.6	3.3	3.7	3.5	6.5	6.6
1993	5.8	6.0	2.9	3.1	3.3	3.2	3.4	3.4	6.2	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
91 Q1 <2>	2.2	2.2	-2.8	-2.8	5.2	5.2	3.6	3.6	6.5	6.5
Q2 <2>	4.6	4.2	.4	-.1	3.0	3.0	2.1	2.1	6.8	6.8
Q3	4.9	4.5	2.9	2.8	2.5	2.1	3.3	2.8	6.8	6.8
Q4	7.0	5.8	3.6	3.2	3.9	3.4	4.1	3.8	6.8	6.8
1992 Q1	7.9	7.2	3.9	3.6	4.3	4.1	4.1	4.1	6.6	6.7
Q2	6.6	6.8	3.1	3.5	3.5	3.4	3.6	3.6	6.5	6.7
Q3	5.8	6.3	2.8	3.4	3.3	3.2	3.6	3.4	6.5	6.6
Q4	5.5	5.8	2.7	3.1	3.2	3.0	3.5	3.4	6.4	6.5
1993 Q1	6.4	6.5	3.0	3.1	3.8	3.7	3.4	3.4	6.3	6.4
Q2	5.5	5.7	2.8	3.0	3.1	3.0	3.3	3.3	6.2	6.3
Q3	5.5	5.7	2.9	3.2	2.9	2.9	3.2	3.2	6.1	6.2
Q4	5.2	5.3	2.7	2.8	2.9	2.9	3.1	3.2	6.0	6.1
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>	3.4	3.2	-1.2	-1.5	4.1	4.1	2.8	2.8	.9	.9
Q4	5.9	5.1	3.2	3.0	3.2	2.7	3.7	3.3	.0	.0
1992 Q2	7.2	7.0	3.5	3.6	3.9	3.8	3.9	3.9	-.3	-.1
Q4	5.7	6.0	2.7	3.2	3.2	3.1	3.5	3.4	-.1	-.2
1993 Q2	6.0	6.1	2.9	3.1	3.4	3.4	3.4	3.3	-.2	-.2
Q4	5.4	5.5	2.8	3.0	2.9	2.9	3.2	3.2	-.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	4.7	4.2	1.0	.8	3.7	3.4	3.2	3.1	.9	.9
92 Q4	6.4	6.5	3.1	3.4	3.6	3.4	3.7	3.6	-.4	-.3
3 Q4	5.7	5.8	2.9	3.0	3.2	3.1	3.3	3.3	-.4	-.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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September 25, 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	5465.2	5652.4	5999.7	6361.2
Real GNP	Billions of 82$	3618.7	3717.9	3845.3	4016.9	4117.7	4157.3	4146.0	4275.9	4409.8
Real GNP	Percent change*	3.6	1.9	5.0	3.5	1.8	.5	.8	3.4	3.0
Real GDP		3.8	2.3	5.0	3.5	1.7	.4	.9	3.4	3.0
Gross domestic purchases		4.3	2.1	4.2	2.6	1.1	-.5	.8	3.5	3.0
Final sales		4.6	2.7	3.1	4.5	1.7	1.6	.3	2.6	3.0
Private dom. final purchases		4.6	2.9	2.5	4.0	1.2	-.1	.6	3.6	3.5
Personal consumption expend.		4.6	3.8	2.3	4.1	1.2	.1	1.7	2.9	2.7
Durables		7.0	11.5	-1.2	9.3	-1.4	-1.8	-.1	4.5	3.0
Nondurables		3.3	2.9	1.3	2.4	.6	-2.4	1.5	2.1	2.2
Services		5.0	2.1	4.1	3.7	2.4	2.5	2.3	2.8	2.9
Business fixed investment		3.7	-5.5	6.1	5.3	4.5	2.2	-4.9	5.5	6.3
Producers' durable equipment		4.6	.4	8.2	8.2	5.4	4.6	-2.5	8.2	8.0
Nonresidential structures		1.9	-17.7	.8	-2.7	1.7	-5.4	-13.4	-5.4	-1.3
Residential structures		5.8	11.6	-2.2	-.1	-7.1	-10.2	.6	9.8	8.2
Exports		-2.4	10.6	19.8	14.0	10.1	5.8	4.8	7.3	6.7
Imports		4.5	10.0	10.4	5.5	4.5	-.5	5.0	7.6	6.5
Government purchases		8.6	3.1	2.0	1.1	.3	3.8	-.7	-1.1	.9
Federal		13.3	.5	1.5	-1.6	-2.8	5.2	-.8	-4.6	-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	-.7	1.4	3.0
Change in business inventories	Billions of 82$	9.1	5.6	22.8	23.6	23.8	-3.6	-20.5	18.3	27.3
Nonfarm	Billions of 82$	13.4	8.0	28.7	26.5	18.7	-5.1	-18.2	19.7	27.7
Net exports	Billions of 82$	-104.3	-129.7	-118.5	-75.9	-54.1	-33.8	-8.1	-11.2	-12.7
Nominal GNP	Percent change*	6.6	4.6	8.2	7.8	5.6	4.5	4.2	6.5	5.8
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	97.5	99.5	102.2	105.5	108.3	110.0	109.0	109.9	112.0
Unemployment rate	Percent	7.2	7.0	6.2	5.5	5.3	5.5	6.7	6.6	6.2
Industrial production index	Percent change*	1.9	1.4	6.5	4.5	1.1	.3	1.5	5.8	3.8
Capacity utilization rate-mfg.	Percent	79.5	79.0	81.4	83.9	83.9	82.3	78.6	80.9	81.9
Housing starts	Millions	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.18	1.31
Auto sales	Millions	11.03	11.44	10.23	10.65	9.89	9.51	8.50	9.06	9.40
Domestic	Millions	8.22	8.22	7.06	7.55	7.06	6.90	6.21	6.60	6.84
Foreign	Millions	2.82	3.22	3.18	3.10	2.83	2.60	2.29	2.46	2.56
INCOME AND SAVING										
Nominal personal income	Percent change*	6.6	5.8	8.1	7.6	6.8	5.6	3.9	6.5	6.1
Real disposable income	Percent change*	2.7	3.3	2.7	4.3	1.7	-.4	1.3	2.7	2.9
Personal saving rate	Percent	4.4	4.1	2.9	4.2	4.6	4.6	4.0	3.9	4.2
Corp. profits with IVA & CCAdj	Percent change*	9.2	-5.6	17.4	8.2	-16.8	-.7	7.0	20.2	10.5
Profit share of GNP	Percent	7.0	6.7	6.8	6.9	6.0	5.5	5.2	5.9	6.2
Federal govt. surplus/deficit	Billions of $	-196.9	-206.9	-158.2	-141.7	-134.3	-166.1	-180.6	-207.1	-205.8
State and local govt. surplus		65.1	62.8	51.0	46.5	46.4	35.4	43.0	71.9	83.2
Exc. social insurance funds		13.8	5.6	-8.3	-16.4	-19.9	-34.0	-29.2	-3.8	3.9
PRICES AND COSTS										
GNP implicit deflator	Percent change*	2.9	2.6	3.0	4.1	3.7	4.0	3.4	3.0	2.7
GNP fixed-weight price index		3.3	2.6	3.8	4.6	4.0	4.8	3.4	3.4	3.1
CPI		3.5	1.3	4.5	4.3	4.6	6.3	3.1	3.6	3.3
Exc. food and energy		4.3	3.9	4.3	4.5	4.3	5.3	4.5	3.7	3.3
ECI hourly compensation		3.9	3.2	3.3	4.8	4.8	4.6	4.5	4.0	3.7
Nonfarm business sector										
Output per hour		1.6	1.3	2.3	1.8	-1.4	-.1	1.6	2.2	1.3
Compensation per hour		4.6	4.9	3.8	4.2	2.5	4.6	4.4	4.0	3.7
Unit labor costs		3.0	3.6	1.5	2.3	4.0	4.7	2.8	1.7	2.4

* Percent changes are from fourth quarter to fourth quarter.

CONFIDENTIAL - FR
CLASS II FOMC

September 25, 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	5615.8
Real GNP	Billions of 82$	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1	4170.0	4153.4	4124.1	4123.0
Real GNP	Percent Change	3.6	1.6	1.7	.3	1.7	.4	1.4	-1.6	-2.8	-.1
Real GDP		3.5	2.1	1.4	-.1	1.8	1.2	.7	-2.1	-3.0	.8
Gross domestic purchases		1.2	1.8	2.8	-1.2	.5	1.3	1.6	-5.1	-4.3	2.0
Final sales		2.4	1.7	1.8	.9	3.8	-.7	1.9	1.4	-2.9	.2
Private dom. final purchases		.8	1.4	4.1	-1.5	2.4	-1.2	2.3	-3.8	-5.1	2.1
Personal consumption expend.		-.3	1.3	4.6	-.8	1.1	.2	2.7	-3.4	-1.5	2.8
Durables		-6.0	5.6	9.6	-13.0	14.4	-9.5	2.6	-12.3	-11.7	-1.3
Nondurables		.6	-1.7	3.9	-.2	-3.2	-1.9	2.3	-6.5	-1.8	2.7
Services		.9	2.1	3.5	3.1	.1	5.1	3.0	1.8	2.1	4.1
Business fixed investment		8.9	6.9	6.3	-3.8	5.0	-4.7	8.9	.1	-16.3	-1.8
Producers' durable equipment		9.5	12.2	6.1	-5.2	5.7	-3.3	10.2	6.3	-18.4	2.0
Nonresidential structures		7.5	-8.2	7.1	1.3	2.3	-9.0	5.1	-18.2	-9.0	-13.7
Residential structures		-3.6	-11.3	-7.6	-5.5	15.1	-11.2	-19.8	-20.6	-25.3	2.7
Exports		15.8	12.4	-.5	13.5	11.2	-5.0	6.9	11.0	.5	4.3
Imports		-2.3	12.8	6.4	1.7	2.5	.7	7.6	-11.8	-8.8	19.0
Government purchases		-3.3	4.0	-2.4	3.0	2.9	6.2	1.2	4.7	-1.3	3.0
Federal		-9.1	7.0	-7.9	-.4	.4	16.4	.1	4.6	-.5	8.1
Defense		-10.9	3.2	7.2	-7.0	-1.7	3.3	2.7	12.1	2.7	-8.7
State and local		1.3	1.8	1.8	5.6	4.8	-.6	2.0	4.9	-1.9	-.6
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	-27.7
Nonfarm	Billions of 82$	16.4	21.5	21.7	15.3	-8.2	11.6	4.7	-28.5	-28.1	-21.6
. exports	Billions of 82$	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6	-46.5	-8.8	7.1	-14.5
ominal GNP	Percent change	7.5	5.8	5.1	3.9	6.7	5.1	5.3	.9	2.2	4.2
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	2.6
Capacity utilization rate-mfg.	Percent*	84.7	84.5	83.7	82.9	82.7	82.8	82.9	80.8	78.0	77.9
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	4.3
Real disposable income	Percent change	4.2	-1.2	2.7	1.2	2.5	.3	-.7	-3.5	-1.5	2.5
Personal saving rate	Percent*	5.2	4.6	4.1	4.6	4.9	5.0	4.2	4.2	4.2	4.2
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	2.4
Profit share of GNP	Percent*	6.4	6.2	5.9	5.5	5.5	5.6	5.5	5.2	5.1	5.1
Federal govt. surplus/deficit	Billions of $	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0	-145.7	-184.3	-126.9	-185.0
State and local govt. surplus		48.9	50.3	48.1	38.5	38.1	38.6	39.3	25.7	30.0	38.8
Exc. social insurance funds		-16.2	-15.6	-18.7	-29.1	-30.2	-30.4	-30.5	-44.8	-41.0	-32.8
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	4.2
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
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
farm business sector											
Output per hour		-2.8	.1	-.7	-2.2	-1.1	1.2	.6	-.8	.0	.5
Compensation per hour		3.1	2.2	2.3	2.6	4.0	5.9	5.0	3.7	4.2	4.6
Unit labor costs		6.0	2.0	3.0	5.0	5.2	4.7	4.4	4.6	4.2	4.0

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

September 25, 1991

CONFIDENTIAL - FR
CLASS II FOMC

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

	Units	Projection									
		1991		1992				1993			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	5677.7	5758.6	5860.1	5956.7	6048.1	6134.0	6231.1	6317.4	6406.2	6490.0
Real GNP	Billions of 82$	4151.8	4185.0	4222.3	4259.3	4294.6	4327.4	4360.7	4393.0	4427.5	4458.0
Real GNP	Percent Change	2.8	3.2	3.6	3.5	3.4	3.1	3.1	3.0	3.2	2.8
Real GDP		2.7	3.3	3.5	3.6	3.4	3.3	3.0	3.0	3.1	3.0
Gross domestic purchases		2.8	2.8	3.6	3.6	3.4	3.3	3.1	3.0	3.1	2.9
Final sales		2.3	1.7	2.2	2.6	2.9	2.6	3.0	3.1	3.2	2.9
Private dom. final purchases		3.6	2.1	3.0	3.6	4.0	3.7	3.6	3.6	3.5	3.3
Personal consumption expend.		3.8	1.7	2.5	2.9	3.1	2.9	2.8	2.7	2.7	2.6
Durables		10.1	3.9	4.8	4.6	4.5	4.0	3.2	3.0	3.0	2.9
Nondurables		4.2	.8	1.7	2.2	2.4	2.3	2.3	2.2	2.2	2.1
Services		1.7	1.5	2.4	2.9	3.1	3.0	3.0	2.9	2.9	2.9
Business fixed investment		-2.2	1.6	4.3	5.3	6.1	6.1	6.2	6.2	6.4	6.4
Producers' durable equipment		2.2	6.1	8.0	8.5	8.5	8.0	8.0	8.0	8.0	8.0
Nonresidential structures		-17.0	-13.7	-9.1	-6.8	-3.5	-1.9	-1.7	-1.6	-1.0	-.9
Residential structures		20.0	11.3	7.0	10.0	12.3	9.8	9.7	9.4	8.6	5.1
Exports		6.6	7.8	7.7	7.8	7.0	6.7	6.3	7.4	6.6	6.4
Imports		6.4	5.1	7.3	7.9	7.3	8.0	6.1	7.1	5.8	7.0
Government purchases		-2.9	-1.7	-1.3	-1.2	-1.1	-.8	.2	.8	1.2	1.3
Federal		-5.7	-4.7	-4.5	-4.5	-4.6	-4.6	-2.7	-1.8	-2.1	-2.1
Defense		-.6	-7.7	-8.2	-8.2	-7.9	-7.9	-5.3	-4.1	-4.3	-4.3
State and local		-.7	.6	1.0	1.3	1.5	1.8	2.2	2.6	3.4	3.6
Change in business inventories	Billions of 82$	-22.1	-7.0	7.7	17.1	21.8	26.7	28.0	27.4	27.2	26.7
Nonfarm	Billions of 82$	-18.5	-4.4	8.8	18.6	23.1	28.1	28.2	27.8	27.6	27.3
Net exports	Billions of 82$	-14.5	-10.4	-10.0	-10.4	-11.0	-13.4	-13.2	-12.9	-11.7	-12.8
Nominal GNP	Percent change	4.5	5.8	7.2	6.8	6.3	5.8	6.5	5.7	5.7	5.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	108.8	109.0	109.3	109.7	110.2	110.7	111.2	111.8	112.3	112.9
Unemployment rate	Percent*	6.8	6.8	6.7	6.7	6.6	6.5	6.4	6.3	6.2	6.1
Industrial production index	Percent change	7.8	6.4	6.1	6.1	5.5	5.3	3.9	3.9	3.9	3.7
Capacity utilization rate-mfg.	Percent*	78.8	79.6	80.1	80.7	81.1	81.5	81.7	81.8	82.0	82.2
Housing starts	Millions	1.06	1.08	1.12	1.16	1.20	1.24	1.27	1.30	1.32	1.35
Auto sales	Millions	8.69	8.63	8.85	9.02	9.14	9.24	9.31	9.37	9.43	9.48
Domestic	Millions	6.42	6.33	6.45	6.58	6.65	6.72	6.77	6.82	6.86	6.90
Foreign	Millions	2.27	2.30	2.40	2.44	2.49	2.52	2.54	2.55	2.57	2.58
INCOME AND SAVING											
Nominal personal income	Percent change	3.5	6.3	7.6	6.0	6.0	6.5	7.6	5.7	5.4	5.7
Real disposable income	Percent change	1.7	2.4	3.2	2.0	2.5	3.1	5.4	2.2	2.0	2.2
Personal saving rate	Percent*	3.7	3.9	4.1	3.9	3.8	3.8	4.4	4.3	4.2	4.1
Corp. profits with IVA & CCAdj	Percent change	11.5	19.2	33.3	24.9	11.7	12.3	13.2	7.7	10.7	10.6
Profit share of GNP	Percent*	5.2	5.4	5.7	5.9	6.0	6.1	6.2	6.2	6.3	6.3
Federal govt. surplus/deficit	Billions of $	-202.0	-208.4	-225.3	-210.5	-196.3	-196.2	-217.9	-209.3	-197.6	-198.4
State and local govt. surplus		49.1	54.0	63.3	70.2	75.5	78.5	81.1	82.3	83.6	85.5
Exc. social insurance funds		-23.4	-19.4	-11.0	-5.0	-.6	1.5	3.2	3.5	3.9	4.9
PRICES AND COSTS											
GNP implicit deflator	Percent change	1.6	2.5	3.5	3.1	2.8	2.6	3.3	2.6	2.5	2.5
GNP fixed-weight price index		2.1	3.4	4.1	3.4	3.2	3.0	3.7	3.0	2.9	2.9
CPI		2.8	3.8	4.1	3.6	3.4	3.4	3.4	3.3	3.2	3.2
Exc. food and energy		4.2	3.8	4.1	3.7	3.6	3.4	3.4	3.3	3.2	3.2
ECI hourly compensation**		4.4	4.3	4.1	4.0	3.9	3.9	3.8	3.7	3.6	3.6
Nonfarm business sector											
Output per hour		3.3	2.8	3.0	2.6	1.8	1.6	1.4	1.3	1.3	1.3
Compensation per hour		4.6	4.3	4.5	3.9	3.8	3.8	4.1	3.7	3.6	3.6
Unit labor costs		1.3	1.5	1.5	1.3	2.0	2.2	2.7	2.4	2.3	2.3

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

CONFIDENTIAL - FR
CLASS II FOMC

September 25, 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	-1.1	138.6	73.9	20.2	31.6
Real GDP	35.1	21.0	14.3	-.6	18.7	12.4	6.9	-22.3	-31.6	8.3	135.1	69.8	15.7	37.7
Gross domestic purchases	11.8	18.7	28.3	-12.7	4.9	13.7	16.8	-54.3	-45.2	20.5	103.0	46.1	-18.9	33.1
Final sales	24.4	17.0	18.5	9.3	38.4	-7.2	19.7	14.5	-30.8	1.7	172.9	69.2	65.4	12.2
Private dom. final purchases	6.5	11.4	34.1	-12.9	20.2	-10.3	19.1	-32.8	-44.0	17.1	128.7	39.1	-3.8	19.8
Personal consumption expend.	-2.1	8.6	30.0	-5.4	7.4	1.5	18.0	-23.2	-9.9	18.4	104.6	31.1	3.7	44.6
Durables	-6.6	3.8	9.9	-15.0	14.5	-10.8	2.7	-13.9	-12.7	-1.3	36.4	-5.9	-7.5	-.2
Nondurables	1.4	-3.9	8.8	-.4	-7.4	-4.4	5.2	-15.2	-4.1	6.0	21.9	5.9	-21.8	13.2
Services	3.0	6.7	11.3	10.0	.4	16.6	10.0	5.9	7.0	13.7	46.4	31.0	32.9	31.7
Business fixed investment	10.5	8.4	7.8	-4.9	6.2	-6.2	10.9	.1	-22.6	-2.3	24.3	21.8	11.0	-25.7
Producers' durable equipment	8.4	10.9	5.7	-5.2	5.4	-3.3	9.5	6.1	-20.0	1.9	27.7	19.8	17.7	-10.2
Nonresidential structures	2.2	-2.6	2.1	.4	.7	-2.9	1.5	-6.0	-2.7	-4.1	-3.4	2.1	-6.7	-15.6
Residential structures	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-9.8	-9.7	-11.5	1.0	-.2	-13.8	-18.5	.9
Change in business inventories	12.1	-.6	-.9	-5.7	-21.1	11.7	-4.8	-31.1	1.4	-2.7	-34.4	4.9	-45.3	19.4
Nonfarm	-10.8	5.1	.2	-6.4	-23.5	19.8	-6.9	-33.2	.4	6.5	-28.2	-11.9	-43.8	24.1
Farm	22.9	-5.7	-1.1	.7	2.4	-8.1	2.1	2.1	1.0	-9.2	-6.3	16.8	-1.5	-4.7
Net exports	24.6	-2.2	-10.8	16.2	12.5	-9.2	-1.9	37.7	15.9	-21.6	35.6	27.8	39.1	-1.6
Exports	20.8	17.1	-.7	19.1	16.5	-8.0	10.4	16.7	.8	6.9	68.3	56.3	35.6	30.9
Imports	-3.7	19.2	10.1	2.8	4.1	1.2	12.3	-21.0	-15.0	28.5	32.7	28.4	-3.4	32.5
Government purchases	-6.7	7.8	-4.8	6.0	5.7	12.3	2.5	9.6	-2.7	6.2	8.6	2.3	30.1	-6.1
Federal	-8.1	5.7	-6.9	-.3	.3	12.9	.1	3.9	-.4	6.9	-5.4	-9.6	17.2	-2.9
Defense	-7.4	2.0	4.5	-4.7	-1.1	2.1	1.7	7.5	1.8	-6.0	-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	12.9	-.5	-4.0	7.0	6.9
State and local	1.5	2.1	2.1	6.3	5.5	-.7	2.4	5.7	-2.3	-.7	13.9	12.0	12.9	-3.2

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CLASS II FOMC

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	28.8	33.2	37.4	36.9	35.3	32.8	33.3	32.3	34.5	30.6	20.2	31.6	142.4	130.7
Real GDP	27.0	34.0	36.2	37.1	35.3	34.6	32.2	32.2	33.2	32.2	15.7	37.7	143.2	129.8
Gross domestic purchases	28.8	29.1	37.0	37.3	36.0	35.1	33.1	32.0	33.3	31.7	-18.9	33.1	145.4	130.1
Final sales	23.2	18.1	22.6	27.5	30.7	27.9	32.0	32.9	34.7	31.1	65.4	12.2	108.7	130.7
Private dom. final purchases	29.3	17.5	25.1	30.3	33.5	31.9	31.4	30.9	31.1	29.5	-3.8	19.8	120.8	122.9
Personal consumption expend.	24.9	11.2	17.0	19.7	20.9	20.1	19.3	18.7	18.8	18.6	3.7	44.6	77.8	75.3
Durables	9.8	4.0	4.9	4.7	4.7	4.3	3.4	3.2	3.2	3.1	-7.5	-.2	18.5	13.0
Nondurables	9.4	1.9	3.9	5.0	5.5	5.3	5.3	5.1	5.2	4.9	-21.8	13.2	19.7	20.5
Services	5.7	5.3	8.3	10.0	10.8	10.5	10.6	10.3	10.4	10.5	32.9	31.7	39.6	41.8
Business fixed investment	-2.8	2.0	5.3	6.5	7.6	7.6	7.9	8.0	8.4	8.5	11.0	-25.7	27.0	32.8
Producers' durable equipment	2.1	5.8	7.6	8.3	8.4	8.1	8.3	8.4	8.6	8.8	17.7	-10.2	32.4	34.0
Nonresidential structures	-5.0	-3.8	-2.4	-1.7	-.9	-.5	-.4	-.4	-.2	-.2	-6.7	-15.6	-5.4	-1.2
Residential structures	7.1	4.3	2.8	4.0	5.0	4.2	4.2	4.2	3.9	2.4	-18.5	.9	16.1	14.8
Change in business inventories	5.6	15.1	14.7	9.4	4.7	4.9	1.3	-.6	-.2	-.5	-45.3	19.4	33.7	.0
Nonfarm	3.1	14.1	13.2	9.8	4.5	5.0	.1	-.4	-.2	-.3	-43.8	24.1	32.5	-.8
Farm	2.5	1.0	1.5	-.4	.2	-.1	1.2	-.2	.0	-.2	-1.5	-4.7	1.2	.8
Net exports	.0	4.1	.3	-.4	-.7	-2.3	.2	.2	1.2	-1.1	39.1	-1.6	-3.0	.5
Exports	10.6	12.6	12.6	13.0	12.0	11.8	11.2	13.3	12.1	12.0	35.6	30.9	49.5	48.6
Imports	10.5	8.5	12.3	13.4	12.7	14.1	11.0	13.0	10.9	13.2	-3.4	32.5	52.5	48.1
Government purchases	-6.1	-3.5	-2.8	-2.4	-2.2	-1.7	.4	1.7	2.4	2.7	30.1	-6.1	-9.1	7.2
Federal	-5.2	-4.2	-4.0	-3.9	-4.0	-3.9	-2.3	-1.5	-1.7	-1.7	17.2	-2.9	-15.8	-7.2
Defense	-.4	-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	-4.8	1.0	1.4	1.4	1.0	1.0	.9	.9	.8	.8	7.0	6.9	4.8	3.4
State and local	-.9	.7	1.2	1.5	1.8	2.2	2.7	3.2	4.1	4.4	12.9	-3.2	6.7	14.4

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	1054	1134	1215	233	307	264	255	252	344	283	275	267	365	308	289
Budget outlays[2]	1252	1330	1490	1508	299	333	362	381	369	375	365	394	374	372	367	393
Surplus/deficit(-)[2]	-220	-276	-356	-292	-66	-26	-99	-126	-117	-31	-82	-119	-107	-7	-59	-104
(On-budget)	-277	-330	-416	-356	-80	-50	-103	-137	-128	-62	-89	-130	-117	-42	-68	-118
(Off-budget)	57	54	60	64	15	24	5	11	11	31	7	12	10	35	8	14
Surplus excluding deposit insurance[3]	-162	-208	-241	-227	-63	-12	-61	-95	-88	0	-58	-95	-91	8	-49	-95
Means of financing:																
Borrowing	263	297	354	291	56	43	99	105	113	56	81	111	95	27	58	97
Cash decrease	1	0	0	0	0	-12	3	23	2	-20	-5	10	10	-15	-5	10
Other[4]	-44	-21	1	1	9	-6	-3	-2	2	-5	6	-2	2	-5	6	-2
Cash operating balance, end of period	40	40	40	40	32	44	40	17	15	35	40	30	20	35	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1092	1139	1218	1301	1135	1139	1156	1177	1209	1232	1253	1274	1290	1309	1330	1351
Expenditures	1249	1314	1428	1506	1261	1324	1358	1386	1434	1442	1449	1471	1508	1518	1527	1549
Purchases	415	445	446	446	444	451	449	446	449	447	444	441	448	448	447	446
Defense	307	328	317	305	331	327	327	322	320	315	310	305	307	305	303	301
Nondefense	107	118	129	140	113	124	122	124	129	131	133	135	140	142	144	146
Other expend.	835	868	981	1060	818	873	909	940	985	996	1005	1030	1060	1071	1080	1103
Surplus/deficit	-158	-175	-210	-205	-127	-185	-202	-208	-225	-211	-196	-196	-218	-209	-198	-198
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-150	-110	-140	-153	-63	-107	-124	-132	-153	-143	-133	-137	-163	-159	-152	-156
Change in HEB, percent of potential GNP	0	-.7	.5	.2	-1.5	.8	.3	.1	.3	-.2	-.2	.1	.4	-.1	-.1	.1
Fiscal impetus measure (FI), percent	-3.3 *	-2.9 *	-5 *	-3.5 *	-3.8	-.4	.1	-1.2	-2.6	-1	-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 August deficit estimates are $279 billion in FY1991 and $362 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 August deficit estimates, excluding deposit insurance spending, are $202 billion in FY1991 and $248 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 declined 10 to 20 basis points over the intermeeting period in reaction to evidence of a sluggish economic recovery, weak monetary growth, and diminished inflationary pressures. The federal funds rate has dropped from 5-1/2 percent to 5-1/4 percent. Most of the decline in market rates occurred before the 1/2 percentage point cut in the discount rate on September 13, which had been widely anticipated. Banks lowered their prime rates 1/2 point to 8 percent after the discount rate announcement; however, spreads over funding costs remain high. The exception to the general trend in market interest rates has been treasury bill rates, which have risen about 10 basis points from levels that had been depressed by a flight to quality triggered by the attempted coup in the Soviet Union. In equity markets, broad stock price indexes have risen 2 to 4 percent over the period, with many registering new highs in late August.

M2 was about unchanged in August and has picked up little through mid-September. This puts it essentially on the lower bound of its 1991 target cone. As in earlier months, savers have been responding to low rates on retail deposits--particularly time deposits--by channeling funds away from them into bond and equity mutual funds and other instruments offering the prospect of higher yields. Given weak loan demand and a reluctance or inability of some institutions to increase assets, depositories have trimmed their large time deposit liabilities as well. As a result, M3 contracted somewhat further in August and held steady in early September, to remain near the lower bound of its target cone.

Bank credit contracted in August. Security holdings increased sharply again, but loans dropped for the fifth month in the past six, with all major categories declining. The rate of decline in business loans reached double-digit proportions in August, and real estate loans fell for the second consecutive month. Loan sales, securitizations, and chargeoffs have accounted for only part of the contraction in real estate credit; banks undoubtedly continued to retrench in commercial real estate and construction lending, categories that account for nearly half of the real estate total.

Total debt of nonfinancial firms has shown no indication of strengthening in the third quarter, after three quarters of virtually no growth. Besides the further large decline in bank loans in August, commercial paper contracted sharply, partly because of investor resistance to lower-rated issues that has intensified since the Columbia Gas default in June. The declines in short-term debt were roughly offset by expansion in the long end, as businesses shifted to bond financing to take advantage of favorable long-term rates. Gross public bond offerings maintained a near-record pace in August, while equity issuance was also near its strongest pace ever.

Data for the the third quarter are sketchy, but net household borrowing appears to have remained relatively light. After some rebound in the spring, the growth of home mortgage debt appears to have picked up only a little further in the third quarter, and is still slower than in most quarters since the early 1980s. The upturn in home sales lost some steam in July and August, providing little further stimulus to mortgage borrowing. Refinancing activity has picked up as mortgage rates have dropped, but reportedly few borrowers were raising additional funds in the process, and some mortgage debtors, perhaps dissatisfied with available returns on financial assets, are said to have made advance full or partial paydowns on mortgage balances. Consumer credit contracted in July for the seventh time in eight months, with auto loans again the weakest element and revolving credit at an exceptionally slow pace. In view of a drop in retail sales in August and the observed weakness in bank lending to consumers, the contraction in aggregate consumer credit likely carried further into the quarter.

The Treasury is borrowing at a record pace in the third quarter in response to the government's gargantuan deficit; the Treasury appears to be adding just under $100 billion to its total debt. In tax-exempt markets, state and local governments, reportedly motivated by the further declines in rates, have been issuing exceptionally large amounts of both short- and long-term debt in recent weeks. Most offerings continue to be used for new capital; after three years of relatively low rates, few issues remain outstanding that are suitable for refunding at current yields.

Outlook

The staff forecast assumes that the federal funds rate and other short-term rates will hold near their present levels through the projection period. Long-term rates, however, are expected to drift a bit lower.

Lenders are expected to become more receptive to private credit applicants over the course of the projection period. As the economy expands, albeit slowly, stresses on household and business balance sheets should ease gradually, tending to alleviate lender concerns about credit risks. Lenders themselves should be in a better position to make credit more available as their own balance sheets become stronger. Nonetheless, we expect that depository institutions will continue to account for less than their historical share of total credit flows (with thrift assets continuing to contract), and strengthening credit demands likely will be met in part by further securitization and by further expansion of the mutual fund industry.

Although the pace of inventory liquidation is expected to slow and outlays for fixed investment to pick up over the next few months, growth in the business sector's cash flow should be adequate to meet financing requirements well into 1992. Further damping corporate borrowing will be the restrained pace of debt-financed merger activity. The recent swing to net equity issuance is expected to be reversed next year, but the pace of net retirements is expected to be very low relative to that of the past few years. As the economic upswing progresses, a moderate level of inventory investment and a rise in equipment spending should lift credit demands, but substantial profit increases and the slump in commercial construction are expected to temper the overall rise in external financing.

Growth in household sector debt is projected to strengthen only slightly next year. Consumer credit may turn up before long, but it is expected to expand only gradually in 1992 in line with the sluggish pace of spending for durable goods anticipated in this recovery. Growth in home mortgage debt should continue to rebound, but will be kept to moderate proportions by the limited degree of recovery in single-family homebuilding and in sales of existing homes envisioned in the staff forecast. Despite recent increases in delinquency rates on household debts, supply constraints are not expected to present a major barrier to debt growth in the sector. Delinquencies in most categories have not greatly exceeded past cyclical highs, and consumer lending remains one of the more profitable lines for financial institutions. In addition, strong demands by investors for mortgage-backed securities should continue to buttress availability of home mortgage credit and keep rate spreads between mortgages and Treasury securities relatively tight.

The debt of state and local governments is projected to expand only slowly through next year, notwithstanding a sizable backlog of capital spending projects. Downgradings of municipal debt have continued, and budgetary problems are expected to persist for some time, inhibiting new capital programs.

The federal government will continue to experience heavy borrowing needs next year, in part because of large outlays to support resolution activity by the FDIC and the RTC. Moreover, expected tax receipts have been adjusted downward in the present forecast. The rapid expansion of federal debt is expected to maintain growth in total domestic nonfinancial debt at a pace above that of nominal GNP; growth of debt of the nonfederal sectors is projected to remain appreciably below the GNP growth rate.

GROWTH RATES OF DEBT BY SECTOR[1]
(Percent, 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]
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	2.8	2.7	4.7	4.5
1991	5.2	11.8	3.1	5.1	6.8	-2.1	0.9	3.3	3.5	4.2
1992	7.1	12.5	5.2	6.7	7.9	1.7	3.7	3.6	4.2	6.5
1993	6.4	8.6	5.5	6.9	7.8	3.3	4.3	3.3	5.0	5.8
				Seasonally adjusted, annual rates						
1990 -- Q1	8.2	10.9	7.4	10.8	12.8	3.8	4.8	2.5	7.3	6.7
Q2	5.9	9.7	4.8	7.0	8.8	0.4	2.7	2.7	4.7	5.1
Q3	6.4	11.8	4.7	6.1	7.2	2.6	3.4	4.4	4.1	5.3
Q4	4.8	13.2	2.2	4.0	5.9	0.3	0.3	1.2	2.2	0.9
1991 -- Q1	3.9	8.0	2.6	4.2	5.4	-2.9	0.9	1.9	5.0	2.2
Q2	4.3	9.2	2.7	5.1	6.5	-2.5	0.1	2.6	1.8	4.2
Q3	6.2	15.2	3.2	5.2	7.1	-1.9	0.5	5.2	3.9	4.5
Q4	6.2	12.8	3.9	5.6	7.5	-1.0	2.1	3.6	3.1	5.8
1992 -- Q1	7.5	14.9	4.9	6.5	7.7	1.2	3.3	3.6	5.3	7.2
Q2	6.3	10.0	4.9	6.4	7.6	1.3	3.5	3.6	3.0	6.8
Q3	6.7	11.0	5.1	6.5	7.5	2.1	3.9	3.5	3.8	6.3
Q4	7.1	12.2	5.3	6.8	7.9	2.1	4.0	3.5	4.4	5.8
1993 -- H1	6.2	8.3	5.4	6.8	7.7	3.1	4.1	3.4	5.1	6.1
H2	6.3	8.5	5.5	6.8	7.6	3.5	4.4	3.1	4.9	5.5

1. Published data through 1991:2; projections for other periods.
2. Deposit insurance activity adds roughly .9 percentage points to total debt in 1991 and 1992 and .3 points in 1993; federal debt growth increases about 3 points in 1991 and 1992 and 1 point in 1993.
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				1991				1992			
		1990	1991	1992	1993	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Net funds raised by domestic nonfinancial sectors:												
1	Total	576.3	556.5	781.0	746.3	399.4	473.6	675.0	677.8	826.2	706.0	762.8	829.2
2	Net equity issuance	-63.0	3.0	-4.0	-10.0	-12.0	11.0	11.0	2.0	-2.0	-2.0	-6.0	-6.0
3	Net debt issuance	639.3	553.5	785.0	756.3	411.4	462.6	664.0	675.8	828.2	708.0	768.8	835.2
	Borrowing sectors:												
	Nonfinancial business												
4	Financing gap[2]	39.6	-11.9	7.5	16.7	-16.5	-7.9	-13.9	-9.3	-3.5	4.6	10.8	18.2
5	Net equity issuance	-63.0	3.0	-4.0	-10.0	-12.0	11.0	11.0	2.0	-2.0	-2.0	-6.0	-6.0
6	Credit market borrowing	95.6	31.6	130.1	157.6	32.0	4.3	16.5	73.4	115.1	123.4	138.7	143.3
	Households												
7	Net borrowing, of which:	254.0	197.8	270.6	298.9	162.6	199.7	206.1	222.6	262.7	262.6	270.4	286.7
8	Home mortgages	215.2	181.3	224.5	239.5	144.9	175.3	195.0	210.0	220.0	220.0	220.8	237.2
9	Consumer credit	14.3	-16.7	13.3	26.9	-23.6	-20.4	-15.0	-8.0	9.6	10.1	16.6	17.1
10	Debt/DPI (percent)[3]	93.1	96.5	96.6	97.0	96.7	96.7	97.2	97.0	97.0	97.2	97.4	97.6
	State and local governments												
11	Net borrowing	17.2	21.7	24.0	22.8	12.2	16.8	34.0	24.0	23.9	24.1	23.9	24.1
12	Current surplus[4]	-30.6	-22.0	8.7	16.0	-35.2	-29.5	-14.9	-8.2	1.3	6.9	12.5	14.1
	U.S.government												
13	Net borrowing	272.5	302.4	360.3	277.0	204.7	241.8	407.4	355.8	426.5	297.9	335.8	381.1
14	Net borrowing;quarterly, nsa	272.5	302.4	360.3	277.0	55.8	43.0	98.6	105.1	113.0	55.8	80.6	110.9
15	Unified deficit;quarterly, nsa	236.1	315.9	348.2	278.1	65.6	25.7	98.6	126.1	116.8	31.1	81.7	118.6
	Funds supplied by												
16	depository institutions	-26.9	-105.8	-37.3	48.4	-9.9	-96.4	-201.9	-115.0	-50.4	-23.2	-41.9	-33.8
	Memoranda: As percent of GNP:												
17	Dom. nonfinancial debt[3]	186.3	191.7	191.7	193.0	191.8	191.9	192.7	192.9	193.1	193.0	193.2	193.9
18	Dom. nonfinancial borrowing	11.7	9.8	13.1	11.9	7.4	8.2	11.7	11.7	14.1	11.9	12.7	13.6
19	U.S. government[5]	5.0	5.4	6.0	4.4	3.7	4.3	7.2	6.2	7.3	5.0	5.6	6.2
20	Private	6.7	4.4	7.1	7.5	3.7	3.9	4.5	5.6	6.9	6.9	7.2	7.4

1. Published data through 1991:2; 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 nominal GNP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

2.6.4 FOF

Recent Developments

The weighted average value of the dollar has declined about 5-1/2 percent since the August 20 FOMC meeting. A large part of the decline occurred just after the meeting, as it became clear that the Soviet coup attempt had failed and the dollar retraced its earlier rise. The dollar moved lower through early September amid disappointment with the pace of the U.S. recovery and expectations that continued weakness in U.S. money growth would prompt the Federal Reserve to ease. The Fed's action on September 13 produced little immediate reaction in the market, but the dollar eased further near the end of the period. The dollar has fallen more against the mark--7 percent--than against the yen--3-1/4 percent, reflecting the greater sensitivity of the mark to events in the Soviet Union and some anticipated and realized easing by the Bank of Japan. Japanese long-term and short-term interest rates have declined 45 to 70 basis points over the period; German rates have moved down 10 to 15 basis points.

. The Desk has not intervened during the period.

According to recently released data second-quarter GNP in major foreign industrial countries was somewhat stronger than had been expected, on average, although performances across countries were widely divergent. Monthly indicators suggest that foreign growth in the third quarter has been sluggish. Output in Canada increased strongly in the second quarter after a year of decline, but preliminary indicators for the third quarter have been mixed. In Japan and Germany, GNP growth fell sharply in the second quarter, following double-digit growth in the first quarter; the level of activity in both countries appears to have remained little changed in the third quarter.

Inflation abroad has moderated on average in recent months. In Canada and the United Kingdom, the lagged effects of recessions have begun to show through. Declining mortgage rates also have contributed significantly to the lowering of recorded U.K. inflation. Twelve-month inflation in Germany edged down in August, although German unit labor costs have continued to accelerate.

The U.S. merchandise trade deficit narrowed further in the second quarter but widened in July. Exports, especially shipments of capital goods, expanded fairly briskly through this period. A surge in imports, particularly of consumer goods and computers, accounted for the wider deficit in July. The current account showed a considerably smaller surplus in the second quarter than in the first quarter as Gulf War transfers and net investment income receipts declined. Non-oil import prices fell nearly 4 percent at an annual rate in the second quarter and declined slightly further in July, reflecting the effects of the substantial rise in the dollar during the first half of the year.

Outlook

The staff forecast incorporates a slightly lower path for the dollar and a somewhat higher level of foreign GNP than those in the August Greenbook. The lower dollar, in particular, contributes to a slightly more favorable tilt in the path of U.S. real net exports of goods and services than that in the previous projection, as does the lower path for U.S. interest rates, which reduces net income payments. At the same time, with imports apparently coming in stronger than had been expected in the third quarter, the projected trade deficit has been widened somewhat over the forecast period.

The Dollar. The foreign exchange value of the dollar against the other G-10 currencies is expected to remain around recent lower levels through next year. The projected path of the dollar has been revised down 1-1/2 percent relative to that in the August Greenbook, consistent with the lower path of interest rates in this forecast. 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 1992.

Foreign Industrial Countries. The outlook for GNP growth in the major foreign industrial countries in the fourth quarter and next year has not changed appreciably from the 2-1/2 to 3 percent average annual rate projected in the August Greenbook. However, we have revised up the projected level of foreign GNP in the third quarter and beyond importantly because of the stronger-than-expected recovery of Canadian output. The path of average GNP in the foreign G-7 countries is now about 3/4 percentage point higher on a U.S.-export-weighted basis and 1/4 percentage point higher on a GNP-weighted basis (the difference reflecting Canada's greater weight in U.S. exports). Growth rates among the major industrial countries still are expected to converge over the forecast period, as weaker countries in the G-7 group (the United Kingdom, Italy, France, and Canada) are projected to recover from recent slumps and to reach growth rates in the 2 to 3 percent range by the end of next year if not sooner. Japan and Germany are expected to show minimal growth in the third quarter, somewhat more in the fourth quarter, and to return to near their respective rates of potential growth at 3-3/4 percent and 3 percent next year.

Consumer-price inflation in the major foreign industrial countries is expected to average 4 percent in 1991 (Q4/Q4 basis), and to decline only slightly in 1992. German and Japanese inflation are both expected to average about 3 percent next year.

We project a somewhat larger combined current account surplus for the major foreign industrial countries than in the August Greenbook mostly because of a significant widening of the Japanese surplus. Japan's surplus is expected to reach $60 billion this year. A downward revision in the projected German current account for 1991, to a deficit of $20 billion, partly offsets Japan's larger surplus.

The expected path of average foreign short-term interest rates has been lowered slightly since the August forecast, largely to incorporate recent movements in market rates in some countries. Short-term interest rates, on average, still are expected to move down about 15 basis points from recent levels by the end of 1992; long-term interest rates are expected to remain about unchanged.

<u>Developing Countries</u>. Growth in developing countries that are major U.S. trading partners is projected to increase moderately in 1991 to about 5-1/2 percent, on average. The effects of expansionary monetary and fiscal policies in several key countries and lower average oil prices are expected to more than offset the negative effects of the decline in growth in industrial countries on exports of developing countries. Real GDP growth is projected to increase slightly further on average next year as a result of stronger external demand. Since last Greenbook, the outlook for growth has been raised slightly, because of evidence of somewhat more expansionary macroeconomic policies and stronger-than-expected export performance in several developing countries.

<u>U.S. Real Net Exports of Goods and Services</u>. Real net exports are expected to be little changed, on balance, over the forecast period. A small improvement in the fourth and first quarters is expected to be largely reversed during the rest of 1992.

Trade data for July and preliminary indicators for August and September indicate some slowing in the growth of real nonagricultural exports in the third quarter following a strong second quarter. This growth is projected to pick up to an average annual rate of a little over 10 percent through next year. The key factors underlying this outlook are the resumption of fairly strong growth aborad on average and some lingering stimulus from the sharp depreciation of the dollar last year. In addition, the quantity of computer exports is expected to continue to expand rapidly and to contribute about 2 percentage points to the growth rate for nonagricultural export volume over the projection period. Compared with the previous forecast, the growth rate for nonagricultural exports through next year has been raised about 1 percentage point, primarily because the path for the dollar's exchange rate was lowered.

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

	1991		----------- Projection -----------			
					1992	1993
	Q1	Q2	Q3	Q4	Q4	Q4
Nonagric. exports	6.6	17.8	7.0	11.8	10.0	8.6
Agricultural exports	13.1	-27.1	36.3	-4.1	1.5	1.6
Non-oil imports	-10.0	15.6	17.8	8.8	8.8	7.1
Oil imports	23.4	73.7	-14.7	-1.8	11.0	9.7

* GNP basis, 1982 dollars.

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. Exports of corn to the Soviet Union increased sharply in June, and weekly data from the U.S. Department of Agriculture indicate continued strength through the first half of September. As of yet, there have been no indications of large purchases of wheat by the

Soviet Union. Over the remainder of the forecast period, further growth in agricultural exports is expected to be minimal.

July data and preliminary indicators for August point to considerably stronger growth in the quantity of non-oil imports than had been anticipated for the third quarter. Most of the recent unexpected strength in imports has been carried through the forecast period, as import growth is still projected to average close to 9 percent at an annual rate over the next five quarters. This outlook for fairly robust import growth is based on the anticipated recovery of U.S. domestic demand and recent declines in the relative price of imports. In addition, as in the case of exports, computers are expected to continue to lead the way, contributing 2 percentage points to the growth rate for non-oil imports.

After increasing rapidly during the first half of the year, oil imports appear to have dropped off in the third quarter as stock rebuilding is likely to have been largely completed. These imports are expected to remain flat in the fourth quarter before resuming an uptrend next year.

Oil Prices. Current spot and futures markets prices for crude oil are consistent with a peak in the U.S. import unit value of about $19 per barrel at year's end. Prices are viewed as unlikely to rise above this level and are assumed to decline about $1 per barrel during the first half of next year for several reasons. First, oil stocks in industrialized countries, especially the United States, are high by historical standards. Second, Saudi Arabia announced at the outset of the September OPEC ministerial it's intention to keep production well above 8 million barrels per day. Third, Iraqi exports of approximately .5 million barrels per day could resume in the fourth quarter under U.N. auspices. Finally, production in, and exports from, Kuwait will augment world oil supplies. Kuwaiti production, excluding its portion of Neutral Zone production, is expected to reach .4 million barrels per day by the end of this year and to rise further next year.

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports is projected to have declined slightly in the third quarter, reflecting the recent weakness in domestic producer prices. Export prices are expected to resume a moderate uptrend over the period ahead. Non-oil import prices are expected to have declined

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

			----------- Projection -----------			
	1991				1992	1993
	Q1	Q2	Q3	Q4	Q4	Q4
PPI (export wts.)	-2.0	-4.0	0.6	2.1	2.0	2.1
Nonag exports (Fx-Wt)	-1.0	-3.1	-0.5	1.1	2.0	2.0
Non-oil imports (Fx-Wt)	4.0	-3.7	-0.6	2.3	3.2	3.0
Oil imports ($/barrel)	20.33	17.31	17.51	18.86	18.00	18.00

slightly further in the third quarter but are projected to increase later this year and next as the effects of the appreciation of the dollar earlier this year wear off.

Nominal Trade and Current Account Balances. The trend improvement in the merchandise trade balance is thought to have come to an end after the second quarter. The deficit is expected to widen to more than $70 billion at an annual rate in the third quarter and to increase moderately further over the forecast period. Excluding the effects of cash grants associated with the Gulf War, the current account deficit is projected to remain in the neighborhood of the $35 billion annual rate recorded in the second quarter. Improvements in the nontrade portion of the current account should about offset the moderate deterioration in the trade balance.

Within the nontrade portions of the accounts, net service receipts are expected to expand steadily over the forecast period as markets for U.S. services continue to grow relatively rapidly on average. Net investment income receipts are expected to have increased in the third quarter because the recent declines in U.S. interest rates will have reduced payments on U.S. net portfolio debts to the rest of the world. Through the rest of the forecast period, increases in net investment income receipts are projected to remain little changed on balance.

NOMINAL EXTERNAL BALANCES
(Billions of dollars, SAAR)

			----------- Projection	-----------		
	1991				1992	1993
	Q1	Q2	Q3	Q4	Year	Year
Trade Balance	-73.6	-62.5	-69.5	-72.3	-77.0	-82.7
Current Account excl. Gulf War Cash Grants	-48.8	-34.5	-37.2	-39.4	-36.6	-37.8
Gulf War Cash Grants	90.8	46.4	21.6	16.0	0.0	0.0
Current Account	42.0	11.9	-15.6	-23.4	-36.6	-37.8

Cash grants received from foreign governments to support Operation Desert Storm, which totaled $34 billion (not at an annual rate) in the first half of the year, are expected to amount to $9 billion in the second half. As a result, the current account is projected to move back into deficit during the third and fourth quarters after having shown surpluses during the first two quarters of the year.

September 25, 1991

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

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

			Projection		
Measure and country	1989	1990	1991	1992	1993
REAL GNP					
Canada	2.1	-1.1	1.0	2.7	3.1
France	3.9	1.9	1.8	2.4	2.6
Western Germany	3.2	5.3	2.3	3.0	3.1
Italy	2.9	1.0	1.6	2.4	2.6
Japan	4.8	4.8	3.9	3.6	3.8
United Kingdom	1.3	-0.7	-0.2	2.0	2.1
Average, weighted by 1987-89 GNP	3.4	2.6	2.2	2.9	3.0
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	3.5	2.1	2.5	3.4	3.6
G-6	2.8	1.0	1.6	2.8	3.1
Developing countries	5.0	4.9	5.9	5.7	6.2
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	4.0	3.1	2.8
Italy	6.6	6.3	5.8	5.8	5.3
Japan	2.9	3.5	3.1	3.0	2.7
United Kingdom	7.6	10.0	4.2	5.0	4.1
Average, weighted by 1987-89 GNP	4.4	4.9	3.9	3.8	3.5
Average, weighted by share of U.S. non-oil imports	4.2	4.5	4.1	3.4	3.3

Strictly Confidential (FR) Class II-FOMC September 24, 1991

U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1989				1990				1991		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1988	1989	1990
np Net Exports (82$)	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6	-46.5	-8.8	7.1	-14.5	-75.9	-54.1	-33.8
Exports of G+S	576.1	593.2	592.5	611.6	628.1	620.1	630.5	647.2	648.0	654.9	534.6	593.3	631.5
Merchandise	376.9	390.7	390.3	405.2	422.4	418.4	421.0	433.8	441.4	455.2	347.3	390.8	423.9
Services	199.2	202.5	202.2	206.4	205.7	201.7	209.5	213.4	206.7	199.8	187.4	202.6	207.6
Imports of G+S	627.3	646.5	656.6	659.4	663.5	664.7	677.0	656.0	641.0	669.5	610.6	647.4	665.3
Merchandise	480.6	492.4	509.8	514.3	517.8	515.2	526.5	508.4	501.7	530.1	469.4	499.3	517.0
Oil	88.8	92.9	98.5	95.0	100.8	96.9	100.9	83.3	87.8	100.8	86.9	93.8	95.5
Non-oil	391.8	399.5	411.4	419.3	417.1	418.3	425.5	425.1	414.0	429.3	382.5	405.5	421.5
Services	146.7	154.1	146.7	145.1	145.6	149.4	150.5	147.6	139.2	139.4	141.1	148.1	148.3
Memo: (Percent changes 1/)													
Exports of G+S	15.8	12.4	-0.5	13.5	11.2	-5.0	6.9	11.0	0.5	4.3	14.0	10.1	5.8
of which: Gds.	18.6	15.5	-0.4	16.2	18.1	-3.7	2.5	12.7	7.2	13.1	15.0	12.2	7.1
Imports G+S	-2.3	12.8	6.4	1.7	2.5	0.7	7.6	-11.8	-8.8	19.0	5.5	4.5	-0.5
of which: Non-oil Gds.	-1.4	8.1	12.5	7.9	-2.1	1.2	7.1	-0.4	-10.0	15.6	3.4	6.6	1.4
U.S. Current Account Balance	-110.3	-111.2	-104.9	-98.8	-90.7	-88.7	-95.5	-93.6	42.0	11.9	-126.2	-106.3	-92.1
Merchandise Trade, net	-117.7	-114.8	-116.7	-114.4	-110.1	-96.4	-115.0	-110.9	-73.6	-62.5	-127.0	-115.9	-108.1
Exports	348.8	366.4	360.6	370.0	381.0	388.4	386.6	402.3	403.6	416.4	320.3	361.5	389.5
Agricultural	42.9	43.1	40.6	42.2	43.0	40.8	39.3	37.8	39.8	38.0	38.2	42.2	40.2
Nonagricultural	306.0	323.3	320.0	327.8	338.0	347.5	347.3	364.5	363.8	378.4	282.1	319.3	349.3
Imports	466.5	481.2	477.3	484.4	491.1	484.7	501.6	513.2	477.2	478.9	447.3	477.4	497.7
Oil	44.2	54.2	52.2	53.1	63.2	51.3	61.8	72.1	52.9	51.6	39.6	50.9	62.1
Non-oil	422.3	427.0	425.1	431.3	427.9	433.4	439.8	441.1	424.3	427.3	407.7	426.4	435.6
Other Current Account	7.4	3.6	11.9	15.6	19.5	7.6	19.5	17.3	115.6	74.4	0.7	9.6	16.0
Investment Income, net	3.6	-4.7	2.0	9.9	12.0	0.0	11.2	24.5	19.5	9.9	5.4	2.7	11.9
Direct, net	42.4	36.1	41.2	50.2	51.9	43.6	53.5	61.7	61.3	52.6	36.8	42.5	52.7
Portfolio, net	-38.8	-40.9	-39.2	-40.3	-39.8	-43.6	-42.3	-37.2	-41.8	-42.8	-31.5	-39.8	-40.7
Military Transactions, net	-6.9	-6.5	-4.6	-6.8	-6.9	-6.2	-6.7	-9.0	-9.3	-6.7	-5.7	-6.2	-7.2
Other Services, net	24.8	27.3	29.7	32.7	30.5	32.6	32.3	38.9	37.6	38.6	16.1	28.6	33.6
Unilateral Transfers, net	-14.2	-12.4	-15.2	-20.2	-16.1	-18.8	-17.3	-37.1	67.8	32.6	-14.9	-15.5	-22.3

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

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

(Billions of dollars, seasonally adjusted annual rates)

	1991		1992				1993				ANNUAL		
	Q3	Q4	Q1 (Projection)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991 (Projection)	1992	1993
GNP Net Exports (82$)	-14.4	-10.3	-9.9	-10.3	-11.0	-13.3	-13.1	-12.8	-11.6	-12.7	-8.0	-11.1	-12.6
Exports of G+S	665.5	678.1	690.7	703.8	715.8	727.6	738.8	752.1	764.2	776.2	661.6	709.5	757.8
Merchandise	465.3	477.0	488.3	500.1	510.9	521.5	531.6	542.2	552.8	563.6	459.7	505.2	547.6
Services	200.3	201.3	202.6	203.8	205.0	206.2	207.3	210.0	211.5	212.7	202.0	204.4	210.4
Imports of G+S	680.0	688.5	700.8	714.2	726.9	741.0	752.0	765.0	775.9	789.1	669.7	720.7	770.5
Merchandise	544.1	553.2	566.8	579.6	592.2	603.9	615.8	626.9	638.2	649.4	532.3	585.7	632.6
Oil	96.9	96.4	99.0	101.7	104.4	107.1	109.7	112.3	114.9	117.5	95.5	103.1	113.6
Non-oil	447.3	456.8	467.8	477.9	487.8	496.9	506.2	514.7	523.4	531.9	436.8	482.6	519.0
Services	135.9	135.2	133.9	134.6	134.6	137.1	136.2	138.1	137.6	139.7	137.4	135.0	137.9
Memo:(Percent changes 1/)													
Exports of G+S	6.6	7.8	7.7	7.8	7.0	6.7	6.3	7.4	6.6	6.4	4.8	7.3	6.7
of which: Gds.	9.2	10.4	9.8	10.0	8.9	8.5	8.0	8.2	8.0	8.1	9.9	9.3	8.1
Imports G+S	6.4	5.1	7.3	7.9	7.3	8.0	6.1	7.1	5.8	7.0	5.0	7.6	6.5
of which: Non-oil Gds.	17.8	8.8	10.0	8.9	8.5	7.6	7.7	6.9	6.9	6.7	7.5	8.8	7.1
Current Account Balance	-15.6	-23.4	-35.4	-34.9	-34.6	-41.5	-37.7	-37.5	-35.6	-40.3	3.7	-36.6	-37.8
Merchandise Trade, net	-69.5	-72.3	-75.9	-76.0	-77.1	-79.0	-81.3	-82.1	-83.3	-84.0	-69.5	-77.0	-82.7
Exports	424.4	436.5	448.1	460.2	470.6	480.3	489.6	499.4	509.0	518.8	420.2	464.8	504.2
Agricultural	41.0	41.1	42.4	43.5	43.9	44.1	44.8	45.6	46.2	46.9	40.0	43.5	45.9
Nonagricultural	383.4	395.4	405.8	416.6	426.8	436.2	444.9	453.9	462.8	471.8	380.3	421.3	458.3
Imports	493.9	508.8	524.0	536.2	547.8	559.3	570.9	581.5	592.3	602.8	489.7	541.8	586.9
Oil	51.7	55.7	57.7	57.8	57.7	59.2	60.7	62.2	63.8	65.3	53.0	58.1	63.0
Non-oil	442.1	453.1	466.3	478.5	490.1	500.1	510.2	519.3	528.5	537.5	436.7	483.7	523.9
Other Current Account	53.9	48.9	40.4	41.1	42.6	37.6	43.6	44.6	47.7	43.7	73.2	40.4	44.9
Investment Income, net	13.9	14.0	16.4	16.2	16.2	13.1	14.6	14.4	16.3	13.8	14.3	15.5	14.8
Direct, net	49.7	50.4	50.6	50.8	50.4	49.5	49.3	51.2	51.5	51.1	53.5	50.3	50.8
Portfolio, net	-35.8	-36.4	-34.2	-34.7	-34.2	-36.4	-34.8	-36.8	-35.2	-37.3	-39.2	-34.9	-36.0
Military, net	-4.4	-3.2	-2.5	-2.5	-1.7	-1.3	-0.8	-1.2	-1.6	-1.6	-5.9	-2.0	-1.3
Other Services, net	39.8	42.1	43.5	44.4	45.1	45.7	46.8	48.4	50.0	51.5	39.5	44.7	49.2
Unilat. Transfers, net	4.6	-4.0	-17.0	-17.0	-17.0	-20.0	-17.0	-17.0	-17.0	-20.0	25.2	-17.8	-17.8

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