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Strictly Confidential (FR) Class II FOMC

June 24, 1992

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

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

Overview

On the basis of the limited information available at this juncture, we believe that real GDP is rising at roughly a 2 percent annual rate in the current quarter, with a pickup in motor vehicle production accounting for about half of the increase.[1] Although recent expenditure data have presented a mixed picture, several months of employment growth are an encouraging sign that the expansion process may be starting to take hold.

Nonetheless, it seems unlikely that a major take-off in activity is at hand. The financial stresses and sectoral imbalances that have retarded the recovery to date still appear to be exerting a significant drag on effective demand. Consequently, our assessment is that, under the assumption of no further easing of short-term rates, there probably will be only a gradual further acceleration of output over coming quarters. Relative to the last Greenbook, the present forecast shows somewhat less GDP growth over the second half of this year, at a 2-1/2 percent annual rate on average, but more of a pickup during 1993, when growth averages 3 percent.

Growth at this pace is likely to produce only a slow reduction in the slack in labor and product markets. Even discounting somewhat the significance of the jump in the unemployment rate to 7-1/2 percent in May, the jobless rate is projected to remain above 7 percent through year-end and to fall to 6-3/4 percent in the latter half of 1993. With this slack in labor markets damping wage gains and ample industrial capacity restraining other cost pressures, core inflation is projected to be in the vicinity of

1. We have not allowed for a long rail strike in the forecast. We have assumed that Congress will act quickly on President Bush's request to end the walkout and that its effect on real GDP will be small.

3 percent at the end of 1993, as compared with a little less than 4 percent currently.

A good deal of uncertainty obviously continues to attend the outlook, but the distribution of risks associated with the staff forecast seems balanced. On the upside, progress is being made in rectifying financial imbalances, and the lengthening period of sluggish spending probably is resulting in some buildup of deferred demand; under the circumstances, one cannot rule out a stronger advance in spending that could require a more typical cyclical upturn in short rates to preserve the disinflationary trend of the economy. On the downside, one also cannot rule out a repetition of last year's hesitation, given the recent behavior of money and credit, the still-cautious behavior of businesses, and the seeming fragility of consumer confidence.

Key Assumptions

The staff's monetary policy assumptions are unchanged from the last Greenbook. In particular, we are still assuming that the federal funds rate will remain near 3-3/4 percent through 1993. We also continue to anticipate that long-term rates will decline some over the next few quarters, because of the lingering sluggishness in aggregate demand and a reduction in inflation that we think will exceed current market expectations. Although the uncertainty surrounding the upcoming elections may affect the markets, we have not attempted to factor this imponderable into our rate forecast in any specific way.

As the stepup in economic activity reduces the perceived riskiness of new loans and generates an improvement in the quality of existing asset portfolios, intermediaries should become more willing to extend credit to less-than-prime business customers--although the negative attitude toward commercial real estate is likely to last for some time. However, a return to complete "normalcy" in credit markets appears improbable within the projection period; many institutions still face pressure on their capital positions, and spreads between loan and deposit rates will likely remain wide because of tighter regulation of depositories under the FDIC Improvement Act (FDICIA).

Growth in M2 and M3 has been sluggish to date and is expected remain so for the rest of 1992. The contraction of the thrift industry, the drawdown of money balances to repay costly debt, and shifts in depositors' portfolios toward capital market assets yielding higher rates of return are likely to continue damping the expansion of money relative to GDP. The monetary aggregates are projected to finish the year below the growth cones adopted by the FOMC in February. In 1993, money growth is projected to remain slow and velocity to rise appreciably further, as a resumption of RTC activity and the effects of deposit rate and other regulations under FDICIA damp the effects on depository asset growth of a slight pickup in the growth of nominal GDP.

The staff's assumptions regarding fiscal policy are little changed from the May Greenbook: Policy is expected to remain moderately restrictive over the forecast period, in large part because of the decline in defense spending. We continue to anticipate that defense spending will fall about $5 billion below the OBRA spending cap. Although our policy assumptions are unchanged from last time, the projection of the unified deficit has been reduced for both FY1992 and FY1993. Outlays for deposit insurance are expected to be $27 billion lower in FY1992 than forecast in the May Greenbook and another $16 billion less in

FY1993. [2] On net, the unified budget deficit is projected to be $313 billion in FY1992 and $356 billion in FY1993; excluding deposit insurance and the defense cooperation account, the deficit falls from $306 billion in FY1992 to $296 billion in FY1993.

THE UNIFIED BUDGET DEFICIT
(Billions of Dollars)

	FY1991	FY1992	FY1993
	-Actual-	-Projections-	
May Greenbook	269	342	373
Effect on the deficit:			
Deposit insurance	--	-27	-16
Other	--	-2	-1
June Greenbook	269	313	356
Memo:			
Deficit excluding deposit insurance and Defense Cooperation Account	246	306	296
(previous)		(308)	(297)

The outcome of the November elections could have a significant influence on the course of fiscal policy; indeed, this is one of the possibilities that could keep the security markets on edge for a while. But the greatest effects most likely would be in the outyears, and at this point it seems reasonable to assume that any departures from the OBRA guidelines will be of limited dimension in FY1993.

The trade-weighted value of the dollar recently has been 4 percent below the level anticipated in the May Greenbook, and it is projected to remain around this lower level over the forecast period. Although the first quarter saw a surprising spurt in measured output growth in some key economies, growth in the industrialized countries is expected to be sluggish in the near term

2. The downward revision to deposit insurance outlays reflects our current view that additional funding for the RTC will not be approved by the Congress during the remainder of the fiscal year, delaying substantial resolution activity until 1993.

and then to pick up later in 1992 and through 1993; the less-developed nations likely will continue to register stronger growth. Oil prices have moved up somewhat more than expected as a result of Saudi Arabia's restraint on production and the perception of an unsuccessful conclusion to the latest round of talks between Iraq and the United Nations. We now expect the posted price of West Texas intermediate crude oil to peak at almost $21.50 per barrel in the third quarter before moving back down in 1993 to $19.50 per barrel--virtually the same level as in the last Greenbook.

The Current Quarter--1992:Q2

There still is a great deal of uncertainty about real GDP growth in the current quarter. Our estimate of 2 percent--the same as in the May Greenbook--balances the rather sluggish performance of the available spending indicators against the more positive tone of recent data on employment and industrial production. Aggregate hours worked increased 0.5 percent in May and, assuming little change in June, are likely to be up at a 1-1/2 percent annual pace in the second quarter. A simple hours-to-output model, anticipating further gains in labor productivity, indicates that this increase in hours is consistent with real GDP growth of more than 3 percent. Such an estimate seems high, given the uptick in the unemployment rate in May and the behavior of initial claims, but it does suggest that the economy expanded at least modestly in the second quarter.

A stepup in motor vehicle production is adding about a percentage point to real GDP growth in the second quarter. In terms of the GDP expenditure categories, half of the additional output is reflected in the projected increases in consumer and business purchases of motor vehicles; the remainder shows up as a smaller runoff of dealer inventories than reported in the first-quarter GDP data. Likewise, with manufacturing output up in other sectors too, and with sales subdued, nonauto stocks are expected to decline at a slower pace than they did in the first quarter.

After a 5 percent increase in the first quarter, real private domestic final purchases appear to be rising at about a 2 percent annual rate this quarter. The slowdown has been more than accounted for by consumer spending, with the latest retail sales data pointing to a small decline in real outlays for goods other than motor vehicles. Some deceleration had been anticipated, after the unsustainable surge in spending in the winter, but the drop-back has exceeded our expectation. Similarly, housing market activity, which was boosted early in the year by exceptionally favorable weather and financial conditions, also was off this spring. In the critical single-family sector, sales of new homes remained disappointingly low in April, and starts in April and May averaged well under the first-quarter pace. Given the usual lags between starts and expenditures, however, real residential investment likely has continued to grow--but at a slower pace than that in the first quarter.

Real business fixed investment is projected to grow appreciably in the current quarter. The increase is entirely in equipment spending, for which nominal shipments of office and computing machines have remained strong through May and prices have been falling rapidly. Business purchases of motor vehicles probably have risen this quarter, and deliveries of aircraft to domestic companies have bounced back from the very low levels at the beginning of the year. Outside of these areas, though, equipment outlays have evidently remained sluggish. In the nonresidential structures sector, private construction put in place declined in April and, based on the behavior of permits and contracts, we expect it to be down for the quarter as a whole.

The April merchandise trade figures and other indicators suggest that real net exports of goods and services have declined significantly this quarter. Exports of nonagricultural goods are expected to grow only modestly, while oil imports have rebounded and growth in non-oil merchandise imports is projected to pick up.

On the inflation front, retail price increases have moderated through May, and the CPI is projected to rise at a 3-1/2 percent annual rate in the second quarter. Food prices are expected to change little, but energy prices are accelerating as higher crude oil costs are passed through to the consumer level. Outside of food and energy, consumer prices are projected to rise at a 4 percent annual pace--about the same as in the first quarter. Recent figures on average hourly earnings suggest that wages are decelerating, easing underlying cost pressures on a broad front; industrial materials prices have, on balance, been increasing only modestly.

The Outlook for the Economy: 1992:H2 and 1993

Growth in real GDP is expected to pick up over the forecast period, to 2-1/2 percent in the second half of this year and to something more than 3 percent by the latter half of 1993. Underlying this projection is the belief that we have yet to see the full impact on aggregate demand of the monetary policy actions and balance sheet improvements that already have occurred. Since the recovery faltered last summer, interest rates have fallen further, stock prices have risen, corporate leverage and liquidity ratios have improved, households have made further progress in paying down burdensome installment debts, and many financial institutions have bolstered their capital positions. The sequence of events connecting these financial developments to spending will take some time to play out. Indeed, it is conceivable that this impulse ultimately will prove more powerful than we have anticipated, and by extension, that the anticipated combination of a stable funds rate, easing long-term yields, and lessened constraints on credit supply may represent an easier set of financial conditions than is consistent with a noninflationary expansion. This is, in essence, one interpretation of the message being conveyed by the steepness of today's yield curve.

For the time being, however, we are adhering to our assumption of unchanged short-term rates and lower long rates--our basic premise being that the structural problems remaining in the financial system and in the economy militate against a more dynamic cyclical upswing. The contraction of defense spending is expected to be a significant retardant on growth throughout the forecast period. And, it is not until 1993 that net exports stabilize and nonresidential construction and state and local purchases bottom out. Without jobs and income being generated by these sectors, household spending is likely to be constrained to moderate growth, and the stimulus to business investment in equipment and inventories will be rather limited.

STAFF PROJECTION OF REAL GDP
(Percent change; annual rate)

	1992		1993	
	Q2	H2	H1	H2
Real GDP	2.0	2.5	2.9	3.2
Final sales	.5	2.1	2.4	2.9
Private domestic final sales	1.9	3.1	3.3	3.6

<u>Consumer spending</u>. Real personal consumption expenditures are expected to grow at an annual rate of 2-1/4 percent in the third quarter and to increase at about a 2-3/4 percent annual pace thereafter--far from impressive figures by the standards of the past decade, but considerably above the pace of the recovery to date. Consumer confidence, while still not especially high, has risen

noticeably in recent months, and households have made progress in strengthening their balance sheets and trimming debt-service burdens. Although we still think that there has been some postponement of major purchases--particularly motor vehicles--over the past two years, we do not anticipate the major surge in spending that would quickly eliminate that pent-up demand.

On balance, real outlays for consumer durable goods are projected to rise at about a 5-3/4 percent annual pace for the next year and a half--a modest increase in comparison with the double-digit advances of past cyclical upturns. Consumer purchases of new cars and light trucks, while remaining well below the pace of the mid-1980s, are expected to increase considerably over the next year and a half. Growth in the other components of personal consumption expenditures is expected to remain modest: Real outlays for nondurable goods rise at less than a 2 percent annual pace, while the consumption of services increases at a 2-1/2 percent annual rate.

Residential investment. Homebuilding is expected to improve gradually through 1993, supported by faster income growth and a further decline in mortgage interest rates. As demand strengthens, home prices should firm a bit, but not enough to prevent a further improvement in the cash-flow affordability of homeownership (as measured by the ratio of monthly mortgage expense to income). Indeed, a small rise in prices might well be beneficial, on net, as it would relieve fears that the purchase of a home may prove to be a losing investment.

Single-family housing starts are expected to average 1.07 million units at an annual rate in the fourth quarter of this year and approach only 1.2 million units by the end of next year. In the multifamily market segment, vacancy rates are expected to remain high over much of the forecast period, continuing to depress expected rates of return on rental properties. As a result, we look for multifamily housing starts to rise very slowly, reaching only 220,000 units (annual rate) by the end of 1993.

Business fixed investment. Real BFI is projected to rise at an annual rate of about 5-3/4 percent over the forecast period. Spending on producers' durable equipment is the main source of growth, stimulated by a faster expansion of business final sales, gains in capacity utilization, ample internal funds, and continuing pressure to modernize facilities. Real outlays for computers are expected to remain strong, although we have assumed that their growth moves back down to 15 percent by 1993. Expenditures for other types of industrial equipment are expected to pick up in the second half of this year, as businesses become more confident that the recovery will be sustained; these expenditures grow 5-1/2 percent in 1993. The only major exception to the stronger spending is the aircraft category, as excess capacity among the domestic airlines is expected to damp the demand for new equipment. Overall order backlogs already have shrunk substantially at U.S. aircraft manufacturers, and Boeing has scheduled cutbacks in 737 assemblies for later this year.

Investment in nonresidential structures is expected to drift down through the middle of 1993 and then to inch up. Such a bottoming out appears consistent with the trends of contracts and permits, which have been moving essentially sideways over the past year. Although office construction is expected to remain depressed, the rate of contraction in this sector is projected to slow over the next year and a half. The construction of industrial plants and institutional buildings appears to have turned the corner and non-office commercial building may also pick up in the coming year.

However, oil and gas drilling likely will decline over the forecast period, as the major oil companies concentrate their exploration activities overseas.

Business inventories. Businesses appear to have eliminated most of the inventory imbalances that developed at the end of last year and probably will soon begin to increase stocks to meet expanding sales and production needs. Nonetheless, we expect firms to persist in their efforts to hold inventories to a minimum; thus, while inventory investment contributes about 1/2 percentage point to real GDP growth in the next few quarters, we expect the inventory-sales ratio to trend downward over time.

Government purchases. Federal government purchases are projected to fall at about a 3 percent annual rate in the second half of this year and another 4 percent in 1993. This largely reflects the cutbacks in defense spending, which is expected to fall at a 5-1/2 percent annual pace in the second half of this year and 6-3/4 percent in 1993. The staff anticipates that nondefense spending will grow at about a 2-1/2 percent pace over the forecast period--in line with OBRA spending caps.

Real purchases by state and local governments are expected to edge down in the second half of 1992, as the imperative to balance budgets takes priority over infrastructure improvements and other public services. In 1993, an improving economy, interacting with the tax increases of recent years, is expected to generate sufficient additional revenue to permit some modest growth in spending while, at the same time, moving the sector's budget--as measured by the NIPA operating and capital accounts (excluding social insurance)--close to balance.

Net exports. The external sector is expected to have a marginal negative influence on economic growth over the next year and a half; in the last Greenbook, net exports were a somewhat greater drag on output growth. The lower foreign exchange value of the dollar and a pickup in economic activity abroad are expected to stimulate the growth of nonagricultural merchandise exports in 1993. However, the effect of export growth on output is slightly more than offset by renewed growth in imports, which are sensitive to changes in domestic spending. A detailed discussion of these projections is contained in the International Developments section.

STAFF INFLATION PROJECTION
(Percent change; annual rate)

	1992		1993	
	Q2	H2	H1	H2
Consumer price index	3.6	3.7	3.1	3.1
Excluding food and energy	4.0	3.4	3.2	3.1
Employment cost index	3.8	3.7	3.6	3.5
Memo:				
Civilian unemployment rate (quarterly; end of period)	7.3	7.2	6.9	6.7

Labor markets. Employment is expected to rise slowly in the second half of this year and to pick up a bit in 1993. Although employers remain cautious in adding new workers, overtime hours have risen significantly in several industries, and any further expansion of output should induce some additional hiring. Private surveys suggest that many businesses expect to enlarge staffs in the second half of this year. Although hiring is projected to pick up, we still expect firms to maintain a sharp focus on improving efficiency and reducing costs. As a result, the staff projects growth in output per hour to be somewhat faster than its recent cyclically adjusted trend of 1 percent or so. The unemployment rate is expected to move back down to 7.3 percent early in the summer and to edge down to 7.2 percent by year's end. With economic growth picking up next year, the unemployment rate drops back to 6-3/4 percent by the end of 1993.

The staff continues to believe that this margin of slack in the labor market, coupled with declining price inflation, will damp compensation growth over the forecast period. Given the apparent difficulty in reining in the cost of health care benefits, we expect the slowing in compensation to be disproportionately in wages and salaries. Overall, growth in ECI hourly compensation is projected to move down to 3-3/4 percent in 1992--a 1/2 percentage point deceleration from 1991--and to 3-1/2 percent in 1993.

Prices. With hourly compensation decelerating and productivity growing faster than trend, we expect further slowing in price inflation even as profit margins widen somewhat. Core inflation--as proxied by the CPI excluding food and energy--is projected to slow to a 3-1/2 percent annual rate by the end of 1992 and to almost a 3 percent annual pace by the fourth quarter of next year. However, in the near term, higher energy prices are likely to cause the overall CPI to accelerate. As higher world crude oil prices are passed through to the consumer, energy prices are expected to rise at about a 14 percent annual rate in the third quarter; this causes the rate of increase in the CPI to pick up to 4.1 percent (annual rate). Thereafter, increases in both energy and food prices moderate, and the CPI is projected to rise at about a 3-1/2 percent annual rate in the fourth quarter of this year, before slowing to almost a 3 percent pace by the end of 1993.

Forecast Comparisons

The staff projections for real GDP, the CPI, and the unemployment rate are little changed from the forecast developed in January 1992, before the last Monetary Report to the Congress. Real GDP growth now is expected to be a bit stronger this year, almost entirely on the basis of a more favorable performance in the first quarter of the year. Among the major expenditure components, growth in gross domestic purchases--especially consumption--has been revised upward from the January forecast, while the external sector now is expected to exert a more significant restraining influence on activity.

CHANGES IN THE STAFF PROJECTION SINCE JANUARY
(Percent change; annual rate)

	1992				1992[1]
	Q1	Q2	Q3	Q4	
Real GDP					
June 1992	2.4	2.0	2.3	2.7	2.4
January 1992	.4	1.9	2.9	3.3	2.1
FOMC[2]					1-3/4 to 2-1/2
Consumer Price Index					
June 1992	2.9	3.6	4.1	3.4	3.5
January 1992	3.5	3.5	3.4	3.2	3.5
FOMC[2]					3 to 3-1/2
Unemployment rate					
June 1992	7.2	7.3	7.3	7.2	
January 1992	7.1	7.3	7.3	7.2	
FOMC[2]				6-3/4 to 7	

1. Percent change; fourth quarter to fourth quarter.
2. Central tendency forecast in February 1992 Humphrey-Hawkins report.

Relative to private forecasters, the staff projection is a bit more pessimistic about economic growth but is more sanguine on inflation. The staff forecast for real GDP is weaker in 1992 than the Blue Chip Consensus, but the two forecasts for 1993 are similar despite the Blue-Chip projection of higher short-term interest rates and stable long-term bond yields. The divergence of opinion on the outlook for inflation in 1993 would appear attributable only in small part to the staff's projection of a less rapid decline in the unemployment rate.

THE BLUE CHIP CONSENSUS FORECAST[1]
(Percent change; fourth quarter to fourth quarter)

	1992	1993
Real GDP		
Blue Chip Consensus	2.9	3.1
Staff projection	2.4	3.0
Consumer Price Index		
Blue Chip Consensus	3.3	3.6
Staff projection	3.5	3.1
Unemployment Rate[2]		
Blue Chip Consensus	6.9	6.4
Staff projection	7.2	6.7

1. June 1992.
2. Average level; fourth quarter (percent).

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

June 24, 1992

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	5/14/92	6/24/92	5/14/92	6/24/92	5/14/92	6/24/92	5/14/92	6/24/92	5/14/92	6/24/92
ANNUAL										
1989[2]	7.0	7.0	2.5	2.5	4.3	4.3	4.8	4.8	5.3	5.3
1990[2]	5.1	5.1	1.0	1.0	4.3	4.3	5.4	5.4	5.5	5.5
1991[2]	2.9	2.9	-.7	-.7	4.0	4.0	4.2	4.2	6.7	6.7
1992	4.5	4.4	1.9	1.8	2.8	2.9	3.3	3.3	7.1	7.2
1993	5.7	5.6	2.9	2.8	3.0	2.9	3.3	3.3	6.8	6.9
QUARTERLY										
1990 Q1[2]	6.3	6.3	1.7	1.7	5.0	5.0	7.2	7.2	5.2	5.2
Q2[2]	6.2	6.2	1.6	1.6	4.6	4.6	4.1	4.1	5.3	5.3
Q3[2]	4.9	4.9	.2	.2	4.8	4.8	7.0	7.0	5.6	5.6
Q4[2]	-.9	-.9	-3.9	-3.9	3.2	3.2	6.9	6.9	6.0	6.0
1991 Q1[2]	2.3	2.3	-2.5	-2.5	5.4	5.4	3.3	3.3	6.5	6.5
Q2[2]	4.6	4.6	1.4	1.4	3.3	3.3	2.4	2.4	6.7	6.7
Q3[2]	4.1	4.1	1.8	1.8	2.6	2.6	2.7	2.7	6.8	6.8
Q4[2]	2.2	2.2	.4	.4	2.1	2.1	3.6	3.6	6.9	6.9
1992 Q1[2]	4.9	5.5	2.0	2.4	3.1	3.4	2.9	2.9	7.2	7.2
Q2	4.9	4.8	2.0	2.0	2.9	2.7	3.8	3.6	7.2	7.3
Q3	6.0	4.9	3.1	2.3	3.0	2.8	3.7	4.1	7.1	7.3
Q4	5.9	5.6	3.1	2.7	3.0	2.9	3.4	3.4	7.0	7.2
1993 Q1	6.0	6.1	2.9	2.8	3.4	3.4	3.3	3.0	6.9	7.1
Q2	5.5	5.6	2.9	2.9	2.8	2.7	3.2	3.1	6.8	6.9
Q3	5.3	5.7	2.8	3.1	2.7	2.7	3.1	3.1	6.7	6.8
Q4	5.2	5.7	2.8	3.2	2.7	2.6	3.1	3.1	6.6	6.7
TWO-QUARTER[3]										
1990 Q2[2]	6.2	6.2	1.7	1.7	4.8	4.8	5.6	5.6	-.1	-.1
Q4[2]	1.9	1.9	-1.8	-1.8	3.9	3.9	7.0	7.0	.7	.7
1991 Q2[2]	3.5	3.5	-.6	-.6	4.4	4.4	2.9	2.9	.7	.7
Q4[2]	3.1	3.1	1.1	1.1	2.4	2.4	3.1	3.1	.2	.2
1992 Q2	4.9	5.2	2.0	2.2	3.0	3.1	3.3	3.2	.3	.4
Q4	6.0	5.2	3.1	2.5	3.0	2.9	3.6	3.7	-.2	-.1
1993 Q2	5.7	5.8	2.9	2.9	3.1	3.0	3.2	3.1	-.2	-.3
Q4	5.2	5.7	2.8	3.2	2.7	2.7	3.1	3.1	-.2	-.2
FOUR-QUARTER[4]										
1989 Q4[2]	5.9	5.9	1.7	1.7	4.2	4.2	4.6	4.6	.1	.1
1990 Q4[2]	4.1	4.1	-.1	-.1	4.4	4.4	6.3	6.3	.6	.6
1991 Q4[2]	3.3	3.3	.3	.3	3.4	3.4	3.0	3.0	.9	.9
1992 Q4	5.4	5.2	2.6	2.4	3.0	3.0	3.4	3.5	.1	.3
1993 Q4	5.5	5.8	2.8	3.0	2.9	2.8	3.2	3.1	-.4	-.5

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

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

June 24, 1992

Item	Unit[1]	1985	1986	1987	1988	1989	1990	1991	Projected 1992	Projected 1993
EXPENDITURES										
Nominal GDP	Bill. $	4038.7	4268.6	4539.9	4900.4	5244.0	5513.8	5672.6	5924.7	6255.9
Real GDP	Bill. 87$	4279.8	4404.5	4540.0	4718.6	4836.9	4884.9	4848.8	4937.8	5075.1
Real GDP	% change	3.3	2.2	4.5	3.3	1.7	-.1	.3	2.4	3.0
Gross domestic purchases		3.8	2.1	3.9	2.5	1.0	-.9	.1	2.6	3.1
Final sales		3.8	3.3	2.7	4.2	1.5	1.2	-.5	2.3	2.6
Private dom. final purch.		3.9	3.0	1.9	4.2	.6	-.3	-.5	3.3	3.4
Personal cons. expend.		4.0	4.0	2.1	4.2	1.2	.3	.6	2.8	2.8
Durables		6.3	12.5	-2.6	8.5	-.8	-2.7	-2.8	6.8	5.8
Nondurables		2.7	3.3	1.4	3.2	.8	-1.0	-.9	1.8	2.0
Services		4.2	2.5	3.7	3.7	2.0	1.9	2.2	2.5	2.6
Business fixed invest.		3.1	-5.7	3.0	5.5	.5	.6	-7.1	4.8	5.7
Producers' dur. equip.		2.2	-.7	2.4	9.1	-.1	3.1	-3.7	8.1	7.7
Nonres. structures		4.6	-14.1	4.4	-1.2	1.7	-4.6	-14.7	-3.2	-.1
Res. structures		4.3	11.1	-3.1	.9	-7.7	-11.8	-.9	6.3	8.6
Exports		-.3	9.9	12.6	13.5	10.9	7.6	6.8	3.1	6.8
Imports		5.2	6.7	4.7	3.6	2.7	-.4	4.6	5.4	6.8
Government purchases		5.9	4.1	3.3	.2	1.6	3.2	-1.6	-.4	-.8
Federal		6.4	3.8	3.7	-3.4	-1.2	2.3	-3.1	-1.3	-4.1
Defense		7.0	3.7	4.5	-3.2	-2.0	.8	-4.7	-4.3	-6.8
State and local		5.4	4.4	2.9	2.9	3.6	3.8	-.5	.2	1.4
Change in bus. invent.	Bill. 87$	22.1	8.6	26.3	19.9	32.6	.2	-13.9	-.2	25.5
Nonfarm		19.8	10.6	32.7	26.9	33.3	-1.5	-13.9	-.9	23.6
Net exports		-145.3	-155.1	-143.0	-104.0	-75.7	-51.4	-20.9	-31.0	-37.3
Nominal GDP	% change	7.0	4.7	8.0	7.7	5.9	4.1	3.3	5.2	5.8
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	97.5	99.5	102.2	105.5	108.3	109.8	108.3	108.6	110.4
Unemployment rate	%	7.2	7.0	6.2	5.5	5.3	5.5	6.7	7.2	6.9
Industrial prod. index	% change	1.9	1.4	6.5	4.5	1.1	.3	-.5	3.0	4.0
Capacity util. rate-mfg.	%	79.5	79.0	81.4	83.9	83.9	82.3	78.2	78.2	79.5
Housing starts	Millions	1.74	1.81	1.62	1.49	1.38	1.19	1.01	1.22	1.34
Auto sales in U.S.		11.04	11.45	10.24	10.63	9.91	9.51	8.39	8.49	9.16
North American produced		8.20	8.22	7.07	7.54	7.09	6.90	6.14	6.31	6.93
Other		2.84	3.24	3.18	3.09	2.83	2.60	2.25	2.19	2.24
INCOME AND SAVING										
Nominal GNP	Bill. $	4053.6	4277.8	4544.5	4908.2	5248.2	5524.6	5685.8	5943.6	6278.0
Nominal GNP	% change	6.8	4.4	8.1	7.8	5.9	4.3	3.0	5.3	5.8
Nominal personal income		6.6	5.5	7.4	7.1	6.7	6.5	2.7	5.0	6.4
Real disposable income		1.9	2.8	2.1	3.2	1.4	1.0	.5	2.3	3.1
Personal saving rate	%	6.5	6.0	4.3	4.4	4.4	5.1	5.2	4.9	5.0
Corp. profits, IVA&CCAdj	% change	9.0	-7.1	29.7	10.2	-11.5	-11.5	6.6	21.4	7.8
Profit share of GNP	%	6.9	6.4	7.0	7.4	6.7	5.8	5.4	6.1	6.4
Federal surpl./def.	Bill. $	-181.4	-201.1	-151.8	-136.6	-124.2	-165.3	-201.6	-283.1	-258.9
State/local surpl./def.		56.1	54.3	40.1	38.4	41.1	25.7	30.0	46.9	60.7
Ex. social ins. funds		9.2	1.5	-14.7	-18.4	-19.2	-38.1	-35.3	-18.9	-6.8
PRICES AND COSTS										
GDP implicit deflator	% change	3.6	2.6	3.3	4.2	4.2	4.2	3.0	2.8	2.6
GDP fixed-wt. price index		3.6	2.5	3.4	4.2	4.2	4.4	3.4	3.0	2.8
Gross domestic purchases fixed-wt. price index		3.5	2.3	3.9	4.1	4.2	5.1	2.6	3.1	2.8
CPI		3.5	1.3	4.5	4.3	4.6	6.3	3.0	3.5	3.1
Ex. food and energy		4.3	3.9	4.3	4.5	4.4	5.3	4.5	3.7	3.2
ECI, hourly compensation[2]		3.9	3.2	3.3	4.8	4.8	4.6	4.4	3.8	3.5
Nonfarm business sector										
Output per hour		.7	1.2	1.8	.5	-1.5	.4	1.3	1.8	1.5
Compensation per hour		4.7	4.6	3.8	3.8	3.0	6.5	3.3	3.4	3.7
Unit labor cost		3.9	3.4	1.9	3.3	4.6	6.0	2.1	1.6	2.2

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

Strictly Confidential (FR)
Class II FOMC

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

June 24, 1992

Item	Unit	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2	1990 Q3	1990 Q4	1991 Q1	1991 Q2
EXPENDITURES											
Nominal GDP	Bill. $	5139.9	5218.5	5277.3	5340.4	5422.4	5504.7	5570.5	5557.5	5589.0	5652.6
Real GDP	Bill. 87$	4809.8	4832.4	4845.6	4859.7	4880.8	4900.3	4903.3	4855.1	4824.0	4840.7
Real GDP	% change	2.5	1.9	1.1	1.2	1.7	1.6	.2	-3.9	-2.5	1.4
Gross domestic purchases		.7	1.1	1.7	.3	.6	1.3	1.3	-6.5	-3.5	.9
Final sales		.8	2.1	2.7	.4	4.6	-.5	.9	-.3	-2.4	1.2
Private dom. final purch.		-.4	.4	3.1	-.7	2.7	-1.5	2.5	-4.7	-4.8	.8
Personal cons. expend.		-.2	1.0	4.1	.1	2.1	.0	2.8	-3.5	-1.3	1.4
Durables		-5.0	5.9	13.8	-15.5	16.7	-11.8	1.5	-14.0	-11.9	-1.8
Nondurables		.1	-1.4	3.1	1.5	-.3	-1.5	1.3	-3.4	-.3	.9
Services		.8	1.2	2.3	3.6	.3	4.1	4.1	-.9	.7	2.5
Business fixed invest.		.9	2.7	.8	-2.5	7.1	-4.6	8.5	-7.7	-17.4	-3.3
Producers' dur. equip.		-1.0	7.3	-2.5	-3.9	6.4	-3.2	11.5	-1.6	-18.1	.0
Nonres. structures		4.9	-6.2	8.0	.4	8.5	-7.3	2.5	-19.7	-15.7	-10.3
Res. structures		-5.9	-11.9	-5.6	-7.3	.6	-15.7	-16.2	-15.0	-24.8	3.1
Exports		12.4	17.2	.9	13.7	8.8	4.8	-.4	17.7	-7.4	19.4
Imports		-6.1	6.9	6.8	4.0	-2.5	1.7	9.6	-9.3	-15.4	13.3
Government purchases		-3.4	5.2	4.1	.7	6.4	2.2	-.3	4.6	2.8	-.1
Federal		-9.5	7.9	5.1	-7.2	5.9	4.3	-5.0	4.5	9.9	1.0
Defense		-12.8	5.6	10.1	-9.2	2.3	3.3	-7.9	5.9	10.9	-3.3
State and local		1.3	3.4	3.3	6.6	6.7	.8	3.2	4.6	-1.9	-.7
Change in bus. invent.	Bill. 87$	41.2	38.9	20.2	30.0	-4.0	22.1	13.9	-31.2	-32.8	-30.4
Nonfarm		35.8	33.4	25.9	38.1	-5.5	15.5	9.9	-25.7	-31.1	-30.8
Net exports		-81.2	-71.9	-79.8	-70.0	-56.0	-52.5	-65.7	-31.2	-18.6	-12.3
Nominal GDP	% change	7.8	6.3	4.6	4.9	6.3	6.2	4.9	-.9	2.3	4.6
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	107.7	108.2	108.5	109.0	109.8	110.2	109.9	109.3	108.6	108.2
Unemployment rate[1]	%	5.2	5.2	5.3	5.4	5.2	5.3	5.6	6.0	6.5	6.7
Industrial prod. index	% change	2.7	2.8	-1.2	.2	.6	4.2	3.9	-7.0	-9.7	2.6
Capacity util. rate-mfg.[1]	%	84.7	84.5	83.7	82.9	82.7	82.8	82.9	80.8	78.0	77.9
Housing starts	Millions	1.49	1.36	1.35	1.34	1.46	1.20	1.13	1.03	.92	1.00
Auto sales in U.S.		10.03	10.26	10.20	9.09	9.92	9.53	9.60	9.00	8.33	8.43
North American produced		7.08	7.26	7.36	6.56	7.12	6.82	7.08	6.60	6.09	6.11
Other		2.95	3.00	2.84	2.53	2.80	2.71	2.51	2.39	2.25	2.32
INCOME AND SAVING											
Nominal GNP	Bill. $	5144.3	5217.7	5279.8	5350.9	5432.7	5505.5	5576.8	5583.2	5611.7	5660.6
Nominal GNP	% change	7.3	5.8	4.8	5.5	6.3	5.5	5.3	.5	2.1	3.5
Nominal personal income		10.8	4.5	3.7	7.8	9.8	6.6	5.7	3.9	.3	4.5
Real disposable income		3.6	-2.6	1.9	3.0	4.5	1.6	.2	-2.0	-1.7	2.6
Personal saving rate[1]	%	5.2	4.3	3.7	4.4	4.9	5.4	4.8	5.2	5.1	5.4
Corp. profits, IVA&CCAdj	% change	-12.2	-5.6	-16.6	-11.4	6.7	-.5	-39.4	-4.8	8.4	1.9
Profit share of GNP[1]	%	7.1	6.9	6.5	6.3	6.3	6.2	5.4	5.3	5.4	5.4
Federal govt. surpl./def.	Bill. $	-114.5	-110.5	-128.4	-143.3	-160.8	-156.9	-149.7	-193.6	-146.4	-206.7
State/local surpl./def.		42.4	45.1	42.6	34.4	30.3	28.5	26.1	18.0	20.4	27.6
Ex. social ins. funds		-16.4	-14.8	-18.3	-27.4	-32.2	-34.9	-38.2	-46.9	-44.7	-38.0
PRICES AND COSTS											
GDP implicit deflator	% change	5.4	4.2	3.4	3.7	4.4	4.4	4.7	3.2	5.0	3.1
GDP fixed-wt. price index		4.8	4.5	3.5	3.7	5.0	4.6	4.8	3.2	5.4	3.3
Gross domestic purchases fixed-wt. price index		5.3	4.6	2.8	4.0	6.1	3.5	5.0	5.8	3.2	2.4
CPI		4.7	6.4	3.3	3.9	7.2	4.1	7.0	6.9	3.3	2.4
Ex. food and energy		4.9	4.2	3.8	4.7	5.6	5.5	5.8	4.2	6.5	3.8
ECI, hourly compensation[2]		4.6	4.1	5.3	4.8	5.6	4.7	4.7	3.8	4.9	4.5
Nonfarm business sector											
Output per hour		-3.3	-2.0	-.2	-.5	.1	2.7	-1.2	.2	.0	2.0
Compensation per hour		2.9	1.3	3.6	4.1	5.1	8.9	7.1	4.8	2.9	4.9
Unit labor cost		6.5	3.3	3.8	4.6	5.0	6.1	8.4	4.6	2.8	2.8

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

Strictly Confidential (FR)
Class II FOMC

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

June 24, 1992

Item	Units	1991			Projected						
				1992				1993			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	5709.2	5739.7	5817.5	5886.3	5956.7	6038.1	6128.3	6211.8	6297.8	6385.7
Real GDP	Bill. 87$	4862.7	4868.0	4896.9	4921.3	4949.6	4983.3	5018.1	5054.6	5093.5	5134.2
Real GDP	% change	1.8	.4	2.4	2.0	2.3	2.7	2.8	2.9	3.1	3.2
Gross domestic purchases		3.4	-.4	2.5	2.8	2.6	2.7	2.9	3.0	3.2	3.1
Final sales		-.7	-.2	4.6	.5	1.8	2.3	2.3	2.5	2.8	3.1
Private dom. final purch.		1.9	.1	5.0	1.9	2.7	3.4	3.3	3.4	3.6	3.6
Personal cons. expend.		2.3	.0	5.4	1.0	2.3	2.8	2.7	2.8	2.8	2.8
Durables		9.5	-5.7	18.4	-1.0	4.2	6.5	5.9	5.9	5.5	5.9
Nondurables		.0	-3.9	5.4	-.8	1.1	1.7	1.9	2.0	2.0	2.0
Services		2.2	3.7	2.5	2.5	2.5	2.5	2.5	2.6	2.6	2.6
Business fixed invest.		-3.7	-3.4	1.7	6.4	6.0	5.4	5.4	5.3	5.9	6.0
Producers' dur. equip.		6.7	-1.6	3.7	10.6	9.6	8.6	8.3	7.7	7.5	7.4
Nonres. structures		-23.9	-7.8	-3.0	-3.6	-3.2	-2.9	-2.2	-1.3	1.4	1.8
Res. structures		10.9	12.3	8.4	6.0	1.6	9.2	6.4	7.1	11.4	9.4
Exports		7.3	9.7	-.9	2.9	4.8	5.8	6.4	6.8	6.9	7.0
Imports		22.3	2.1	-.2	9.6	6.9	5.4	6.6	7.2	7.5	5.8
Government purchases		-3.4	-5.4	3.1	-1.4	-.9	-2.3	-1.9	-1.0	-.3	.1
Federal		-8.1	-13.6	1.7	-.5	-.9	-5.4	-5.1	-4.4	-3.8	-3.0
Defense		-8.9	-15.7	-2.4	-3.7	-2.4	-8.5	-8.3	-7.3	-6.5	-5.3
State and local		-.1	.8	3.9	-1.9	-1.0	-.1	.4	1.3	1.9	2.1
Change in bus. invent.	Bill. 87$	.1	7.6	-18.4	-.4	6.4	11.4	18.5	24.2	28.5	30.8
Nonfarm		-2.8	9.2	-18.1	-1.0	5.5	10.2	16.9	22.5	26.5	28.6
Net exports		-31.1	-21.3	-22.3	-31.8	-35.1	-35.0	-35.9	-37.1	-38.6	-37.4
Nominal GDP	% change	4.1	2.2	5.5	4.8	4.9	5.6	6.1	5.6	5.7	5.7
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.3	108.2	108.1	108.5	108.8	109.2	109.6	110.1	110.6	111.2
Unemployment rate[1]	%	6.8	6.9	7.2	7.3	7.3	7.2	7.1	6.9	6.8	6.7
Industrial prod. index	% change	6.6	-.7	-2.8	5.8	4.2	5.0	4.7	4.2	3.7	3.5
Capacity util. rate-mfg[1]	%	78.7	78.2	77.3	78.1	78.4	78.9	79.3	79.4	79.6	79.8
Housing starts	Millions	1.04	1.10	1.26	1.17	1.22	1.26	1.29	1.32	1.36	1.39
Auto sales in U.S.		8.60	8.19	8.28	8.41	8.55	8.73	8.90	9.07	9.25	9.43
North American produced		6.31	6.06	6.03	6.25	6.40	6.55	6.70	6.85	7.00	7.15
Other		2.29	2.13	2.25	2.16	2.15	2.18	2.20	2.22	2.25	2.28
INCOME AND SAVING											
Nominal GNP	Bill. $	5720.1	5750.7	5836.5	5903.7	5977.4	6056.7	6150.8	6233.4	6321.7	6406.1
Nominal GNP	% change	4.3	2.2	6.1	4.7	5.1	5.4	6.4	5.5	5.8	5.4
Nominal personal income		2.7	3.5	5.1	4.5	4.4	6.1	7.4	5.9	5.9	6.4
Real disposable income		.3	.9	3.7	2.2	.6	2.7	3.8	2.7	2.6	3.1
Personal saving rate[1]	%	5.0	5.2	4.9	5.2	4.8	4.8	5.0	5.0	5.0	5.0
Corp. profits, IVA&CCAdj	% change	3.5	13.0	46.1	14.5	9.0	19.3	7.5	8.7	3.5	11.8
Profit share of GNP[1]	%	5.4	5.5	5.9	6.1	6.1	6.3	6.3	6.4	6.4	6.5
Federal govt. surpl./def.	Bill. $	-210.2	-243.1	-284.5	-293.3	-280.0	-274.5	-274.0	-264.8	-250.9	-245.9
State/local surpl./def.		31.8	40.3	38.6	44.3	51.0	53.6	57.9	58.8	62.8	63.2
Ex. social ins. funds		-33.8	-24.8	-26.5	-21.3	-15.0	-12.8	-8.9	-8.4	-4.9	-5.1
PRICES AND COSTS											
GDP implicit deflator	% change	2.1	1.7	3.1	2.8	2.5	2.8	3.2	2.5	2.5	2.4
GDP fixed-wt. price index		2.6	2.1	3.4	2.7	2.8	2.9	3.4	2.7	2.7	2.6
Gross domestic purchases fixed-wt. price index		2.5	2.2	3.1	3.0	3.3	2.9	3.1	2.7	2.7	2.6
CPI		2.7	3.6	2.8	3.6	4.1	3.4	3.0	3.1	3.1	3.1
Ex. food and energy		4.0	3.7	3.9	4.0	3.5	3.4	3.3	3.2	3.1	3.1
ECI, hourly compensation[2]		4.1	4.0	4.0	3.8	3.7	3.7	3.6	3.5	3.5	3.4
Nonfarm business sector											
Output per hour		1.7	1.3	2.7	1.4	1.3	1.7	1.4	1.5	1.5	1.6
Compensation per hour		3.5	2.2	2.2	4.1	3.7	3.7	4.0	3.7	3.6	3.6
Unit labor cost		1.7	.9	-.5	2.7	2.4	2.0	2.6	2.2	2.1	2.0

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

Strictly Confidential (FR)
Class II FOMC

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

June 24, 1992

Item	1989				1990				1991					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1988	1989	1990	1991
Real GDP	30.1	22.6	13.2	14.1	21.1	19.5	3.0	-48.2	-31.1	16.7	154.2	80.0	-4.6	12.9
Gross domestic purchases	8.6	13.3	21.1	4.3	7.1	16.0	16.2	-82.7	-43.7	10.4	120.9	47.3	-43.4	3.0
Final sales	9.8	25.0	31.9	4.3	55.1	-6.7	11.3	-3.1	-29.5	14.4	193.1	71.0	56.6	-26.0
Private dom. final purch.	-4.1	4.3	30.7	-7.0	27.0	-15.3	25.1	-48.0	-48.7	8.3	158.3	23.9	-11.2	-21.3
Personal cons. expend.	-2.0	7.7	32.5	.5	17.2	-.2	22.6	-29.4	-10.7	11.3	128.2	38.7	10.2	19.3
Durables	-5.6	6.3	14.4	-18.7	17.1	-14.0	1.6	-16.3	-13.2	-1.9	34.5	-3.6	-11.6	-11.8
Nondurables	.3	-3.8	8.1	3.9	-.9	-4.1	3.4	-9.0	-.8	2.3	32.2	8.5	-10.6	-8.9
Services	3.4	5.1	10.0	15.3	1.1	17.8	17.7	-4.2	3.2	10.9	61.4	33.8	32.4	40.0
Business fixed invest.	1.2	3.6	1.1	-3.4	9.4	-6.4	11.2	-11.0	-25.4	-4.3	28.2	2.5	3.2	-38.9
Producers' dur. equip.	-.9	6.4	-2.3	-3.6	5.7	-3.0	10.1	-1.5	-18.2	.0	30.4	-.4	11.3	-13.9
Nonres. structures	2.1	-2.8	3.4	.2	3.7	-3.4	1.1	-9.6	-7.1	-4.4	-2.2	2.9	-8.2	-25.0
Res. structures	-3.4	-6.9	-3.1	-4.0	.3	-8.7	-8.6	-7.6	-12.6	1.3	2.0	-17.4	-24.6	-1.6
Change in bus. invent.	20.3	-2.3	-18.7	9.8	-34.0	26.1	-8.2	-45.1	-1.6	2.4	-39.0	9.1	-61.2	38.8
Nonfarm	5.3	-2.4	-7.5	12.2	-43.6	21.0	-5.6	-35.6	-5.4	.3	-31.6	7.6	-63.8	34.9
Farm	15.1	.0	-11.2	-2.4	9.6	5.2	-2.7	-9.5	3.8	2.1	-7.4	1.5	2.6	3.9
Net exports	21.5	9.3	-7.9	9.8	14.0	3.5	-13.2	34.5	12.6	6.3	33.3	32.7	38.8	9.9
Exports	13.0	18.3	1.0	15.3	10.4	5.9	-.5	20.9	-10.0	23.2	52.1	47.6	36.7	35.5
Imports	-8.5	8.9	9.0	5.4	-3.5	2.3	12.9	-13.7	-22.6	16.9	18.8	14.8	-2.0	25.6
Government purchases	-7.6	11.4	9.1	1.5	14.1	5.1	-.6	10.4	6.6	-.2	1.5	14.4	29.0	-14.6
Federal	-9.3	7.1	4.7	-7.0	5.4	4.0	-4.9	4.2	9.1	1.0	-13.2	-4.5	8.7	-11.9
Defense	-9.6	3.8	6.8	-6.8	1.6	2.3	-5.8	4.0	7.4	-2.4	-9.3	-5.8	2.1	-13.3
Nondefense	.3	3.3	-2.1	-.2	3.7	1.8	.9	.2	1.7	3.4	-3.9	1.3	6.6	1.4
State and local	1.7	4.3	4.3	8.5	8.8	1.1	4.3	6.2	-2.6	-1.0	14.7	18.8	20.4	-2.6

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

June 24, 1992

Item	1991 Q3	1991 Q4	1992 Q1	1992 Q2 (Projected)	1992 Q3 (Projected)	1992 Q4 (Projected)	1993 Q1 (Projected)	1993 Q2 (Projected)	1993 Q3 (Projected)	1993 Q4 (Projected)	1990	1991	1992 (Projected)	1993 (Projected)
Real GDP	22.0	5.3	28.9	24.4	28.4	33.6	34.9	36.5	38.9	40.7	-4.6	12.9	115.3	150.9
Gross domestic purchases	40.8	-4.5	29.9	33.8	31.7	33.6	35.8	37.7	40.4	39.4	-43.4	3.0	129.0	153.3
Final sales	-8.6	-2.3	55.0	6.4	21.6	28.6	27.8	30.8	34.6	38.4	56.6	-26.0	111.6	131.5
Private dom. final purch.	18.4	.7	48.9	19.0	27.1	33.9	33.0	34.2	36.9	36.9	-11.2	-21.3	128.9	141.0
Personal cons. expend.	18.8	-.1	43.1	8.3	18.8	22.8	22.9	23.8	23.6	24.2	10.2	19.3	92.9	94.4
Durables	9.4	-6.1	17.8	-1.1	4.4	6.8	6.3	6.4	6.1	6.6	-11.6	-11.8	28.0	25.4
Nondurables	-.1	-10.3	13.8	-2.1	2.9	4.4	5.0	5.3	5.3	5.3	-10.6	-8.9	19.0	20.8
Services	9.6	16.3	11.4	11.5	11.4	11.5	11.6	12.1	12.2	12.3	32.4	40.0	45.9	48.1
Business fixed invest.	-4.8	-4.4	2.1	8.0	7.5	6.9	7.1	7.0	7.9	8.1	3.2	-38.9	24.5	30.0
Producers' dur. equip.	5.8	-1.5	3.3	9.3	8.7	7.9	7.8	7.4	7.4	7.4	11.3	-13.9	29.2	30.1
Nonres. structures	-10.5	-3.0	-1.1	-1.3	-1.1	-1.0	-.8	-.4	.5	.6	-8.2	-25.0	-4.6	-.1
Res. structures	4.5	5.2	3.7	2.7	.8	4.2	3.0	3.4	5.5	4.7	-24.6	-1.6	11.4	16.5
Change in bus. invent.	30.5	7.5	-26.0	18.0	6.8	5.0	7.1	5.7	4.3	2.3	-61.2	38.8	3.8	19.4
Nonfarm	28.0	12.0	-27.3	17.1	6.5	4.7	6.7	5.6	4.0	2.1	-63.8	34.9	1.0	18.4
Farm	2.5	-4.5	1.3	.9	.3	.3	.4	.1	.3	.2	2.6	3.9	2.8	1.0
Net exports	-18.8	9.8	-1.0	-9.5	-3.3	.0	-.9	-1.2	-1.5	1.2	38.8	9.9	-13.7	-2.4
Exports	9.5	12.8	-1.3	3.9	6.7	8.0	8.9	9.7	10.0	10.4	36.7	35.5	17.3	39.0
Imports	28.3	3.0	-.3	13.4	10.0	8.0	9.8	10.8	11.6	9.1	-2.0	25.6	31.0	41.4
Government purchases	-8.2	-12.8	7.1	-3.2	-2.2	-5.3	-4.3	-2.2	-.8	.2	29.0	-14.6	-3.6	-7.1
Federal	-8.2	-13.8	1.6	-.5	-.8	-5.1	-4.8	-4.0	-3.4	-2.7	8.7	-11.9	-4.8	-14.9
Defense	-6.6	-11.7	-1.6	-2.5	-1.6	-5.8	-5.5	-4.7	-4.1	-3.3	2.1	-13.3	-11.5	-17.6
Nondefense	-1.6	-2.1	3.2	2.0	.8	.7	.7	.7	.7	.6	6.6	1.4	6.7	2.7
State and local	-.1	1.1	5.3	-2.6	-1.4	-.2	.5	1.8	2.6	2.9	20.4	-2.6	1.1	7.8

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

STAFF PROJECTIONS OF FEDERAL SECTOR ACCOUNTS AND RELATED ITEMS
(Billions of dollars except as noted)

June 24, 1992

Item	Fiscal year				1991				1992				1993			
	1990[a]	1991[a]	1992	1993	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1[a]	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1031	1054	1081	1150	233	307	264	255	239	316	270	259	253	346	292	270
Outlays[1]	1252	1324	1393	1506	299	333	356	339	355	350	350	378	375	377	377	392
Surplus/deficit[1]	-220	-269	-313	-356	-66	-26	-91	-84	-116	-34	-80	-119	-122	-31	-85	-122
On-budget	-277	-322	-367	-413	-81	-50	-94	-97	-121	-67	-81	-128	-130	-65	-91	-132
Off-budget	57	52	54	57	15	24	3	14	6	34	1	9	8	34	6	10
Surplus excluding deposit insurance[2]	-162	-203	-301	-296	-63	-12	-55	-89	-105	-30	-78	-106	-107	-13	-70	-106
Means of financing																
Borrowing	263	293	311	351	56	43	95	89	83	61	78	111	104	55	81	116
Cash decrease	1	-1	-5	6	0	-12	2	-7	29	-25	-1	11	15	-20	0	10
Other[3]	-44	-23	6	-1	9	-6	-6	2	4	-3	3	-3	2	-4	3	-3
Cash operating balance, end of period	40	41	46	40	32	44	41	49	20	45	46	35	20	40	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1093	1116	1137	1212	1115	1114	1125	1126	1132	1138	1153	1173	1206	1225	1243	1265
Expenditures	1245	1305	1412	1478	1262	1321	1335	1369	1416	1431	1433	1448	1480	1490	1494	1510
Purchases	417	446	440	441	452	452	445	432	441	443	444	440	443	440	438	437
Defense	309	326	312	302	332	328	322	311	314	312	312	306	305	301	297	294
Nondefense	109	120	128	138	119	124	123	121	127	131	133	134	138	139	141	142
Other expenditures	828	860	972	1037	810	869	890	937	975	988	989	1008	1037	1049	1056	1074
Surplus/deficit	-153	-189	-275	-266	-146	-207	-210	-243	-285	-293	-280	-274	-274	-265	-251	-246
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-177	-158	-221	-218	-114	-167	-168	-191	-230	-237	-225	-222	-224	-218	-210	-210
Change in HEB, percent of potential GDP	.4	-.4	1.1	0	-1.3	.9	0	.4	.7	.1	-.2	-.1	0	-.1	-.1	0
Fiscal impetus (FI), percent, cal. year	-3.3	-4	-4.8	-4.4	-2.6	.5	-1.8	-2.4	-1.7	-.4	-.2	-1.1	-2	-1	-.8	-.7

1. OMB's February deficit estimates are $400 billion in FY92 and $350 billion in FY93. CBO's March deficit estimates are $368 billion in FY92 and $337 billion in FY93. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's February deficit estimates, excluding deposit insurance spending, are $320 billion in FY92 and $274 billion in FY93. CBO's March deficit estimates, excluding deposit insurance spending, are $302 billion in FY92 and $267 billion in FY93.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.1 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in 1987 dollars), scaled by real federal purchases. For change in HEB and FI, negative values indicate restraint.

a--Actual.

Recent Developments

With economic data presenting a mixed picture, and with no indications that a further easing of monetary policy is in the offing, interest rates have not moved far from their levels at the time of the last FOMC meeting. Federal funds have traded close to 3-3/4 percent throughout the period, and other short-term rates have risen about 10 to 20 basis points. Long-term rates are mostly unchanged, with the exception of those on home mortgages, which have declined about 15 basis points. Stock prices have fallen somewhat over the intermeeting period amid discussion that second-quarter earnings for several firms may not be as robust as had been hoped.

The broad monetary aggregates have remained weak, with M2 and M3 now below the lower bounds of their annual growth ranges. After declining in March and April, both aggregates were virtually unchanged in May, and data for early June point to renewed contraction. M1 accelerated markedly in May, largely because of a less-than-seasonal outflow for income tax payments, but it appears to have flattened out this month. The nontransactions component of M2 declined at a rate of nearly 5 percent in May, driven by continued sizable runoffs of small time deposits. Over the past several months, rates paid on such deposits have dropped more than rates on other instruments. Thus, as small time deposits have matured, the proceeds have frequently been rechanneled into either liquid deposits or capital market investments such as stock and bond mutual funds. Apparently, some maturing time deposits also are being used to pay down consumer debt ahead of schedule.

Deposit rates are relatively low because banks and thrifts are not lending and therefore have little need to attract funds. Bank loans dropped sharply in May, with business loans continuing to be the fastest declining major component. Consumer loans also dropped, even after an adjustment for securitizations and despite expressions of more willingness to make such loans by a number of banks; and real estate lending expanded at a historically weak pace. There are few signs that bank lending has recovered in June.

Total debt of nonfinancial businesses appears to have been about flat in the second quarter, after a small increase in the first. Besides the decline in bank C&I loans in April and May, nonfinancial commercial paper has contracted, and business loans at finance companies started the quarter with their biggest monthly decline in more than a year. Gross public issuance of bonds has been strong, but proceeds have been targeted largely for the paydown of higher-cost bonds and bank loans. With firms seeking to refinance high-coupon debt and investors stretching for more attractive yields, issuance of speculative-grade bonds has continued active; through May, junk bond offerings already exceeded the 1991 total. Still high average P-Es have continued to stimulate a large volume of equity issuance.

Data for the second quarter are sketchy, but net household borrowing overall appears to have remained moderate. We expect that growth in home mortgage debt will be a bit stronger this quarter, reflecting settlement of a heavy volume of home mortgage commitments made at the reduced rates of early this year, an expectation that is supported by substantial gross issuance of mortgage-backed securities in April and May. But consumer debt fell appreciably in April, and bank credit data suggest that such weakness extended further into the quarter despite some recent pickup in outlays for motor vehicles. Several banks reported an abnormally large volume of prepayments on consumer loans in April. Decisions to prepay may have been motivated by debt-to-income ratios that are still quite high and by unusually wide spreads between rates households are paying on existing debt and rates currently available on deposits.

Taking advantage of municipal yields that remain close to their lowest levels in thirteen years, state and local governments have been issuing substantial amounts of new bonds in the second quarter, about a third of which has been for a near-record volume of refunding. Tax-exempt borrowing is being boosted in June by a large slate of short-term debt issued in anticipation of tax revenues to be collected in the upcoming fiscal year.

Because of the seasonal bulge in tax receipts and the funding constraints affecting the RTC, the federal government has incurred a smaller deficit and thus a reduced need to borrow during the second quarter. After seasonal adjustment, however, federal debt is growing at about a 12 percent annual rate in the second quarter, somewhat above the first-quarter pace.

Outlook

The staff economic forecast assumes that the federal funds rate and other short-term rates will hold close to their present levels through 1993. Long-term interest rates are expected to decline somewhat, owing to sluggish growth in aggregate demand and favorable wage and price trends. Such a pattern clearly is at odds with what is currently built into the term structure. The market evidently is looking for a substantial rise in short rates over the coming year and a half--perhaps reflecting expectations of a stronger economy than we anticipate, but possibly just reflecting a view that rates are relatively low now and likely to rise cyclically.

Growth of domestic nonfinancial debt in the first half has been just slightly above last year's slow pace and is expected to pick up only a little over the coming months. At 5 percent this year and

5-3/4 percent in 1993, on a quarterly average basis, debt expansion is projected to be close to that of nominal GDP. Heavy federal borrowing will continue to provide the biggest push to debt growth, while growth in nonfederal debt picks up quite slowly.

In the nonfinancial business sector, the corporate financing gap is projected to widen as increased spending on inventories and fixed capital outstrips the growth of internal funds. Net equity issuance is expected to slow to a less robust pace as firms make progress on their financial restructurings. These factors should boost corporate borrowing down the road, although debt is not expected to expand rapidly. Debt growth of noncorporate businesses will continue to fall, largely because of persistent difficulties in the commercial real estate sector. Overall, nonfinancial business debt is expected to increase less than 1 percent this year and about 2 percent next year, after being essentially flat in 1991. With long-term rates expected to be edging downward, business borrowing for the remainder of 1992 should remain concentrated in the public bond markets. Problems in commercial real estate portfolios and regulatory pressures imply continued caution by life insurance companies in the private placement market, especially for weaker credits. Banks should become less reluctant to lend to businesses as the economy and their own capital structures improve, but considerable caution is likely to persist--with some of the requirements imposed by FDICIA helping to inhibit depository asset expansion.

Growth in household sector debt probably will strengthen just a little this year and next. With consumers' current reluctance to take on installment debt expected to dissipate only gradually, consumer debt is not projected to turn up again until late this year and then to grow only slightly in 1993. Under this scenario, the ratio of installment debt to disposable personal income would drop to about 16 percent at the end of 1992 and 15-1/2 percent by year-end 1993; the recent high for this measure in 1989 was about 18-1/2 percent, while lows during past downswings have been near 14 percent. Home mortgage debt is not expected to accelerate in the near term given the recent weakness in new home sales, but it is projected to increase somewhat over the projection period, in line with the limited recovery envisioned in the housing markets. Strong demands by investors for mortgage-backed securities should continue to buttress availability of home mortgage credit and keep rate spreads tight between mortgages and Treasury securities.

The debt of state and local governments is projected to grow slowly through next year. Retirements of pre-refunded bonds issued during the early 1980s will restrain debt expansion throughout the projection period. In the near term, revenue shortfalls experienced by states and localities may necessitate some borrowing, but this impetus, along with that provided by new capital projects, is not deemed sufficient to foster much debt growth.

Federal borrowing is expected to peak (on a seasonally adjusted basis) in the first quarter of next year, lifted by a projected pickup in RTC spending. In the remainder of 1993, we look for the improving economy to boost tax receipts gradually, and for lower defense spending to restrain the growth in outlays. Even so, federal debt is expected to grow at a double-digit rate in 1993. With much of the RTC's spending now expected to be pushed back to next year, outlays for the deposit insurance programs contribute only about 1/4 percentage point to the growth of total nonfinancial debt in 1992, compared with an impact of about 1 percentage point anticipated in our January forecast. These programs should add about 1/2 percentage point to overall debt growth in 1993.

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

	Domestic Nonfinancial Sectors								Memo	
				Households						
	Total[2]	U.S. govt.[2]	Non-federal	Total	Home mtgs.	Cons. credit	Business	State & local govts.	Private financial assets[3]	Nominal GDP[4]
1982	9.3	19.7	6.9	5.4	4.5	4.4	7.8	9.3	10.4	3.2
1983	11.7	18.9	9.8	11.0	10.4	12.6	8.7	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.9	11.6	18.7	15.6	9.1	12.9	9.1
1985	14.9	16.5	14.5	14.0	11.8	15.9	11.6	31.4	12.5	7.0
1986	12.7	13.6	12.5	13.2	15.9	9.6	12.2	10.6	9.0	4.7
1987	9.3	8.0	9.7	11.7	14.0	5.1	7.1	13.4	8.6	8.0
1988	9.0	8.0	9.4	11.0	12.2	7.3	8.4	7.0	8.5	7.7
1989	7.7	7.0	8.0	9.0	10.3	5.8	6.8	8.4	6.9	5.9
1990	6.4	11.0	5.1	7.4	9.3	1.8	2.8	5.2	4.1	4.1
1991	4.2	11.1	2.1	4.0	5.1	-1.5	-0.3	2.9	0.5	3.3
1992	5.3	12.0	3.1	5.3	6.5	-0.2	0.6	2.5	1.9	5.2
1993	6.0	11.4	4.0	6.1	7.4	2.2	1.8	2.7	3.1	5.8
			Seasonally adjusted, annual rates							
1991 -- Q1	4.1	8.0	2.9	4.6	5.5	-1.3	1.0	3.0	4.0	2.3
Q2	4.7	10.6	2.9	4.5	5.8	-2.0	1.1	3.2	0.7	4.6
Q3	4.2	14.0	1.2	2.9	3.8	-2.4	-1.1	2.3	-1.5	4.1
Q4	3.5	10.3	1.3	4.0	5.0	-0.3	-2.2	2.8	-1.3	2.2
1992 -- Q1	5.1	11.4	3.1	4.8	5.9	0.2	1.1	2.7	2.1	5.5
Q2	5.0	12.1	2.6	4.8	6.5	-1.9	-0.2	3.1	1.7	4.8
Q3	5.1	10.8	3.1	5.4	6.5	0.0	0.8	1.4	1.3	4.9
Q4	5.5	11.6	3.4	5.7	6.7	0.8	0.8	2.6	2.6	5.6
1993 -- Q1	6.1	12.9	3.6	5.7	6.9	1.3	1.4	2.6	2.2	6.1
Q2	5.5	10.0	3.9	5.9	7.1	1.9	1.6	2.7	3.4	5.6
Q3	5.7	10.1	4.1	6.0	7.3	2.5	2.0	2.5	3.1	5.7
Q4	6.1	11.0	4.2	6.3	7.5	3.1	2.1	2.7	3.7	5.7

1. Published data through 1992 Q1.
2. Deposit insurance activity raises total debt growth .4, .2, and .5 percentage points in 1991, 1992, and 1993 respectively; the corresponding figures for federal debt growth are 1.6, .5, and 1.5 percentage points.
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

Confidential FR Class II
June 24, 1992

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

		Calendar year					1992				1993			
		1989	1990	1991	1992	1993	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	Net funds raised by domestic nonfinancial sectors:													
1	Total	590.6	580.9	467.8	629.0	724.4	627.3	604.0	618.4	666.3	738.1	678.2	712.8	768.4
2	Net equity issuance	-124.2	-63.0	17.5	37.5	20.0	51.0	39.0	35.0	25.0	23.0	21.0	19.0	17.0
3	Net debt issuance	714.7	643.9	450.3	591.5	704.4	576.3	565.0	583.4	641.3	715.1	657.2	693.8	751.4
	Borrowing sectors:													
	Nonfinancial business													
4	Financing gap[2]	53.5	64.9	27.4	14.3	53.2	-6.4	12.3	23.0	28.1	41.4	48.7	57.5	65.2
5	Net equity issuance	-124.2	-63.0	17.5	37.5	20.0	51.0	39.0	35.0	25.0	23.0	21.0	19.0	17.0
6	Credit market borrowing	217.9	96.9	-9.7	21.9	63.0	39.1	-7.0	27.6	27.7	49.2	56.2	72.4	74.0
	Households													
7	Net borrowing, of which:	287.3	257.6	157.3	214.3	261.3	196.5	198.3	224.2	238.1	242.7	256.4	265.4	280.7
8	Home mortgages	219.2	218.9	138.6	186.7	225.3	167.9	189.0	190.5	199.3	210.7	220.5	229.8	240.0
9	Consumer credit	43.1	14.2	-12.1	-1.8	17.5	1.7	-15.0	0.0	6.0	10.0	15.0	20.0	25.0
10	Debt/DPI (percent)[3]	88.3	91.1	94.3	94.0	93.9	94.5	94.4	94.6	94.6	94.3	94.4	94.5	94.6
	State and local governments													
11	Net borrowing	63.2	42.6	24.5	22.0	24.1	24.2	27.7	12.5	23.4	23.4	25.0	23.3	24.6
12	Current surplus[4]	-31.0	-40.2	-26.7	-7.3	-1.3	-13.3	-8.8	-2.4	-4.9	-1.0	0.6	-3.1	-1.7
	U.S.government													
13	Net borrowing	146.4	246.9	278.2	333.4	356.1	316.5	346.0	319.1	352.1	399.8	319.6	332.7	372.1
14	Net borrowing;quarterly, nsa	146.4	246.9	278.2	333.4	356.1	83.4	61.4	78.1	110.5	104.2	54.8	81.5	115.5
15	Unified deficit;quarterly, nsa	155.0	236.4	266.8	347.4	359.9	115.5	33.5	79.8	118.6	121.5	31.0	85.0	122.4
	Funds supplied by													
16	depository institutions	86.8	-29.6	-61.4	64.9	68.4	10.6	57.0	95.5	96.7	72.5	26.9	92.5	81.5
	Memoranda: As percent of GDP:													
17	Dom. nonfinancial debt[3]	183.3	188.1	193.6	194.0	194.1	195.0	195.1	195.3	195.3	195.3	195.4	195.5	195.7
18	Dom. nonfinancial borrowing	13.6	11.7	7.9	10.0	11.3	9.9	9.6	9.8	10.6	11.7	10.6	11.0	11.8
19	U.S. government[5]	2.8	4.5	4.9	5.6	5.7	5.4	5.9	5.4	5.8	6.5	5.1	5.3	5.8
20	Private	10.8	7.2	3.0	4.4	5.6	4.5	3.7	4.4	4.8	5.1	5.4	5.7	5.9

1. Published data through 1992 Q1.
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 GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

Recent Developments

The weighted-average foreign-exchange value of the dollar, in terms of other G-10 currencies, has declined about 2 percent on balance since the May FOMC meeting. The dollar rose early in the intermeeting period when data pointed to strength in the U.S. economic recovery. Since the end of May, however, the dollar has declined on somewhat weaker than expected U.S. economic news. The net decline in the dollar has included depreciations of about 2 percent against both the yen and the mark. Japanese authorities sought to encourage the appreciation of the yen through intervention sales of dollars on several occasions. The mark strengthened somewhat against other European currencies (notably the Spanish peseta, the Italian lira, and U.K. pound), amid uncertainty following the defeat of the Danish referendum on the Maastricht Treaty. Ireland's subsequent strong endorsement of the treaty in a special referendum apparently reversed only part of the effect of the Danish vote.

German short-term interest rates have remained little changed and Japanese rates have declined somewhat over the intermeeting period.

. The Desk did not intervene during the intermeeting period.

Real GNP growth in several foreign industrial countries rose during the first quarter. In Japan and Germany, real GNP rose at seasonally adjusted annual rates of 4.3 percent and 7.3 percent respectively, following small declines in the fourth quarter of 1991. In both countries, special factors contributed to the observed rebound; underlying strength is judged to be substantially less, and early indications for the second quarter are on the weak side. In Canada modest recovery appears to have continued in the first quarter, but in the United Kingdom real GDP declined again.

In Japan, about half of the growth in first-quarter real GNP was accounted for by a shift in the pattern of government rice holdings and by exceptionally large inflows of profits from overseas affiliates of Japanese firms. More recently, capital goods orders declined and industrial production increased only slightly in April. Nevertheless, private domestic demand--largely consumption--did expand in the first quarter, and housing starts continued strong in April.

Western German real GNP growth in the first quarter was boosted by some special calendar effects and by warm weather, which permitted construction to remain strong. Industrial production rose in April, but has fluctuated over the past several months; on balance, industrial production in March and April is only slightly stronger than the average for October and November 1991. New orders for manufactured goods fell in both March and April.

Canadian real GDP grew 1.7 percent (at a seasonally adjusted annual rate) in the first quarter, after a flat fourth quarter, with increased exports accounting for most of the growth. Employment, factory shipments, and new orders all showed signs of strength in the second quarter, suggesting that recovery of activity is picking up.

Inflation remains a concern in Germany, where consumer prices were up 4.6 percent in May from a year earlier. The recent series of strikes in Germany was settled without a significant worsening of inflationary pressures, however, and negotiations over wage agreements for 1992 are essentially complete. A generally favorable inflation performance has been recorded in the other industrial countries. The twelve-month change in Tokyo consumer prices slowed to 2.4 percent in May; Canada's twelve-month core inflation rate moved lower in May as well, to 2.0 percent. In the United Kingdom, consumer prices rose 4.3 percent over the twelve months to May, the same rate as recorded for April; excluding the effects of mortgage interest rates, CPI inflation fell from 5.7 percent for April to 5.3 percent for May.

The preliminary U.S. merchandise trade deficit widened significantly in April, after having narrowed somewhat in the first quarter. Over the first four months of 1992, exports remained little changed from their average rate in the fourth quarter of 1991. However, imports were up strongly in April, after having eased somewhat in the first quarter. Most categories of imports showed significant increases in April over the first-quarter level, with capital goods showing the largest rise. Prices of non-oil imports fell in April for the second month in a row, after having risen substantially earlier in the year in the wake of the depreciation of the dollar during the latter part of 1991.

Outlook

Compared with the forecast in the May Greenbook, the staff outlook for growth of real GNP in foreign economies on average is somewhat lower in the second and third quarters, largely a correction following the stronger-than-expected data for the first quarter. As a result of this change and the weakness of exports in recent months, we have revised down the projected change in real net exports of goods and services noticeably in the second quarter and marginally in the third quarter. Beyond the third quarter, our outlook for growth abroad is little changed from the previous forecast. At the same time, we have lowered the projected path of the foreign exchange value of the dollar, and the lower dollar contributes to a slightly less negative tilt in net exports over the next six quarters than projected previously. Net exports are expected to make a small net negative contribution to U.S. real GDP growth over the next five quarters before turning up slightly in the last quarter of 1993.

The Dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain around current levels through the forecast period. This path for the dollar is about 4 percent lower than that in the May Greenbook and reflects the recent weakening of the dollar as market participants have marked down their expectations regarding the pace of the U.S. recovery and possible implications for U.S. interest rates. Market forecasts continue to look for the dollar to appreciate and for dollar interest rates to rise. The first factor alone suggests an upside risk to the exchange rate forecast, while the second suggests some downside potential given the staff's interest rate assumptions. Against the currencies of key developing countries, the CPI-adjusted value of the dollar is expected to show a moderate depreciation on average through the end of the forecast period.

Foreign Industrial Countries. Real GNP growth in the major foreign industrial countries is projected to have slowed sharply in the second quarter. We anticipate that some of the exceptionally high first-quarter growth recorded in Japan, Germany, and to a lesser extent France, which was due in large part to transitory factors, will have been eliminated or reversed in the second quarter. In contrast, growth is expected to resume in the United Kingdom and to strengthen somewhat in Canada in the second quarter.

Beyond the second quarter, real GNP growth in the G-6 countries (weighted by GNP shares) is projected to increase to 2-1/2 percent by the fourth quarter of 1992, and to strengthen somewhat further to

2-3/4 percent (Q4/Q4) in 1993. The outlook for growth in the second half of 1992 is slightly weaker than in the previous Greenbook, largely offsetting the stronger first half gain; for 1993, the forecast is essentially unchanged.

The staff assumes that the Japanese government will adopt a supplemental fiscal package later this year totaling about 5 trillion yen, or about 1 percent of GNP. We also project that foreign short-term interest rates will decline moderately--about 50 basis points on average--over the forecast period. Japanese interest rates are expected to decline by about 25 basis points during the second half of this year and to remain at that level through 1993. The projected path for U.K. interest rates has been lowered as the recovery of activity has been delayed. German short-term rates are expected to decline about 50 basis points on balance over the forecast period, but the decline is not expected until late this year or early next. Long-term foreign rates are projected to decline about 25 basis points on average by the end of 1993.

Most of the downward revision in growth abroad for the second half of 1992 reflects a weaker outlook for Japan in the near term. Japanese growth is expected to average only about 1-1/2 percent at an annual rate in the third and fourth quarters. During 1993, real output in Japan is expected to grow about 3 percent, helped by the assumed fiscal stimulus. In western Germany, real GNP is expected to grow nearly 3 percent at an annual rate over the remaining two quarters of 1992 and to expand about 2-1/2 percent in 1993. Output is projected to expand at about a 3 percent annual rate in the second half of this year in both the United Kingdom and Canada.

We expect consumer price inflation in the major foreign industrial countries to average about 3 percent at an annual rate in the second half of 1992, and to fall slightly below that rate next year as output growth remains generally below potential in these countries. The outlook for U.K. inflation is somewhat higher than in the May Greenbook, as wage pressures have persisted recently in that country; the inflation forecast for the other countries is about unchanged.

Developing Countries. The outlook for growth in the developing countries that are major U.S. trading partners is slightly lower than in the May Greenbook, largely because recent economic indicators suggest that growth in Mexico is not likely to be quite as robust as previously projected. Nevertheless, real GDP growth in developing countries is projected to increase somewhat in 1992 and again in 1993 from the average rate of 5-1/4 percent recorded in 1991. This pattern holds for Asia and Mexico, but growth in other Latin American countries, on average, is expected to slow somewhat in 1992 and to remain essentially unchanged in 1993.

U.S. Real Net Exports of Goods and Services. We project that real net exports declined about $10 billion in the second quarter as imports rebounded from a first-quarter low and exports grew only slowly. For most of the rest of the forecast period, imports of goods and services are projected to expand at a slightly faster pace than exports.

Growth in the quantity of nonagricultural exports is projected to pick up gradually from less than a 3 percent annual rate in the second quarter to a 7-1/2 percent rate in 1993 as the growth of demand abroad recovers. The weakness of growth in U.S. exports in recent months and the slight downward revision of projected foreign GNP growth in the near term have led us to reassess the prospects for export growth over the forecast period. For the balance of 1992, the growth of exports has been reduced, especially in the second and third quarters. The growth of exports in 1993 has not been marked down, however, largely because the lower projected path of the dollar is expected to provide some additional stimulus to exports over the next two years or so.

TRADE QUANTITIES*
(Percent change from preceding period shown, except as noted, A.R.)

	1990:Q4 to 1991:Q4	Projection 1992 Q1	Q2	Q3	Q4	1993 Q4
Nonag. exports	8.8	-0.8	3.0	5.3	7.1	7.6
Agric. exports	11.3	6.4	-7.6	-2.5	-4.7	1.1
Non-oil imports	5.1	0.4	6.8	7.0	7.2	7.2
Oil imports	6.5	1.8	57.2	14.0	-3.4	9.3

* GDP basis, 1987 dollars.

Agricultural exports are expected to decline over the balance of 1992 from the high level reached in the first quarter this year when shipments to the former Soviet republics surged. We assume that agricultural exports will be little changed in 1993, partly because prospects for output in the former Soviet Union this year have improved.

The growth of non-oil imports is projected to be in the range of about 6-1/2 percent to 7-1/2 percent at an annual rate from the second quarter of 1992 through 1993 as U.S. domestic demand continues to recover. The quantity of oil imports is expected to increase markedly in the current quarter and a bit further in the third quarter, as consumption gradually increases and stocks are built. We project oil imports to continue to increase at a fairly strong pace beyond the third quarter as the U.S. economy recovers and domestic oil production continues its secular decline.

Oil Prices. Current prices in the spot and futures markets for crude oil are consistent with an average U.S. oil import unit value of $19.75 per barrel in the third quarter of 1992. This price level is about $1.60 above the oil price assumption in the May Greenbook.

Recent spot prices for West Texas Intermediate crude oil have moved up to about $23 per barrel as a result of the rollover of OPEC's second-quarter quota and related speculation that Saudi Arabia was willing to target a somewhat higher level of oil prices. Perceptions of a relatively unsuccessful outcome to the latest stage of the ongoing negotiations between Iraq and the United Nations also has contributed to the firmness in prices. We assume that oil prices will retreat somewhat near the end of the third quarter, as Saudi Arabia increases its production.

For 1993, we continue to assume an import unit value of $18 per barrel. Arguments behind the perceived shift in Saudi Arabian policy do not seem convincing, especially given the substantial progress Saudi Arabia has made in the expansion of its oil production capacity. Our assumption of an $18 per barrel import unit value is consistent with a spot WTI price of roughly $20.50 per barrel, about $0.75 below current long-term futures prices.[1]

Prices of Exports and Non-oil Imports. The fixed-weight price index for U.S. nonagricultural exports is projected to increase at a moderate pace over the period ahead, about in line with U.S. producer prices. Increases in the prices of non-oil imports (excluding computers) are expected to have slowed to about 2 percent at an annual rate in the second quarter, given the pattern of recent monthly price changes. These prices are projected to rise to 3-3/4

1. The differential between the import unit value and the WTI spot price is currently projected to be $2.50 per barrel. The import unit value is the dollar value of U.S. imports of crude petroleum and products (at the port of export) divided by number of barrels imported. The WTI spot price is the price paid for crude oil deliverable within roughly 30 days via pipeline to Cushing Oklahoma. The import unit value is below the WTI spot price, partly because of the additional expense of transporting oil from the port of export to refineries in the United States, and partly because the mix of crude oils and products that are imported is of a lower quality than West Texas Intermediate crude. The WTI "posted" price, which is the price paid by refiners for WTI crude that is picked up from a producer's well, is generally about $1.00 below the WTI spot price (largely reflecting transportation costs), and $1.50 above the import u. value (largely reflecting transportation and quality differences).

percent in the second half of 1992 as the effects of the recent decline in the dollar are passed through into higher import prices, and then to rise more moderately, at less than a 3 percent rate during 1993.

SELECTED PRICE INDICATORS
(Percent change from preceding period shown, except as noted, A.R.)

	1990:Q4 to 1991:Q4	Projection 1992 Q1	Q2	Q3	Q4	1993 Q4
PPI (exp. wts.)	-0.8	-0.4	3.8	2.9	1.3	1.7
Nonag. exports*	0.5	3.2	3.6	2.9	1.7	1.8
Non-oil imports*	0.5	6.6	2.0	3.7	3.7	2.7
Oil imports ($/bl)	18.04	15.28	17.16	19.75	19.19	18.00

* Excluding computers.

Nominal Trade and Current Account Balances. The merchandise trade deficit is projected to widen over the forecast period from $70 billion in the first quarter of 1992 to almost $110 billion by the end of next year, about $10 billion higher than in the previous forecast. Most of the revision to the level of the projected trade deficit can be attributed to lower exports based on our assessment of recent monthly trade data. Despite the increase in the projected level of the merchandise trade deficit, the outlook for the level of the current account deficit has been revised down significantly. We project the current account deficit to widen from $21 billion in the first quarter of 1992 to about $45 billion by the end of 1993, compared with the projection in May that the deficit would widen from $42 billion to $60 billion over the same period. The difference can be attributed primarily to the much higher estimated level, and somewhat stronger growth, of net service receipts shown in recent historical revisions of the U.S. international accounts.

June 24, 1992

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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	2.0	-2.0	-0.0	2.5	3.5
France	4.0	1.6	1.8	2.6	2.8
Western Germany	3.3	5.3	0.9	2.7	2.6
Italy	2.8	1.6	1.5	1.8	2.3
Japan	4.9	4.7	3.2	1.9	2.9
United Kingdom	1.6	-0.7	-1.7	1.4	2.6
Average, weighted by 1987-89 GNP	3.5	2.5	1.4	2.1	2.8
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	3.5	1.8	1.7	3.0	3.7
G-6	2.8	0.5	0.7	2.2	3.1
Developing countries	5.2	4.9	5.3	5.5	5.9
CONSUMER PRICES					
Canada	5.2	4.9	4.1	3.0	2.6
France	3.6	3.6	2.9	2.8	2.8
Western Germany	3.0	3.0	3.9	3.3	3.4
Italy	6.6	6.3	6.1	5.0	4.7
Japan	2.9	3.2	3.2	2.4	1.9
United Kingdom	7.6	10.0	4.2	3.9	3.5
Average, weighted by 1987-89 GNP	4.4	4.8	3.9	3.2	2.9
Average, weighted by share of U.S. non-oil imports	4.2	4.4	3.8	2.9	2.6

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
GDP Net Exports of Goods and Services (87$)	-81.2	-71.9	-79.8	-70.0	-56.0	-52.5	-65.7	-31.2	-18.6	-12.3	-104.0	-75.7	-51.3
Exports of G+S	451.2	469.5	470.5	485.8	496.2	502.1	501.6	522.5	512.5	535.7	421.6	469.2	505.6
Merchandise	330.3	347.0	343.1	354.8	364.9	368.0	365.1	379.4	379.9	395.8	307.4	343.8	369.3
Services	120.9	122.5	127.4	131.0	131.3	134.1	136.5	143.1	132.6	139.9	114.2	125.4	136.2
Imports of G+S	532.4	541.3	550.3	555.7	552.2	554.5	567.4	553.7	531.1	548.0	525.7	544.9	556.9
Merchandise	439.9	447.5	455.4	458.9	455.9	457.2	467.9	453.0	435.9	451.2	431.3	450.4	458.5
Oil	49.2	51.0	53.7	51.7	55.2	53.0	54.7	43.1	44.8	51.4	47.5	51.4	51.5
Non-oil	390.6	396.5	401.8	407.2	400.8	404.2	413.1	409.9	391.0	399.8	383.8	399.0	407.0
Services	92.5	93.8	94.9	96.8	96.3	97.4	99.5	100.7	95.3	96.8	94.3	94.5	98.5
Memo:(Percent changes 1/)													
Exports of G+S	12.4	17.2	0.9	13.7	8.8	4.8	-0.4	17.7	-7.4	19.4	13.5	10.9	7.6
of which: Goods	10.7	21.8	-4.4	14.4	11.9	3.4	-3.1	16.6	0.5	17.8	15.8	10.2	6.9
Imports of G+S	-6.1	6.9	6.8	4.0	-2.5	1.7	9.6	-9.3	-15.4	13.3	3.6	2.7	-0.4
of which: Non-oil Goods	-4.0	6.2	5.5	5.5	-6.1	3.4	9.1	-3.1	-17.2	9.3	3.3	3.2	0.7
Current Account Balance	-110.2	-110.3	-104.9	-98.8	-90.0	-91.6	-96.0	-93.8*	48.8	9.7	-126.2	-106.1	-92.9*
Merchandise Trade, net	-117.6	-113.9	-116.7	-114.4	-109.5	-99.2	-115.6	-111.1	-73.3	-65.6	-127.0	-115.7	-108.9
Exports	348.9	367.3	360.6	370.0	379.9	386.6	386.2	402.1	402.5	413.3	320.2	361.7	388.7
Agricultural	42.9	43.1	40.6	42.2	43.0	40.5	39.4	37.9	39.2	37.5	38.8	42.2	40.2
Nonagricultural	306.0	324.2	320.0	327.8	337.0	346.1	346.8	364.2	363.3	375.8	281.4	319.5	348.5
Imports	466.5	481.2	477.3	484.4	489.4	485.8	501.7	513.2	475.8	478.9	447.2	477.4	497.6
Oil	44.2	54.2	52.2	53.1	63.2	51.3	61.8	72.9	51.7	51.7	39.6	50.9	62.3
Non-oil	422.3	427.0	425.1	431.3	426.3	434.5	439.9	440.3	424.2	427.1	407.6	426.4	435.3
Other Current Account	3.8	8.3	9.9	5.8	7.5	7.6	8.3	-7.2*	94.2	59.6	-4.6	6.9	4.0*
Invest. Income, net	3.6	-4.7	2.0	9.9	12.0	0.0	11.2	24.5*	27.9	15.7	5.4	2.7	11.9*
Direct, net	42.4	36.1	41.2	50.2	51.9	43.6	53.5	61.7*	61.7	53.0	36.8	42.5	52.7*
Portfolio, net	-38.8	-40.9	-39.2	-40.3	-39.8	-43.6	-42.3	-37.2*	-33.9	-37.3	-31.5	-39.8	-40.7*
Military, net	-6.9	-6.5	-4.6	-6.8	-6.9	-6.2	-6.7	-9.0*	-10.3	-5.7	-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*	47.7	48.8	16.1	28.6	33.6*
Transfers, net	-14.2	-12.4	-15.2	-20.2	-16.1	-18.8	-17.3	-37.1*	56.8	16.5	-14.9	-15.5	-22.3*

1/ Percent change (AR) from previous period; percent changes for annual data are calculated Q4/Q4.
*/ Break in series; data are redefined beginning in 1991.

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June 23, 1992

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

(Billions of dollars, seasonally adjusted annual rates)

	1991		Projection 1992				Projection 1993				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993
GDP Net Exports of Goods and Services (87$)	-31.1	-21.3	-22.3	-31.8	-35.1	-35.0	-35.9	-37.1	-38.6	-37.4	-20.8	-31.0	-37.3
Exports of G+S	545.2	558.0	556.7	560.6	567.3	575.3	584.2	593.9	603.9	614.3	537.8	565.0	599.1
Merchandise	400.3	413.7	413.4	415.4	420.1	426.3	433.2	440.5	448.3	456.4	397.4	418.8	444.6
Services	144.8	144.3	143.3	145.2	147.2	149.0	151.1	153.4	155.6	157.9	140.4	146.2	154.5
Imports of G+S	576.3	579.3	579.0	592.4	602.4	610.3	620.2	631.0	642.5	651.7	558.7	596.0	636.3
Merchandise	475.7	476.6	477.2	489.9	499.1	506.4	515.3	525.4	536.0	544.1	459.8	493.1	530.2
Oil	51.9	45.9	46.1	51.6	53.3	52.9	53.8	55.8	58.0	57.8	48.5	51.0	56.3
Non-oil	423.8	430.7	431.1	438.2	445.7	453.5	461.6	469.6	478.0	486.3	411.3	442.1	473.9
Services	100.6	102.8	101.8	102.5	103.3	103.9	104.8	105.6	106.6	107.5	98.9	102.9	106.1
Memo:(Percent changes 1/)													
Exports of G+S	7.3	9.7	-0.9	2.9	4.8	5.8	6.4	6.8	6.9	7.0	6.8	3.1	6.8
of which: Goods	4.6	14.1	-0.3	2.0	4.6	6.0	6.6	6.9	7.3	7.4	9.0	3.1	7.0
Imports of G+S	22.3	2.1	-0.2	9.6	6.9	5.4	6.6	7.2	7.5	5.8	4.6	5.4	6.8
of which: Non-oil Goods	26.3	6.7	0.4	6.8	7.0	7.2	7.3	7.1	7.3	7.2	5.1	5.3	7.2
Current Account Balance	-44.3	-28.9	-21.2	-34.8	-45.3	-49.9	-40.5	-41.7	-39.8	-45.3	-3.7	-37.8	-41.8
Merchandise Trade, net	-80.7	-74.2	-69.9	-85.6	-99.3	-101.0	-100.4	-103.7	-107.5	-108.9	-73.4	-89.0	-105.1
Exports	416.6	431.4	431.3	434.8	441.5	448.8	457.5	466.6	476.0	485.4	416.0	439.1	471.4
Agricultural	40.7	43.2	43.2	42.4	42.8	42.8	43.8	44.6	45.2	45.5	40.1	42.8	44.8
Nonagricultural	375.9	388.2	388.1	392.4	398.6	406.0	413.7	421.9	430.8	439.9	375.8	396.3	426.6
Imports	497.3	505.6	501.2	520.4	540.8	549.8	557.9	570.2	583.5	594.3	489.4	528.0	576.5
Oil	52.5	48.8	41.4	52.0	61.7	59.4	57.0	58.8	61.1	61.0	51.2	53.6	59.5
Non-oil	444.8	456.8	459.8	468.4	479.1	490.3	500.9	511.4	522.4	533.3	438.2	474.4	517.0
Other Current Account	24.0	35.5	29.8	33.5	33.5	32.7	37.6	40.5	43.9	43.4	53.3	32.4	41.3
Invest. Income, net	12.3	9.8	18.8	17.3	20.5	18.4	22.3	21.5	23.8	20.3	16.4	18.8	22.0
Direct, net	48.3	48.5	54.9	51.8	52.2	52.9	53.4	54.4	54.8	54.8	52.9	53.0	54.3
Portfolio, net	-36.0	-38.7	-36.0	-34.5	-31.7	-34.5	-31.0	-32.9	-31.0	-34.5	-36.5	-34.2	-32.4
Military, net	-4.0	-2.2	-0.9	-0.3	0.2	0.4	0.8	1.0	1.0	1.0	-5.5	-0.2	1.0
Other Services, net	52.1	54.7	57.7	59.4	61.3	63.5	65.6	68.3	70.9	73.6	50.8	60.5	69.6
Transfers, net	-24.0	-17.1	-27.0	-25.6	-28.0	-31.2	-28.8	-28.8	-28.0	-31.2	8.0	-27.9	-29.2

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