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Strictly Confidential (FR) Class II FOMC

December 15, 1993

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

Overview

In a pattern reminiscent of that in late 1992, the economy appears to be ending 1993 with a surprisingly strong burst of output, paced by gains in manufacturing and construction. Household demand has exhibited notable strength, and sizable increases in business investment have continued to provide substantial lift to activity.

Despite the acceleration during the second half of this year, growth of real GDP over the four quarters of 1993 will probably turn out to be just over 2-1/2 percent. We are forecasting output to continue to expand at a pace of 2-1/2 to 2-3/4 percent during the next two years. Although this rate of growth has been associated with an appreciable decline in unemployment in 1993, our expectation is that the jobless rate will drop only a little further during 1994 and 1995; the small decline would be consistent with the trend relationships embodied in an Okun's law equation based on growth of potential output a shade less than 2-1/2 percent per year. The slack in the economy is smaller in this forecast than in the last Greenbook, but competitive pressures in domestic and international markets are expected to be sufficient to check inflation; indeed, we believe that the odds still favor a slight downward tilt in core CPI inflation over the projection period.

Underpinning our forecast of moderate growth of aggregate demand for the next two years are three important considerations. The first is that federal fiscal restraint is expected to exert a substantial drag on spending in 1994--through both falling government purchases and higher taxes--and to continue to work in that direction, to a lesser degree, in 1995. The second factor is that the recovery in foreign economic activity is projected to be rather gradual, so that the drag from the external sector diminishes slowly through 1995. Finally, domestic financial conditions, while favorable to the growth of aggregate demand, are anticipated to become a less stimulative force by 1995 than they have been over the past year.

Key Assumptions

We assume that the federal funds rate will not stray much from the current 3 percent level over the next few quarters but that short-term rates will rise somewhat thereafter--as the System seeks to foster monetary conditions consistent with sustainable growth and progress over time toward price stability. Long-term interest rates are forecast to remain in the range of recent months through 1995. Although we anticipate that a moderation of GDP growth early next year and the persistence of favorable cost trends will provide the basis for some decline in bond yields, those yields are projected to move back up--rising in real terms--as short-term rates firm. Credit supply conditions are likely to ease a bit more, but a slackening of the "financial headwinds" has been under way for some time now, and the extension of that process should provide only a mild further boost to activity.

Growth of the broader monetary aggregates picked up a bit recently, partly because the backup in bond rates rerouted, at least temporarily, some funds into M2 assets rather than into bond mutual funds. Nonetheless, both M2 and M3 are ending this year in the lower portions of their target ranges. Growth of these aggregates is expected to increase in 1994, but only a bit unless investors revise their perceptions of the risks associated with long-term mutual funds. A further acceleration of M2 and M3 is anticipated in 1995 as the yield curve flattens, but velocity is projected to remain stronger than historical patterns imply.

We have made no significant changes in our fiscal policy assumptions.[1] We have discounted the recent talk about more aggressive reduction of the deficit, given the considerable challenge facing the Administration and the Congress in simply implementing the limits on discretionary spending already in place. However, because of the higher level of income in this projection, we have raised our estimates of tax receipts. As a result, we project that the unified deficit will fall a bit further than we forecast in the last Greenbook, from $255 billion in fiscal year 1993 to $232 billion in fiscal year 1994 and $208 billion in fiscal year 1995.

The trade-weighted exchange value of the dollar is projected to remain near the current level over the forecast period. As in the last Greenbook, foreign economic activity is expected to accelerate somewhat in 1994 and 1995. The most significant change in international markets affecting the forecast is the recent weakness in crude oil prices, which followed OPEC's failure to cut production quotas in the face of relatively weak world demand. We are now expecting oil prices to remain depressed into early next year and then to retrace a portion of the recent decline as world economic activity--and energy use--grows. On balance, however, the projected level of WTI crude in late 1994 and 1995 averages about $1 below the forecast in the last Greenbook.

Current-quarter Economic Activity

We have raised our projection for real GDP growth this quarter to a 5 percent annual rate, from 4 percent in the last Greenbook. Arithmetically, half of the upward revision can be attributed to a

1. We have assumed the enactment of a crime bill in early 1994 that will increase federal grants to states and localities for law enforcement. However, we assume this spending will have no net effect on government outlays because the Congress will make offsetting reductions in other discretionary spending to conform to the OBRA caps.

higher rate of motor vehicle production than that projected earlier. The step-up in assemblies, from a level in the third quarter that was constrained by problems with model changeovers, now accounts for fully 2 percentage points of GDP growth. More broadly, the added strength in our output forecast for this quarter is rooted in the apparently robust final demand from households and businesses.

SUMMARY OF THE NEAR-TERM OUTLOOK
(Percent change, at annual rates, except as noted)

	1993 H1	1993 Q3	1993 Q4	1994 Q1
Real GDP	1.3	2.7	5.0	3.6
Previous	1.3	2.8	4.0	2.7
Excluding crop losses		3.3	4.6	3.4
Previous		3.4	3.6	2.5
Memo:				
Contribution of motor vehicle production	.0	-.9	2.1	.6
Previous	.0	-.8	1.6	.1
Civilian unemployment rate (percent)	7.0	6.7	6.6	6.5
Previous	7.0	6.7	6.8	6.7
CPI inflation	3.3	1.4	2.9	2.9
Previous	3.3	1.4	3.2	3.6

In the consumer sector, nonauto retail sales rose substantially in real terms in October and November, and purchases of light motor vehicles increased sharply. Growth of total real PCE is projected at 4 percent, a pace appreciably exceeding the expansion of labor income.[2] Households have been reporting more positive views of prospects for economic activity and employment, and that confidence

2. Real disposable personal income is projected to increase at a 4-1/4 percent rate, but a good part of that gain is the result of the recovery, in BEA's estimates, of farm and other non-labor income from a third-quarter level that was depressed by the flood losses. The rate of growth in real wage and salary income in the fourth quarter is expected to be 2.6 percent (annual rate), versus 4 percent for PCE.

has apparently manifested itself in a willingness to borrow, when necessary, to support big-ticket expenditures.

Business equipment investment is projected to post another large increase in the current quarter--probably around 20 percent at an annual rate. Outlays for equipment have received a boost from a surge in business purchases of motor vehicles. In addition, the data through October on factory shipments and orders suggest a strong quarter for other nondefense capital goods.

Construction activity also appears to be strong this quarter. The construction put-in-place data through October suggest a noticeable upturn in most categories of private nonresidential structures. The rise in housing starts through October points to a large increase in residential investment in the current quarter. And construction spending by state and local governments, which posted strong increases in the spring and summer, looks to have risen further, partly because of repair work in the aftermath of last summer's flooding.

Our current-quarter GDP estimate anticipates that a good portion of domestic final demand is being satisfied by imports and that nonfarm, nonauto inventory accumulation will be much smaller than during the third quarter.[3] We have, as yet, very little information to confirm the continued strength in imports. On inventories, book-value non-auto manufacturing and trade stocks were, on net, little changed in October.

Resource utilization rates appear to have risen appreciably in recent months. The index of industrial production increased an average of 3/4 percent per month over October and November, pushing capacity utilization up sharply. Meanwhile, an upturn in hiring by

3. One factor expected to hold down stockbuilding this quarter is a $7 billion runoff in aircraft stocks as Boeing continues to ship finished planes out of inventory while cutting back production.

construction and manufacturing firms in October and November boosted growth in private employment, and the unemployment rate dropped to 6-1/2 percent (using concurrent seasonal factors) in November, from 6-3/4 percent in the previous several months.

Nonetheless, evidence of any aggravation of inflation has been limited. Prices of precious metals have rebounded very recently, and spot prices for steel scrap and lumber have risen sharply since the summer. However, the broader producer price index for intermediate goods (excluding food and energy) was little changed through November. At the retail level, although the CPI excluding food and energy rose 0.3 percent in both October and November--above the very low pace of the previous several months--the twelve-month change fell to just over 3 percent. Food prices have picked up in recent months, as expected, but the impact on overall inflation is being offset by the declines in prices of petroleum products in response to the weakness that has emerged in the price of crude oil.

The Longer-run Outlook for the Economy

As noted earlier, real GDP is projected to grow at about the same pace during 1994 and 1995 as over the four quarters of 1993. Consumer spending is expected to decelerate, growing more in line with disposable income. Real BFI should expand briskly, but not so rapidly as in 1993, and further gains in homebuilding activity are likely to be small--and diminishing--after the first half of next year. On the plus side, exports are expected to grow more rapidly, and, at least early in the period, some step-up in inventory investment is probable.

The expansion over the next two years is projected to whittle away a touch more of the slack remaining in labor and product markets. As a result, although the underlying direction of the price projection remains one of disinflation, the progress is very slow and is likely to be obscured in 1994 by a firming in food and energy prices.

SUMMARY OF STAFF PROJECTION FOR 1994-95
(Percent change, at annual rates, except as noted)

	1993			
	H1	H2	1994	1995
Real GDP	1.3	3.8	2.7	2.5
Previous	1.3	3.4	2.5	2.5
Real PCE	2.1	4.2	2.4	1.9
Previous	2.1	3.3	2.0	2.1
Real disposable personal income	-1.2	2.7	2.2	2.0
Previous	-1.2	2.5	1.9	2.1
Civilian unemployment rate[1]	7.0	6.6	6.4	6.4
Previous	7.0	6.8	6.7	6.6

1. Averages for final quarter of period shown.

Consumer spending. Since mid-1992, growth in consumer spending has outstripped the increase in disposable income by a considerable margin. It is conceivable that the BEA has been underestimating income growth, but the resurgence of consumer installment credit recently suggests that at least some households have had to borrow to cover their spending. A decline in the personal saving rate has been a common feature of cyclical upswings and can be explained by the response of households to increases in wealth, improvements in income prospects, and a catch-up in durable goods purchases (which may be viewed as a shift in the form of saving). At this juncture, a key question in our forecast is just how much further this process is likely to go. Our conclusion is, not much, if at all.

Indeed, we are forecasting a distinct slowing in the growth of real personal consumption expenditures in the early part of next year. And the projection shows real PCE increasing at just under 2-1/2 percent throughout 1994, compared with an estimated rise of

3 percent in 1993; in 1995, growth of PCE is expected to edge below 2 percent.

One can identify several factors that should continue to provide impetus to consumer spending, particularly on durable goods, in early 1994. Household sentiment appears to have improved recently, replacement demand for motor vehicles likely is still substantial, and the projected further rise in housing activity should help sustain strong growth of purchases for furniture and appliances.

However, a number of other considerations persuade us that a deceleration in consumer spending is likely at hand. In the near term, the catch-up for motor vehicle sales lost this past summer should be completed by the beginning of next year, and the current special sales contest for light trucks will have ended; we see purchases of light vehicles dropping back in the first quarter, though to a still-rising trend line. In addition, we expect that the spending of many upper-income households will be more affected once they are actually confronted with their higher tax bills. More fundamentally, we don't foresee any marked increases in household wealth that might encourage consumers to spend still larger shares of their current income.

Residential investment. Because of the lags between starts and construction spending, residential investment is projected to make another substantial contribution to growth of real GDP in the first quarter of 1994. However, residential investment is expected to decelerate markedly thereafter. Housing starts, after having increased from 1.23 million units (annual rate) in the second quarter of this year to about 1.4 million units recently, are projected to rise only to 1.44 million units in 1995. We expect homeownership to remain relatively affordable, given our mortgage rate forecast and our expectation of only moderate increases in real estate prices, but population trends limit the upside potential for total residential building. Single-family construction is anticipated to continue to account for a disproportionate share of the activity.

Business fixed investment. We are forecasting growth in real business fixed investment to decelerate from 13-1/2 percent this year to 10-1/4 percent next year and to around 9 percent in 1995. While we expect that the overall economic and financial environment will remain conducive to capital spending, we are projecting that several key factors will become less favorable over time. In particular, corporate cash flow is projected to flatten out, the impetus from the earlier acceleration in output growth is anticipated to fade, and the decline in the cost of capital is forecast to slow.

The composition of business spending is expected to tilt increasingly toward high-tech equipment. Whereas the demand for many types of capital equipment is likely to moderate as capacity utilization levels off, businesses probably will continue to take advantage of the opportunities to invest in new technologies at relatively attractive prices. Purchases of office and computing equipment, in real terms, are projected to account for about two-thirds of spending on producers' durable equipment (in 1987 dollars) next year and around 85 percent of the increase in 1995.

In the case of nonresidential construction, this year's upturn in outlays is anticipated to be sustained, with a 5-1/4 percent rise projected for 1994 and almost 7 percent for 1995, after an expected increase of around 4 percent for 1993. We do not anticipate any upturn soon in office building, but we see the likelihood of stronger spending by public utilities, along with a continued recovery in industrial and other commercial building.

Business inventories. We are projecting that businesses, on the whole, will end 1993 with their inventories reasonably aligned with sales or, in some cases, on the lean side. We have factored in a noticeable buildup in stocks of motor vehicles during the first quarter because assemblies are scheduled to increase further in advance of downtime in the spring when some facilities will be shifting production to new models. More generally, even though we expect businesses to maintain a tight rein on stocks, they will need to expand their inventories over the next two years to support the growth in final sales that we are projecting. Thus, a swing in inventory investment makes a moderate contribution to GDP growth over the forecast period, particularly in 1994.

Government purchases. The ongoing decline in real federal purchases is projected to subtract just over 1/4 percentage point from the growth of real GDP during 1994, compared with a reduction of almost 1/2 percentage point this year; the drop in federal purchases is expected to continue to moderate in 1995. The pattern of smaller declines from year to year reflects the moderation of the contraction in real defense purchases, from a particularly sharp drop of 9-1/4 percent this year to declines of 6-3/4 percent in 1994 and 4-1/2 percent in 1995. Real nondefense purchases are projected to continue to edge up at about a 1 percent rate.

Despite continuing budget problems, states and localities are projected to increase their spending at a moderate pace over the next two years because of persistent pressures to increase outlays for education and criminal justice programs. We expect tax receipts to rise only a little faster than nominal GDP because we suspect that officials perceive that they have minimal political room to raise taxes after the sizable hikes enacted in recent years. On balance, the large state and local deficit on operating and capital accounts is projected to be little changed through 1995.

Net exports. The projected acceleration in merchandise exports over the next two years tracks the recovery in real activity abroad. However, because imported goods are likely to remain relatively competitive, we expect growth in merchandise imports to be sustained at a strong pace during 1994 before dropping back a bit in 1995. On balance, the projected decline in net exports of goods and services subtracts 2/3 pecentage point from growth of real GDP next year, but only 1/4 percentage point in 1995; this year, the drag looks to have been a percentage point. (A complete discussion of these developments is contained in the International Developments section.)

Labor markets. With real GDP projected to grow not much faster in 1994 and 1995 than our estimate of potential growth, we would expect little change in overall labor market conditions. Judging from anecdotal reports, major corporate downsizings will continue for a while longer. But layoffs have declined, workweeks have lengthened, and firms in many industries are saying that they plan appreciable hiring in coming months. We are projecting that the large, early-cycle gains in labor productivity are mostly behind us and that over the next two years output per hour in the nonfarm business sector will grow a bit less rapidly, on average, than the 1.4 percent rate we now estimate for the four quarters of 1993.

That productivity forecast implies gains in private payroll employment of 140,000 per month over the course of the next two years. Total government employment is anticipated to rise, on average, less than 15,000 per month, with a modest uptrend at state and local governments more than offsetting a cumulative drop in federal civilian jobs of 80,000 by the end of fiscal year 1995. Assuming a modest recovery in labor force participation, such a pace of overall job creation is consistent with a slight decline in unemployment over the projection period.

As the experience of the past couple of years indicates, the links between output and employment growth, on the one hand, and changes in the unemployment rate, on the other, are rather loose in the short run. Among the risks attending the current staff forecast is the possibility that we are too sanguine about an upturn in labor force participation over the next two years. Our analysis attributes some of the atypical flatness of labor force participation thus far in the expansion to the perceived scarcity of job opportunities rather than to a more permanent secular change in behavior. If participation were unchanged in our current forecast, the jobless rate would fall below 6 percent by the end of 1995, suggesting a tightening of labor markets that would make further disinflation doubtful.

Wages and prices. Compensation per hour has shown no tendency to decelerate recently, and, in light of the reduced slack in the labor market, we anticipate no significant slowing in the next two years. The rise in the CPI excluding food and energy is now projected to slow only a couple tenths of a percent by 1995 from the increase of 3.1 percent expected for this year. Underlying this price projection is a continuation of the moderate rise in unit labor costs, at roughly a 2-1/4 percent pace. Moreover, prices of non-oil imports are projected to rise only modestly, maintaining competitive pressures on some domestic producers.

STAFF INFLATION PROJECTION FOR 1994-95
(Percent change)

	1993	1994	1995
Consumer price index	2.7	3.1	2.9
Previous	2.8	3.1	2.8
Excluding food and energy	3.1	3.0	2.9
Previous	3.1	2.9	2.7
Employment cost index[1]	3.7	3.6	3.6
Previous	3.6	3.5	3.4

1. December to December.

Our projection continues to show core CPI inflation moving up somewhat in early 1994 and then settling down at just under a 3 percent rate of increase thereafter. The intra-year swing in this measure of inflation during 1994 is smaller than occurred in 1993 because we now believe that the BLS will revise its seasonal adjustment procedures for the CPI to eliminate much of the upward bias apparent in the first quarter in recent years. Nonetheless, we still are showing a small acceleration in the CPI excluding food and energy in the first quarter of 1994 to allow for some repetition of the "speed" effects that apparently occurred in early 1993, in the wake of a run-up in sales and resource utilization. We recognize that reduced domestic slack might raise the prospects of greater--and more persistent--cost pressures or more aggressive markup behavior this time; however, we believe that, with growth in domestic demand moderating and with supplies of many goods from abroad remaining ample, the uptick in inflation will again prove transitory.

In addition to the movements in core inflation, the quarterly pattern for the overall CPI that is projected for 1994 is influenced by sizable swings in energy prices as well as by the temporary pickup in food prices now under way. We expect that consumer prices of petroleum products will decline in early 1994 and then rebound sharply in the spring when the cost of crude oil firms. Food prices are expected to rise noticeably faster than the core CPI over the first two quarters of next year as the effects of last summer's crop losses work their way through to retail prices. On balance, total CPI inflation is projected to be less than 3 percent in the first quarter of 1994, but to accelerate to 3-1/2 percent in the second quarter. The total CPI is then projected to move back down a bit, ending the year 3.1 percent above the level in the fourth quarter of 1993; the four-quarter change is expected to edge down to 2.9 percent by the end of 1995.

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

December 15, 1993

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	11/10/93	12/15/93	11/10/93	12/15/93	11/10/93	12/15/93	11/10/93	12/15/93	11/10/93	12/15/93
ANNUAL										
1991[2]	3.2	3.2	-.7	-.7	4.1	4.1	4.2	4.2	6.7	6.7
1992[2]	5.5	5.5	2.6	2.6	3.3	3.3	3.0	3.0	7.4	7.4
1993	5.5	5.5	2.8	2.9	3.2	3.2	3.0	3.0	6.9	6.8
1994	5.1	5.6	2.8	3.1	2.8	2.9	3.0	2.8	6.7	6.4
1995	4.6	4.7	2.5	2.5	2.6	2.8	2.8	3.0	6.6	6.4
QUARTERLY										
1992 Q1[2]	7.4	7.4	3.5	3.5	4.2	4.2	3.5	3.5	7.3	7.3
Q2[2]	5.7	5.7	2.8	2.8	3.4	3.4	2.9	2.9	7.5	7.5
Q3[2]	4.6	4.6	3.4	3.4	2.5	2.5	2.9	2.9	7.5	7.5
Q4[2]	9.2	9.2	5.7	5.7	3.1	3.1	3.2	3.2	7.3	7.3
1993 Q1[2]	4.4	4.4	.8	.8	4.3	4.3	3.7	3.7	7.0	7.0
Q2[2]	4.3	4.3	1.9	1.9	2.8	2.8	2.8	2.8	7.0	7.0
Q3[2]	4.4	4.3	2.8	2.7	2.1	2.2	1.4	1.4	6.7	6.7
Q4	6.6	7.4	4.0	5.0	3.1	2.9	3.2	2.9	6.8	6.6
1994 Q1	5.3	6.5	2.7	3.6	3.1	3.1	3.6	2.9	6.7	6.5
Q2	4.8	4.6	2.3	2.0	2.8	3.0	3.1	3.5	6.7	6.5
Q3	4.6	5.0	2.4	2.5	2.6	2.8	2.9	3.2	6.7	6.4
Q4	4.5	4.7	2.4	2.5	2.5	2.6	2.8	3.0	6.7	6.4
1995 Q1	4.9	5.0	2.5	2.5	2.9	3.0	3.0	3.0	6.7	6.4
Q2	4.5	4.7	2.5	2.5	2.5	2.6	2.7	2.9	6.7	6.4
Q3	4.4	4.5	2.5	2.5	2.4	2.6	2.6	2.9	6.6	6.4
Q4	4.4	4.5	2.5	2.5	2.5	2.6	2.6	2.9	6.6	6.4
TWO-QUARTER[3]										
1992 Q2[2]	6.6	6.6	3.2	3.2	3.9	3.9	3.2	3.2	.5	.5
Q4[2]	6.9	6.9	4.6	4.6	2.8	2.8	2.9	2.9	-.2	-.2
1993 Q2[2]	4.3	4.3	1.3	1.3	3.4	3.4	3.4	3.4	-.3	-.3
Q4	5.5	5.8	3.4	3.8	2.7	2.6	2.2	2.0	-.2	-.4
1994 Q2	5.1	5.5	2.5	2.8	3.0	3.1	3.4	3.2	-.1	-.1
Q4	4.5	4.8	2.4	2.5	2.5	2.7	2.8	3.1	.0	-.1
1995 Q2	4.7	4.8	2.5	2.5	2.7	2.8	2.9	3.0	.0	.0
Q4	4.4	4.5	2.5	2.5	2.5	2.6	2.6	2.9	-.1	.0
FOUR-QUARTER[4]										
1991 Q4[2]	3.7	3.7	.3	.3	3.6	3.6	3.0	3.0	1.0	1.0
1992 Q4[2]	6.7	6.7	3.9	3.9	3.3	3.3	3.1	3.1	.3	.3
1993 Q4	4.9	5.1	2.4	2.6	3.1	3.0	2.8	2.7	-.5	-.7
1994 Q4	4.8	5.2	2.5	2.7	2.7	2.9	3.1	3.1	-.1	-.2
1995 Q4	4.6	4.7	2.5	2.5	2.6	2.7	2.8	2.9	-.1	.0

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

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

December 15, 1993

Item	Unit[1]	1987	1988	1989	1990	1991	1992	Projected 1993	1994	1995
EXPENDITURES										
Nominal GDP	Bill. $	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6373.4	6729.1	7048.7
Real GDP	Bill. 87$	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5128.8	5289.4	5419.7
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.9	2.6	2.7	2.5
Gross domestic purchases		3.9	2.5	.9	-.4	-.2	4.3	3.6	3.3	2.6
Final sales		2.7	4.2	1.5	1.2	-.3	3.8	2.7	2.4	2.4
Private dom. final purch.		1.9	4.2	.5	-.1	-.7	5.0	4.7	3.7	2.9
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.0	3.1	2.4	1.9
Durables		-2.6	8.5	-.5	-.8	-.4	9.7	7.2	3.0	2.1
Nondurables		1.4	3.2	1.2	-.1	-1.3	3.6	1.9	1.9	1.8
Services		3.7	3.7	1.7	1.7	.9	2.8	2.8	2.5	2.0
Business fixed invest.		3.0	5.5	-.4	.7	-6.3	7.4	13.6	10.2	8.8
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.3	11.4	17.2	11.8	9.4
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.6	-2.0	4.0	5.3	6.8
Res. structures		-3.1	.9	-7.7	-15.2	1.6	17.6	6.3	5.9	1.3
Exports		12.6	13.5	11.3	6.7	8.4	4.9	2.0	5.7	8.0
Imports		4.7	3.6	2.6	.4	4.2	8.5	10.2	10.0	8.2
Government purchases		3.3	.2	2.0	3.3	-.7	1.1	-.6	-.1	.8
Federal		3.7	-3.4	-.6	2.8	-3.7	.4	-6.2	-4.3	-2.7
Defense		4.5	-3.2	-1.5	1.5	-7.3	-1.4	-9.2	-6.7	-4.4
State and local		2.9	2.9	4.0	3.6	1.5	1.6	3.0	2.4	2.7
Change in bus. invent.	Bill. 87$	26.3	19.9	29.8	5.7	-8.4	6.5	12.9	16.4	21.3
Nonfarm		32.7	26.9	29.9	3.2	-8.6	2.7	18.4	18.3	21.0
Net exports		-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-78.3	-115.1	-134.2
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.7	6.7	5.1	5.2	4.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.5	110.2	112.2	113.9
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.4	6.4
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.4	3.7	3.3
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.8	81.0	82.8	83.3
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.28	1.43	1.44
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.38	8.71	8.97	9.09
North American produced		7.07	7.54	7.08	6.90	6.14	6.28	6.74	7.08	7.19
Other		3.18	3.10	2.83	2.60	2.25	2.11	1.97	1.89	1.90
INCOME AND SAVING										
Nominal GNP	Bill. $	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6372.9	6723.8	7038.7
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	5.1	5.2	4.5
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.2	5.5	5.2
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	.7	2.2	2.0
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	3.9	3.6	3.7
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	10.9	3.7	2.7
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.2	7.4	7.3
Federal surpl./def.	Bill. $	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-224.2	-154.8	-139.9
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	1.2	-.5	3.1
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-57.4	-58.3	-53.9
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.4	2.5	2.1
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	3.0	2.9	2.7
Gross domestic purchases fixed-wt. price index		3.9	4.1	4.4	5.2	3.1	3.3	2.7	2.9	2.7
CPI		4.5	4.3	4.6	6.2	3.0	3.1	2.7	3.1	2.9
Ex. food and energy		4.3	4.5	4.4	5.2	4.5	3.4	3.1	3.0	2.9
ECI, hourly compensation[2]		3.3	4.8	4.8	4.6	4.4	3.5	3.7	3.6	3.6
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.2	3.6	1.4	1.1	1.4
Compensation per hour		3.9	3.8	3.1	6.2	4.7	5.2	3.1	3.6	3.7
Unit labor cost		1.9	3.3	4.6	5.7	2.5	1.5	1.7	2.4	2.3

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

Strictly Confidential (FR) Class II FOMC

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

December 15, 1993

Item	Unit	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2
EXPENDITURES											
Nominal GDP	Bill. $	5631.7	5697.7	5758.6	5803.7	5908.7	5991.4	6059.5	6194.4	6261.6	6327.6
Real GDP	Bill. 87$	4837.8	4855.6	4872.6	4879.6	4922.0	4956.5	4998.2	5068.3	5078.2	5102.1
Real GDP	% change	-2.4	1.5	1.4	.6	3.5	2.8	3.4	5.7	.8	1.9
Gross domestic purchases		-3.6	.8	2.4	-.1	3.4	4.7	3.8	5.4	2.5	3.1
Final sales		-2.7	1.9	-.4	-.1	4.5	1.4	3.7	5.8	-.8	3.2
Private dom. final purch.		-5.4	1.1	1.2	.2	4.8	4.3	4.0	7.1	2.5	4.4
Personal cons. expend.		-2.8	1.8	1.3	.0	4.3	1.8	4.2	5.6	.8	3.4
Durables		-11.4	1.6	10.4	-1.0	14.7	.8	10.7	13.2	-1.3	10.8
Nondurables		-3.5	1.1	-.7	-2.0	3.1	1.1	3.0	7.3	-2.1	2.7
Services		-.2	2.2	.3	1.5	2.6	2.4	3.3	2.9	3.1	2.1
Business fixed invest.		-13.2	-2.7	-3.8	-5.1	3.5	15.1	3.8	7.6	14.4	16.6
Producers' dur. equip.		-15.3	.1	5.3	-2.2	2.8	22.0	10.2	11.5	19.9	19.8
Nonres. structures		-8.5	-8.7	-21.3	-11.3	4.9	.3	-10.3	-2.1	.5	8.1
Res. structures		-25.5	1.2	17.3	20.3	16.8	21.8	1.2	32.8	1.5	-9.5
Exports		-.8	19.4	3.0	13.3	4.9	-.6	6.5	8.8	-2.4	3.6
Imports		-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3
Government purchases		2.8	1.4	-2.0	-4.7	3.0	-1.0	4.1	-1.4	-6.4	4.3
Federal		7.8	-.2	-6.9	-14.2	.0	-3.1	8.7	-3.5	-16.2	2.0
Defense		9.1	-4.4	-12.3	-19.2	-5.5	-5.0	10.5	-4.6	-21.4	.7
State and local		-.5	2.6	1.7	2.2	5.0	.4	1.2	.0	.3	5.6
Change in bus. invent.	Bill. 87$	-17.4	-22.3	-.9	7.1	-5.0	12.6	9.6	8.7	29.3	13.0
Nonfarm		-18.7	-26.2	.0	10.3	-9.6	7.0	5.8	7.5	29.3	17.1
Net exports		-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2
Nominal GDP	% change	2.4	4.8	4.3	3.2	7.4	5.7	4.6	9.2	4.4	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.6	108.2	108.2	108.1	108.1	108.4	108.6	108.9	109.4	110.0
Unemployment rate[1]	%	6.5	6.7	6.7	7.0	7.3	7.5	7.5	7.3	7.0	7.0
Industrial prod. index	% change	-7.2	.3	5.5	.3	.8	4.7	.8	6.7	5.5	2.3
Capacity util. rate-mfg.[1]	%	77.5	77.4	78.2	78.1	78.1	78.8	78.7	79.6	80.5	80.8
Housing starts	Millions	.90	1.01	1.04	1.09	1.26	1.14	1.18	1.25	1.16	1.23
Auto sales in U.S.		8.39	8.35	8.55	8.25	8.40	8.45	8.24	8.45	8.35	8.95
North American produced		6.16	6.05	6.25	6.09	6.15	6.29	6.24	6.43	6.38	6.90
Other		2.24	2.30	2.31	2.16	2.25	2.16	2.00	2.02	1.97	2.06
INCOME AND SAVING											
Nominal GNP	Bill. $	5656.1	5710.6	5766.2	5815.5	5927.6	5996.3	6067.3	6191.9	6262.1	6327.1
Nominal GNP	% change	1.9	3.9	4.0	3.5	7.9	4.7	4.8	8.5	4.6	4.2
Nominal personal income		2.1	4.2	2.1	5.8	7.5	6.2	3.7	15.5	-5.4	9.3
Real disposable income		-.4	1.9	-.9	2.2	4.2	3.1	1.9	10.6	-7.8	5.8
Personal saving rate[1]	%	4.8	4.9	4.4	4.9	5.0	5.3	4.9	6.0	3.9	4.4
Corp. profits, IVA&CCAdj	% change	7.4	1.6	-12.1	24.0	37.1	1.8	-36.5	104.6	-6.6	26.3
Profit share of GNP[1]	%	6.5	6.5	6.2	6.5	6.9	6.9	6.1	7.1	6.9	7.2
Federal govt. surpl./def.	Bill. $	-145.2	-206.2	-217.7	-244.7	-270.2	-279.9	-290.7	-264.2	-263.5	-222.6
State/local surpl./def.		6.1	5.5	5.5	12.1	6.1	7.8	1.2	13.5	.8	1.1
Ex. social ins. funds		-52.5	-53.1	-52.9	-46.5	-52.8	-51.8	-58.3	-46.0	-58.2	-57.8
PRICES AND COSTS											
GDP implicit deflator	% change	5.0	3.2	2.9	2.6	3.8	2.8	1.2	3.3	3.6	2.3
GDP fixed-wt. price index		5.1	3.4	3.4	2.7	4.2	3.4	2.5	3.1	4.3	2.8
Gross domestic purchases fixed-wt. price index		3.6	2.5	3.1	3.0	3.9	3.3	3.0	2.8	3.5	2.9
CPI		3.6	2.1	2.7	3.3	3.5	2.9	2.9	3.2	3.7	2.8
Ex. food and energy		6.5	3.8	4.0	3.7	4.2	3.3	2.7	3.6	4.1	3.5
ECI, hourly compensation[2]		4.6	4.9	4.4	3.7	4.0	2.9	3.2	3.5	4.2	3.5
Nonfarm business sector											
Output per hour		1.9	2.7	.8	3.4	3.8	2.8	3.6	4.2	-1.8	-.4
Compensation per hour		4.4	4.9	4.6	4.9	5.6	4.7	5.9	4.6	2.9	1.9
Unit labor cost		2.5	2.2	3.7	1.5	1.7	1.8	2.2	.4	4.8	2.3

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

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

			Projected								
		1993		1994				1995			
Item	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	6394.6	6509.8	6612.3	6687.6	6769.1	6847.3	6930.6	7010.1	7087.9	7166.2
Real GDP	Bill. 87$	5135.8	5199.0	5245.2	5271.1	5304.1	5337.1	5369.6	5403.2	5436.3	5469.6
Real GDP	% change	2.7	5.0	3.6	2.0	2.5	2.5	2.5	2.5	2.5	2.5
Gross domestic purchases		3.6	5.2	4.4	2.7	3.0	2.9	2.7	2.7	2.6	2.6
Final sales		3.3	5.1	2.7	2.0	2.3	2.4	2.4	2.4	2.4	2.4
Private dom. final purch.		5.1	6.6	4.4	3.4	3.5	3.4	3.2	3.0	2.8	2.8
Personal cons. expend.		4.4	4.0	2.4	2.2	2.5	2.4	2.1	2.0	1.9	1.8
Durables		7.3	12.5	2.5	2.8	3.4	3.2	2.3	2.1	2.0	1.8
Nondurables		3.7	3.3	2.1	1.6	2.0	1.9	1.9	1.9	1.8	1.8
Services		4.0	2.1	2.5	2.5	2.5	2.5	2.2	2.0	1.9	1.8
Business fixed invest.		7.4	16.2	12.9	10.0	9.3	8.8	8.7	8.8	8.8	8.9
Producers' dur. equip.		10.0	19.4	15.8	11.5	10.5	9.7	9.4	9.4	9.4	9.4
Nonres. structures		.3	7.4	4.7	5.3	5.4	6.0	6.5	6.7	6.7	7.1
Res. structures		10.9	25.4	14.0	4.2	3.2	2.5	3.2	1.5	.6	.0
Exports		-1.5	8.8	5.0	5.5	6.0	6.4	7.0	7.6	8.4	9.0
Imports		6.1	9.9	11.3	10.7	9.3	8.7	8.2	8.0	8.3	8.4
Government purchases		.3	-.2	-.3	-.3	-.1	.2	.6	.7	.8	.9
Federal		-4.9	-4.8	-4.4	-4.6	-4.5	-3.8	-2.9	-2.7	-2.6	-2.4
Defense		-7.9	-6.6	-6.7	-7.2	-7.0	-6.1	-4.8	-4.5	-4.4	-4.1
State and local		3.6	2.6	2.3	2.2	2.4	2.5	2.6	2.7	2.7	2.8
Change in bus. invent.	Bill. 87$	5.5	3.9	15.0	14.7	17.1	18.7	19.0	20.7	22.1	23.6
Nonfarm		16.7	10.5	19.1	17.1	18.1	18.9	18.9	20.4	21.7	23.1
Net exports		-87.3	-91.0	-102.3	-112.5	-119.8	-125.8	-130.1	-133.3	-135.7	-137.5
Nominal GDP	% change	4.3	7.4	6.5	4.6	5.0	4.7	5.0	4.7	4.5	4.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ	Millions	110.4	110.9	111.5	111.9	112.4	112.9	113.3	113.7	114.2	114.6
Unemployment rate[1]	%	6.7	6.6	6.5	6.5	6.4	6.4	6.4	6.4	6.4	6.4
Industrial prod. index	% change	2.6	7.1	5.5	2.6	3.3	3.4	3.3	3.3	3.3	3.3
Capacity util rate-mfg[1]	%	80.9	82.1	82.8	82.7	82.8	83.0	83.1	83.3	83.4	83.5
Housing starts	Millions	1.31	1.40	1.41	1.43	1.44	1.44	1.44	1.45	1.44	1.43
Auto sales in U.S.		8.60	8.95	8.91	8.95	9.00	9.02	9.04	9.08	9.10	9.12
North American produced		6.63	7.08	7.05	7.05	7.10	7.13	7.15	7.18	7.20	7.22
Other		1.97	1.87	1.86	1.90	1.90	1.89	1.89	1.90	1.90	1.90
INCOME AND SAVING											
Nominal GNP	Bill. $	6397.4	6504.8	6609.0	6681.5	6764.6	6840.2	6925.0	6999.6	7079.5	7150.8
Nominal GNP	% change	4.5	6.9	6.6	4.5	5.1	4.5	5.1	4.4	4.6	4.1
Nominal personal income		2.8	6.9	5.7	5.2	5.0	6.0	6.3	4.8	5.0	4.9
Real disposable income		1.3	4.2	2.3	1.0	2.9	2.8	2.4	1.7	1.8	1.9
Personal saving rate[1]	%	3.7	3.8	3.8	3.5	3.6	3.7	3.7	3.7	3.7	3.7
Corp profits, IVA&CCAdj	% change	11.1	15.2	9.9	-4.0	4.8	4.7	1.0	3.2	2.3	4.2
Profit share of GNP[1]	%	7.4	7.5	7.5	7.4	7.4	7.4	7.3	7.3	7.3	7.3
Federal govt surpl./def.	Bill. $	-211.7	-198.8	-171.8	-150.0	-146.0	-151.6	-149.9	-141.2	-129.1	-139.5
State/local surpl./def.		1.1	2.0	.5	-2.4	-.3	.3	.6	-.6	6.0	6.3
Ex. social ins. funds		-57.4	-56.3	-57.6	-60.3	-58.0	-57.2	-56.7	-57.7	-50.9	-50.4
PRICES AND COSTS											
GDP implicit deflator	% change	1.6	2.3	2.7	2.6	2.4	2.1	2.4	2.1	2.0	2.0
GDP fixed-wt. price index		2.2	2.9	3.1	3.0	2.8	2.6	3.0	2.6	2.6	2.6
Gross domestic purchases fixed-wt. price index		1.8	2.7	3.0	3.0	2.8	2.7	3.0	2.6	2.6	2.6
CPI		1.4	2.9	2.9	3.5	3.2	3.0	3.0	2.9	2.9	2.9
Ex. food and energy		1.9	2.7	3.3	2.9	2.9	2.9	3.0	2.9	2.8	2.8
ECI, hourly compensation[2]		3.4	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6
Nonfarm business sector											
Output per hour		4.3	3.7	2.0	.5	.9	1.2	1.4	1.4	1.4	1.4
Compensation per hour		3.7	3.9	4.1	3.5	3.4	3.4	3.9	3.6	3.5	3.5
Unit labor cost		-.6	.2	2.0	3.0	2.5	2.3	2.6	2.3	2.2	2.2

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

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

	1991				1992				1993					Projected
Item	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992	1993
Real GDP	-29.4	17.8	17.0	7.0	42.4	34.5	41.7	70.1	9.9	23.9	10.5	12.4	188.7	130.7
Gross domestic purchases	-44.6	9.6	28.6	-1.6	41.1	57.4	46.2	66.4	31.0	39.3	-20.1	-8.0	211.1	182.8
Final sales	-32.8	22.8	-4.5	-1.0	54.4	16.9	44.8	71.0	-10.7	40.2	56.2	-15.5	187.1	135.5
Private dom. final purch.	-54.5	11.1	11.9	1.8	46.3	42.1	39.8	70.6	26.0	45.7	-4.2	-29.7	198.8	193.4
Personal cons. expend.	-23.2	14.2	10.2	.4	34.8	14.5	34.1	46.3	6.6	28.9	23.3	1.6	129.7	106.2
Durables	-12.9	1.7	10.6	-1.1	15.1	.9	11.5	14.4	-1.5	12.3	-3.6	-1.7	41.9	34.2
Nondurables	-9.3	2.9	-1.8	-5.3	8.0	3.0	7.9	18.9	-5.8	7.1	-1.4	-13.5	37.8	20.1
Services	-1.0	9.6	1.4	6.8	11.7	10.6	14.7	13.0	13.9	9.5	28.9	16.8	50.0	51.9
Business fixed invest.	-18.8	-3.6	-5.0	-6.7	4.4	18.3	5.0	9.9	18.6	22.0	3.5	-34.1	37.6	73.9
Producers' dur. equip.	-14.9	.1	4.6	-2.0	2.5	18.2	9.2	10.6	18.4	19.1	10.5	-12.2	40.5	68.0
Nonres. structures	-3.8	-3.8	-9.6	-4.6	1.8	.1	-4.1	-.8	.2	2.9	-7.0	-21.8	-3.0	5.9
Res. structures	-12.5	.5	6.7	8.1	7.1	9.4	.6	14.4	.8	-5.2	-31.7	2.8	31.5	13.3
Change in bus. invent.	3.5	-4.9	21.4	8.0	-12.1	17.6	-3.0	-.9	20.6	-16.3	-45.8	28.0	1.6	-4.8
Nonfarm	.0	-7.5	26.2	10.3	-19.9	16.6	-1.2	1.7	21.8	-12.2	-49.9	29.0	-2.8	3.0
Farm	3.4	2.5	-4.7	-2.3	7.8	1.0	-1.8	-2.6	-1.2	-4.1	4.2	-1.1	4.4	-7.8
Net exports	15.2	8.3	-11.7	8.6	1.2	-22.8	-4.5	3.7	-21.1	-15.3	30.6	20.4	-22.4	-52.2
Exports	-1.0	23.5	4.0	17.3	6.8	-.8	9.1	12.3	-3.6	5.2	32.7	43.8	27.4	12.0
Imports	-16.2	15.2	15.7	8.8	5.5	22.0	13.6	8.5	17.6	20.5	2.2	23.5	49.6	64.2
Government purchases	6.5	3.4	-4.7	-11.4	6.9	-2.4	9.5	-3.3	-15.6	9.8	29.8	-6.2	10.7	-5.7
Federal	7.3	-.2	-7.0	-14.5	.0	-2.9	7.8	-3.3	-16.1	1.8	10.4	-14.4	1.6	-23.1
Defense	6.3	-3.3	-9.3	-14.5	-3.7	-3.3	6.5	-3.1	-15.3	.4	4.2	-20.8	-3.6	-24.0
Nondefense	1.0	3.1	2.3	.0	3.7	.4	1.2	-.1	-.9	1.5	6.1	6.4	5.2	.9
State and local	-.7	3.6	2.3	3.1	6.9	.5	1.7	.0	.5	7.9	19.3	8.3	9.1	17.4

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)

December 15, 1993

Item	Projected 1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1992	Projected 1993	1994	1995
Real GDP	33.7	63.2	46.2	25.9	33.0	33.0	32.6	33.6	33.0	33.4	188.7	130.7	138.1	132.6
Gross domestic purchases	45.8	66.7	57.6	36.1	40.3	39.0	36.9	36.8	35.5	35.2	211.1	182.8	172.9	144.3
Final sales	41.3	64.7	35.1	26.2	30.5	31.5	32.2	31.9	31.6	31.9	187.1	135.5	123.3	127.7
Private dom. final purch.	52.8	68.9	47.0	37.2	38.2	37.1	35.1	33.4	32.1	31.6	198.8	193.4	159.5	132.2
Personal cons. expend.	36.9	33.8	20.5	19.6	21.7	21.4	18.9	17.7	16.7	16.0	129.7	106.2	83.2	69.4
Durables	8.6	14.8	3.1	3.5	4.3	4.2	3.0	2.7	2.6	2.4	41.9	34.2	15.1	10.7
Nondurables	9.8	9.0	5.6	4.3	5.5	5.3	5.3	5.3	5.1	5.1	37.8	20.1	20.7	20.8
Services	18.5	10.0	11.8	11.8	11.9	11.9	10.6	9.7	9.0	8.6	50.0	51.9	47.4	37.9
Business fixed invest.	10.5	22.8	19.0	15.3	14.6	14.2	14.4	14.8	15.1	15.5	37.6	73.9	63.1	59.7
Producers' dur. equip.	10.4	20.1	17.3	13.3	12.5	11.9	11.8	12.0	12.3	12.6	40.5	68.0	54.9	48.7
Nonres. structures	.1	2.7	1.8	2.0	2.1	2.3	2.6	2.7	2.7	2.9	-3.0	5.9	8.2	11.0
Res. structures	5.4	12.3	7.5	2.4	1.8	1.5	1.9	.9	.3	.0	31.5	13.3	13.1	3.1
Change in bus. invent.	-7.5	-1.6	11.1	-.3	2.4	1.5	.3	1.7	1.4	1.5	1.6	-4.8	14.8	4.9
Nonfarm	-.4	-6.2	8.6	-2.0	1.0	.7	.0	1.5	1.3	1.4	-2.8	3.0	8.4	4.2
Farm	-7.1	4.6	2.5	1.7	1.4	.8	.3	.2	.1	.1	4.4	-7.8	6.4	.7
Net exports	-12.1	-3.7	-11.4	-10.2	-7.3	-6.0	-4.3	-3.2	-2.4	-1.8	-22.4	-52.2	-34.9	-11.7
Exports	-2.2	12.6	7.5	8.2	9.1	9.9	10.8	11.9	13.5	14.6	27.4	12.0	34.7	50.9
Imports	9.9	16.2	18.8	18.4	16.5	15.8	15.1	15.1	15.9	16.5	49.6	64.2	69.5	62.6
Government purchases	.6	-.5	-.6	-.8	-.3	.4	1.4	1.7	1.9	2.2	10.7	-5.7	-1.3	7.2
Federal	-4.5	-4.3	-3.9	-4.1	-3.9	-3.3	-2.5	-2.3	-2.2	-2.0	1.6	-23.1	-15.2	-9.0
Defense	-5.0	-4.1	-4.1	-4.3	-4.1	-3.5	-2.7	-2.5	-2.4	-2.2	-3.6	-24.0	-16.0	-9.8
Nondefense	.4	-.1	.2	.2	.2	.2	.2	.2	.2	.2	5.2	.9	.8	.8
State and local	5.2	3.8	3.3	3.3	3.6	3.7	3.9	4.0	4.1	4.2	9.1	17.4	13.9	16.2

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

December 15, 1993

	Fiscal year				1993				1994				1995			
Item	1992[a]	1993[a]	1994	1995	Q1[a]	Q2[a]	Q3[a]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1090	1153	1247	1316	262	331	295	279	277	380	312	295	287	409	325	310
Outlays[1]	1381	1408	1479	1525	324	349	349	376	365	365	373	380	386	378	381	397
Surplus/deficit[1]	-290	-255	-232	-208	-62	-18	-54	-97	-88	15	-61	-84	-99	31	-56	-87
On-budget	-340	-301	-294	-278	-90	-49	-54	-110	-98	-22	-64	-99	-110	-9	-61	-102
Off-budget	50	46	62	70	27	31	0	13	9	37	3	14	11	40	5	16
Surplus excluding deposit insurance[2]	-287	-283	-228	-214	-68	-25	-61	-96	-89	18	-61	-84	-102	31	-59	-88
Means of financing																
Borrowing	311	249	245	219	60	61	46	88	72	28	56	70	83	16	50	72
Cash decrease	-17	6	-7	0	8	-39	8	15	15	-37	0	20	20	-40	0	20
Other[3]	-4	0	-6	-11	-6	-4	0	-6	1	-6	5	-6	-4	-7	6	-5
Cash operating balance, end of period	59	53	60	60	22	61	53	38	23	60	60	40	20	60	60	40
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1163	1247	1358	1435	1218	1268	1279	1313	1358	1379	1381	1400	1430	1447	1464	1482
Expenditures	1435	1487	1525	1578	1482	1491	1490	1512	1530	1529	1527	1551	1580	1588	1593	1622
Purchases	445	447	442	439	443	448	445	442	444	441	439	437	440	440	439	438
Defense	313	308	297	290	305	308	304	300	300	296	293	290	291	290	288	287
Nondefense	132	139	144	149	138	140	142	142	144	145	146	147	149	150	151	151
Other expenditures	990	1040	1083	1139	1039	1043	1045	1070	1085	1088	1089	1115	1139	1148	1154	1183
Surplus/deficit	-271	-241	-167	-143	-264	-223	-212	-199	-172	-150	-146	-152	-150	-141	-129	-140
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-212	-192	-134	-113	-215	-172	-164	-161	-140	-118	-116	-122	-120	-112	-100	-110
Change in HEB, percent of potential GDP	.9	-.3	-.9	-.3	0	-.7	-.1	0	-.3	-.3	0	.1	0	-.1	-.2	.1
Fiscal impetus (FI), percent, cal. year	-4.5	-4.4	-7.5	-5	-4.9	1.3	-.5	-1.3	-3.4	-3.5	-1	-1	-1.8	-1.5	.1	-.4

1. OMB's September deficit estimates are $285 billion in FY93, $259 billion in FY94, and $200 billion in FY95. CBO's September deficit estimates of the budget are $266 billion in FY93, $253 billion in FY94, and $196 billion in FY95. 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 September deficit estimates, excluding deposit insurance spending, are $311 billion in FY93, $250 billion in FY94, and $209 billion in FY95. CBO's September deficit estimates, excluding deposit insurance spending, are $292 billion in FY93, $240 billion in FY94, and $260 billion in FY95.

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

4. HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.4 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in 1987 dollars), scaled by real federal purchases. For change in HEB and FI, negative values indicate restraint.

a--Actual.

Recent Developments

Longer-term interest rates have followed a zigzag pattern since the November meeting of the FOMC, reflecting the cross-currents of incoming data pointing to a faster expansion of economic activity, lower oil prices, and, most recently, higher prices for gold and some other commodities. On net, these wiggles have left the rate on thirty-year Treasury bonds about 10 basis points above its starting point. Although the Dow Jones Industrial Average hit record highs in the past week, most broad stock price indexes have declined slightly during the intermeeting period.

The growth of both M2 and M3 picked up in November, by enough to lift both of them noticeably above the lower end of their annual growth ranges. In part, this strength reflected a surge in holdings of money market mutual funds, as some investors diverted cash from longer-term mutual funds. In the case of bond funds, the weaker pace of inflows likely reflected a response to the capital losses suffered as a consequence of the back-up since mid-October in bond rates.

Nonfinancial firms reacted to that increase in bond rates by cutting back on issuance of long-term debt in November, and issuance has remained at a lower pace in December. By contrast, public issuance of equity by these firms last month was at the fastest rate on record. Reliance on capital markets for funds has continued to restrain the growth of bank loans and commercial paper: Both business loans at banks and commercial paper outstanding were little changed in November. Weakness in business borrowing from banks has persisted even as banks have become more accommodative, especially through the relaxation of various nonprice terms. Overall, debt of the nonfinancial business sector appears to be growing only marginally.

In contrast, household debt appears to be growing at a rapid pace. Consumer installment debt grew at an annual rate of nearly 13 percent in October, up from 9 percent in the third quarter, and commercial bank data for November point to another large advance. Mortgage borrowing of households was brisk in the third quarter, and various indicators of housing activity and loan applications suggest that rapid growth in home mortgage debt has continued in the current quarter.

No doubt the willingness of households to take on greater debt has been fostered by the improvement in their financial positions. The aggregate debt-servicing burden has diminished, reaching levels last seen in the mid-1980s, and delinquency rates on consumer loans have declined markedly. Furthermore, a somewhat improved view of job prospects may have made households feel a little more comfortable about extending themselves financially.

Gross issuance of tax-exempt bonds dropped sharply in November and appears to have remained at that lower rate in early December. This slowdown in issuance evidently is attributable to the backup in interest rates; in addition, the pool of securities still eligible for refinancing is limited by the federal law prohibiting multiple advance refundings of most municipal securities.

Overall, growth in the debt of nonfederal sectors appears to be running at roughly a 5 percent annual rate this quarter, about the same as the rate of growth in the third quarter and well above the pace of the first half. At the federal level, debt is expected to grow at an 8 percent annual rate, in line with average expansion over the first three quarters of the year. Net issuance of Treasury coupon securities has been relatively light this quarter, and issuance of bills has accounted for the bulk of the borrowing.

For 1993 as a whole, growth of the total debt of domestic nonfinancial sectors is expected to be near 5 percent, 1 percentage point above the lower end of the monitoring range for this aggregate and about the same as the growth of nominal GDP.

Outlook for 1994-1995

The staff projects that domestic nonfinancial debt will continue to grow about 5 percent per year in each of the next two years. Declining net credit absorption by the government sectors is projected to be offset by a moderate pickup in borrowing by the private sectors. Although interest rate developments are expected to provide less stimulus to borrowing, the other restraints on private borrowing appear to have eased markedly over recent quarters: The balance sheets of businesses and households have improved, and commercial banks and other financial intermediaries have become better prepared and more willing to lend.

Growth in the debt of the household sector is expected to taper off a bit from its recent pace, but still is projected to exceed the growth of disposable personal income over the next two years. Use of consumer installment debt likely will be encouraged by the maintenance of relatively strong expenditures on durables and housing. Mortgage refinancing activity is expected to be substantially reduced over the forecast period, given our projection that mortgage rates will remain within their recent range. However, a continuing high level of housing turnover, on top of a strong pace of single-family housing starts, should provide considerable impetus to the net growth of home mortgage debt.

Borrowing by businesses is expected to increase over the forecast horizon, but only moderately. At present, it appears that many firms are still reluctant to borrow from banks and prefer instead to tap the bond markets, thereby locking in their long-term financing at rates that are perceived to be low and also avoiding the stringent covenants often imposed by banks. Given the financial environment assumed in the projection, characterized by still fairly low rates and still large, but perhaps reduced inflows to mutual funds, this pattern of business financing may well persist. Over time, as equity cushions build up, we expect that more and more firms will feel they have reached desirable leverage ratios. As that occurs, net issuance of new stock is likely to diminish. A substantial resumption of mergers and acquisitions not financed by share exchanges--if it were to occur--could also provide some lift to business borrowing; for example, the QVC/Viacom transaction alone is expected to boost the growth of debt by several billion dollars in 1994.

State and local government borrowing likely will ease a bit in 1994 and 1995 from this year's pace, reflecting primarily a fall-off in advance refunding activity. As existing debt matures, total debt outstanding of this sector should decelerate. Likewise, federal borrowing needs also are projected to taper off, as the implementation of the 1993 budget agreement and the rising level of economic activity both operate to narrow the budgetary gap.

Confidential FR Class II
December 15, 1993

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS[1]
(Percent)

			--------------------Nonfederal--------------------						-------MEMO--------	
				-----Households------						
	Total[2]	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
1981	9.7	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.3	9.3
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	9.6	3.2
1983	11.9	18.9	10.1	11.1	10.8	12.6	9.3	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.8	11.7	18.7	15.6	9.1	12.6	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.3	12.1	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.3	4.7
1987	9.5	8.0	9.9	12.4	14.9	5.0	7.1	13.4	8.4	8.0
1988	8.8	8.0	9.0	10.8	11.8	7.2	7.9	7.0	8.0	7.7
1989	7.8	7.0	8.0	9.0	10.2	6.7	7.0	8.4	5.0	6.0
1990	6.3	11.0	4.9	6.2	7.7	1.7	3.4	6.7	4.3	4.7
1991	4.4	11.1	2.4	4.7	6.7	-1.6	-0.9	7.2	-0.6	3.7
1992	5.2	10.9	3.3	5.7	6.6	1.2	0.1	6.4	1.1	6.7
1993	5.0	8.3	3.9	6.3	6.7	5.6	0.7	5.9	-1.7	5.1
1994	5.3	6.8	4.7	7.0	7.2	8.7	2.1	4.6	0.1	5.2
1995	5.1	6.2	4.7	6.7	7.1	7.3	2.5	4.0	0.6	4.7
Quarter (seasonally adjusted annual rates)										
1992:1	5.4	11.7	3.3	5.3	8.2	-1.2	0.5	6.7	3.3	7.4
2	5.2	12.3	2.8	4.6	4.0	-1.8	-0.3	7.1	0.9	5.7
3	5.3	10.2	3.7	5.6	7.5	1.7	0.6	7.6	-0.9	4.6
4	4.6	7.9	3.4	6.8	6.2	6.1	-0.3	3.6	0.9	9.2
1993:1	3.4	7.5	2.0	3.5	4.5	2.4	-1.1	7.2	-6.1	4.4
2	5.6	11.1	3.7	5.4	6.1	2.8	0.9	6.8	0.6	4.3
3	4.8	5.5	4.6	7.9	7.9	7.4	1.0	4.3	-1.6	4.3
4	5.9	8.1	5.1	7.9	7.8	9.5	1.9	4.8	0.4	7.4
1994:1	5.8	8.4	4.8	7.4	7.5	9.0	2.1	4.5	1.1	6.5
2	5.0	6.4	4.5	6.5	6.7	8.6	2.2	4.8	-0.3	4.6
3	5.0	6.2	4.6	6.8	7.0	8.2	2.1	4.3	-0.3	5.0
4	4.8	5.5	4.6	6.6	7.0	7.8	2.2	4.5	0.0	4.7

1. Data after 1993:3 are staff projections. Year-to-year changes in nominal GDP are measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes are measured from end of preceding period to end of period indicated.
2. On a quarterly average basis, total debt growth is projected to be 4.9 in 1993, 5.4 in 1994, and 5.2 in 1995.

2.6.3 FOF

FLOW OF FUNDS PROJECTIONS: HIGHLIGHTS[1]
(Billions of dollars)

	Calendar year				1993				1994			
	1992	1993	1994	1995	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Seasonally Adjusted Annual Rates							
Net funds raised by domestic nonfinancial sectors												
1 Total	609.1	614.1	673.5	674.8	408.3	693.5	609.7	744.8	722.4	653.3	678.4	639.9
2 Net equity issuance	26.8	23.8	22.5	10.0	9.0	26.0	30.0	30.0	5.0	23.0	41.0	21.0
3 Net debt issuance	582.4	590.3	651.0	664.8	399.3	667.5	579.7	714.8	717.4	630.3	637.4	618.9
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	-26.4	22.7	59.0	91.0	34.0	20.3	13.9	22.6	37.2	52.2	67.7	79.0
5 Net equity issuance	26.8	23.8	22.5	10.0	9.0	26.0	30.0	30.0	5.0	23.0	41.0	21.0
6 Credit market borrowing	4.0	25.9	79.6	95.3	-38.9	34.5	36.4	71.6	77.0	81.7	77.3	82.4
Households												
7 Net borrowing, of which:	215.0	250.9	296.0	305.2	137.4	215.8	322.4	328.0	311.8	278.9	298.0	295.3
8 Home mortgages	170.9	185.6	212.0	224.8	122.8	170.6	223.9	225.0	220.0	200.0	212.0	216.0
9 Consumer credit	9.3	45.5	74.0	67.5	19.2	22.9	60.8	79.0	77.0	75.0	73.0	71.0
10 Debt/DPI (percent)[3]	86.0	87.3	88.4	89.7	87.3	86.7	87.8	88.1	88.6	89.1	89.3	89.5
State and local governments												
11 Net borrowing	59.4	58.4	48.3	43.5	71.2	68.9	43.7	49.7	47.6	50.6	46.5	48.5
12 Current surplus[4]	-51.0	-53.4	-56.9	-58.0	-53.6	-53.1	-54.0	-52.9	-54.8	-58.6	-57.1	-57.1
U.S.government												
13 Net borrowing	304.0	255.1	227.1	220.8	229.6	348.2	177.2	265.5	280.9	219.1	215.5	192.8
14 Net borrowing;quarterly, nsa	304.0	255.1	227.1	220.8	59.8	61.1	46.1	88.2	72.5	28.0	56.2	70.4
15 Unified deficit;quarterly, nsa	327.0	231.6	218.9	210.7	62.4	17.8	54.4	97.1	88.5	-14.9	61.0	84.4
Funds supplied by												
16 depository institutions	34.9	114.0	161.0	178.8	58.2	136.3	140.0	121.5	155.7	150.6	162.9	175.0
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	189.7	188.9	188.2	189.0	189.2	189.9	190.1	189.5	189.3	189.5	189.6	189.7
18 Dom. nonfinancial borrowing	9.6	9.3	9.7	9.4	6.4	10.5	9.1	11.0	10.8	9.4	9.4	9.0
19 U.S. government[5]	5.0	4.0	3.4	3.1	3.7	5.5	2.8	4.1	4.2	3.3	3.2	2.8
20 Private	4.6	5.3	6.3	6.3	2.7	5.0	6.3	6.9	6.6	6.1	6.2	6.2

1. Data after 1993:3 are staff projections.
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 changed little on balance since the November 16 FOMC meeting. The dollar has risen 2-1/2 percent against the yen and 1-1/4 percent against the Canadian dollar, has remained about unchanged against the mark, and has declined slightly against other European currencies. The Mexican peso came under pressure before the NAFTA vote but returned to previous levels when passage became widely perceived as likely, and it has traded in a narrow range since the vote.

The yen depreciated on news of further weakness in the Japanese economy and on expectations that the Bank of Japan will again reduce its discount rate (now at 1.75 percent). Those expectations have also precipitated a 25 to 40 basis-point decline in Japanese three-month interest rates. German short-term interest rates have fallen 10 basis points as the Bundesbank lowered its intervention rate, while long-term rates have declined slightly. Short- and long-term rates have eased in other major European countries as well.

U.S. authorities did not intervene.

Japan and Germany recorded stronger-than-expected increases in real GDP in the third quarter, as domestic demand expanded moderately. However, economic activity appears to have turned down subsequently in both countries: Japanese industrial production plummeted 5 percent in October, and business confidence fell to new lows in November; German retail sales, industrial production, and orders fell in October. Real GDP in Canada and the United Kingdom grew moderately in the third quarter and appears to have continued to do so in the fourth quarter. Mexico's GDP in the third quarter was 1-1/4 percent below its year-earlier level, as the tightening of macroeconomic policies and the uncertainty over the NAFTA vote had negative effects greater than we had anticipated.

Inflation in the foreign industrial countries has receded further in recent months. In November, twelve-month CPI inflation fell below 1 percent in Japan and to about 3-1/2 percent in Germany.

The U.S. merchandise trade deficit widened to $145 billion (at an annual rate) in the third quarter, as imports rose slightly and exports fell somewhat. Temporary declines in shipments of aircraft and autos more than accounted for the drop in exports; other exports rose moderately. The current account deficit widened somewhat less than the trade deficit (to $112 billion at an annual rate), as net investment income receipts increased. The price of non-oil imports rose 1/2 percent (not at an annual rate) in October, with much of the rise accounted for by an increase in the prices of imports of 1994 model passenger cars. Spot oil prices have declined another $2.00 per barrel since the November Greenbook because of sluggish crude oil demand and strong non-OPEC production (in the North Sea, in particular).

Outlook

The staff projects that the growth rate of real GDP abroad will pick up from 2 percent in the fourth quarter of 1993 to 2-3/4 percent in 1994 and 3-1/4 percent in 1995. U.S. exports should bounce back in the fourth quarter from their recent decline and then rise at a more moderate pace over the year ahead; nonetheless, imports should continue to grow faster than exports over the forecast period. The resulting rate of decline in real net exports of goods and services subtracts 2/3 percentage point from the annual rate of growth of real GDP during 1994, somewhat more than was projected in the November Greenbook. The decline in net exports should slow significantly in 1995 as the growth of foreign GDP and of U.S. exports picks up.

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--essentially the same path as in the November Greenbook. We expect the CPI-adjusted value of the dollar to show a moderate depreciation against the currencies of key developing countries on average through 1995.

Foreign industrial countries. We expect the growth of real GDP in the G-6 countries to be about 1-1/2 percent (annual rate, weighted by U.S. exports) during the current quarter, and to rise gradually to nearly 3 percent during 1995. This outlook is slightly weaker than that in the November Greenbook, reflecting downward revisions primarily for continental Europe and Japan.

Growth in Canada is expected to exceed 3 percent over the next two years. In 1994, however, western Germany is expected to show little growth and the rest of continental Europe and Japan to expand only slowly (at rates around 1 to 1-1/2 percent). These countries are expected to begin to show a more noticeable pickup during the latter part of 1994 and into 1995. We continue to expect that the primary impetus to growth will be the recent and projected further monetary easing in the major foreign countries as well as some fiscal stimulus in Japan.[1] Lower oil prices have net positive, but

1. Fiscal stimulus in Japan over the forecast period is likely to take the form of a cut in income taxes (possibly offset at some later date by increased consumption taxes) and continued expansion of government investment. Staff model simulations suggest that the magnitude of net tax cuts that have been discussed to date probably would not add much more than 1/4 percentage point to GDP growth during 1994 and 1995. Moreover, the expected growth of government investment, while significant, is well below the 16 percent increase estimated for 1993.

modest. implications for this outlook.

Foreign short-term interest rates, on average, are projected to decline nearly 100 basis points from current levels by mid-1994. We expect German rates to fall 150 basis points over this period and French rates to fall somewhat more; Japanese rates should decline slightly. Rates in several countries (most notably Canada and the United Kingdom) should begin to turn upward late next year or during 1995 as economic recovery continues. Long-term interest rates in the major industrial countries should continue to decline moderately on average over the year ahead and then edge up during 1995.

CPI inflation in the major foreign industrial countries is projected to average about 2-1/4 percent during 1994 and 2 percent during 1995. Increased economic slack should help reduce western Germany's inflation to 2-3/4 percent in 1994, whereas inflation in the United Kingdom is expected to rebound somewhat from a level this year that has been depressed by falling mortgage interest rates.

Developing countries. Real GDP in major U.S. trading partners among developing countries (weighted by U.S. export shares) is forecast to increase 4 percent in 1993, 4-1/2 percent in 1994, and 5 percent in 1995. Mexican growth is expected to increase because of the stimulative effect of the NAFTA on Mexico's investment and external demand and because of a fiscal stimulus package that will be implemented at the beginning of 1994.[2] In addition, growth among the key Asian countries should be stimulated a bit by the projected increase in GDP growth in Japan and the European Community over the next two years.

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2. The Mexican stimulus package includes individual and corporate income tax cuts, lower prices for certain types of fuel, and accelerated corporate depreciation allowances for investment in pollution control equipment and motor vehicles. Current estimates of the size of the total package are still quite uncertain; the staff's assessment is that it could amount to something on the order of 1/2 to 1 percent of GDP for the year 1994.

Since the November Greenbook, Mexican growth has been revised downward by roughly 1/2 percent per year for the 1994-95 forecast period. This downward revision is partly a reflection of the weaker-than-expected outcome for the third quarter of 1993 and partly the result of lower oil prices.[3] However, the outlook for other developing countries, particularly in east Asia, has brightened a bit because of the decline in oil prices and of recent stronger-than-anticipated growth in Korea and Singapore.

U.S. real net exports. We expect that real net exports of goods and services will decline only about $4 billion at an annual rate in the fourth quarter as both imports and exports pick up from subdued rates of growth in the third quarter. Net exports should then resume a faster rate of decline--falling by $35 billion over the four quarters of 1994--as the growth of U.S. domestic demand continues to outpace that of many of our major trading partners. During 1995, however, the decline in net exports should slow to just over $10 billion as growth in the rest of the world picks up. The decline projected during 1994 and 1995 is about $5 billion more per year than that in the November Greenbook because of stronger growth of imports and slightly weaker growth of exports.

The quantity of merchandise exports is projected to rebound strongly in the fourth quarter. We anticipate that aircraft shipments will recover somewhat from the unusually low levels in the third quarter and that automotive transactions with Canada will rebound with the pickup in U.S. production. Agricultural exports show a swing from negative to positive growth in the fourth quarter

3. In the past six months, our longer-term outlook for oil prices has declined $3 per barrel. We estimate that a decline of this magnitude reduces Mexico's export revenues by an amount equal to more than 1/2 percent of that country's GDP. The export revenues of OPEC falls substantially more. Nevertheless, because oil-importing countries benefit, staff model simulations suggest that the decline in oil prices has only a small net negative effect on U.S. exports.

as shipments of corn have returned to more normal levels after a pause in the third quarter.

We expect non-agricultural exports excluding computers to grow 3 percent in 1994 and 3-1/2 percent in 1995, roughly in line with the expansion of domestic demand abroad. Continued rapid expansion of trade in computers is projected to add another 4 to 5 percentage points to the growth of total exports.

TRADE QUANTITIES*
(Percent change from preceding period shown, s.a.a.r.)

	1993				---- Projection ----	
					1994	1995
	Q1	Q2	Q3	Q4	Q4	Q4
Exports						
Total	-6.3	4.1	-0.4	10.8	6.7	9.1
Agricultural	-21.4	1.0	-14.6	8.8	0.1	2.0
Computers	-3.5	8.1	44.6	26.2	29.2	34.8
Other nonag.	-4.7	3.7	-5.0	8.3	3.0	3.6
Imports						
Total	12.3	15.3	6.9	11.2	11.2	9.2
Oil	4.6	37.3	-6.1	-7.2	7.3	4.9
Computers	32.0	36.4	39.8	36.0	30.8	28.6
Other non-oil	10.1	9.4	3.3	9.3	7.6	4.7

* GDP basis, 1987 dollars.

Non-oil imports excluding computers should expand fairly rapidly in the fourth quarter as activity in the auto sector picks up. Beyond the current quarter, we expect the expansion of these imports to be stimulated by fairly strong growth in domestic expenditures, by declines in the relative price of imports, and by heightened nonprice competition from firms abroad that are facing considerable slack in their own domestic markets. Nevertheless, import growth should slow noticeably over the forecast period as the growth of U.S. domestic demand eases and as foreign competitive pressures lessen. Compared with the previous forecast, the level and growth of these imports has been revised up significantly, largely because of the higher projected path of U.S. domestic expenditures. Imports of computers should roughly keep pace with the very rapid growth of real domestic expenditures on computers.

We expect that the quantity of oil imports will decline in the current quarter as seasonal increases in consumption are drawn from domestic stocks. Over the remainder of the forecast period, imports are projected to remain on an upward trend as U.S. oil production continues to decline in response to a relatively low and falling real price of oil.

Oil prices. The recent weakness in the oil market has led us to mark down the path of oil prices by an average of $1.70 per barrel through the first quarter of 1994. We expect the spot price for WTI crude to average about $15.50 per barrel over the next several months and then to rise to $17.50 per barrel (consistent with an import unit value of $15 per barrel by the second half of 1994) as global economic activity picks up. Prices should remain at that level through 1995, consistent with our assumption that Iraq will return to the oil market in early 1995.[4]

This longer-term oil price path is $1.00 per barrel lower than that in the November Greenbook, primarily because Saudi Arabia's refusal in late November to cut production does not bode well for OPEC unity once Iraq returns to the world oil market. The new longer-term assumption is roughly in line with market expectations, although the staff assumption has oil prices rising sooner than is currently expected by the market.

Prices of non-oil imports and exports. We expect the price of non-oil imports excluding computers to be about unchanged in the fourth quarter and to rise 2 percent during 1994. The increase in

4. This timetable for Iraq's return to the oil market appears consistent with the recent progress made in U.N. weapons-monitoring talks with Iraq. When Iraq does return, we expect it to add between 0.5 and 1.5 million barrels per day to the world oil market; some of that increase is likely to be offset by reduced production elsewhere in OPEC.

prices of U.S. nonagricultural exports should, over time, move in line with increases in U.S. producer prices.

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

	1993				---- Projection ----	
					1994	1995
	Q1	Q2	Q3	Q4	Q4	Q4
PPI (Exp. wts.)	1.8	2.5	-0.2	-0.3	2.1	1.8
Nonag. exports*	0.8	3.4	-1.8	-0.4	1.8	1.7
Non-oil imports*	-2.7	3.5	0.9	0.0	1.6	2.2
Oil imports (level, $/bl)	16.44	17.07	15.23	14.33	15.00	15.00

* Excluding computers.

Nominal trade and current account balances. The merchandise trade deficit is projected to be $142 billion (annual rate) in the current quarter and then to rise to about $175 billion by the end of 1994 and $190 billion by the end of 1995. We expect that net service receipts will continue to expand slowly, from an annual rate of $56 billion in the third quarter of 1993 to more than $70 billion by the end of 1995. Investment income payments are expected to exceed investment income receipts by a small but increasing margin over the forecast period. We expect these developments to push the current account deficit up to nearly $160 billion for the year 1995. This projected level of the deficit for 1995 is about $10 billion more than in the previous forecast, largely because of the higher projected level of non-oil imports.

December 15, 1993

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1991-95
(Percent change from fourth quarter to fourth quarter)

			Projection		
Measure and country	1991	1992	1993	1994	1995
REAL GDP					
Canada	-0.1	0.8	3.0	3.1	3.2
France	1.3	0.6	-0.3	1.0	2.3
Western Germany	2.7	0.0	-0.6	0.4	2.0
Italy	1.7	-0.3	0.8	1.5	2.1
Japan	3.6	-0.3	0.7	1.4	2.9
United Kingdom	-1.6	0.2	2.2	2.3	2.8
Average, weighted by 1987-89 GDP	1.8	0.0	0.8	1.5	2.6
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.7	1.1	2.1	2.7	3.3
G-6	0.9	0.3	1.8	2.2	2.9
Developing countries	5.0	3.8	3.9	4.4	5.0
CONSUMER PRICES					
Canada	4.1	1.8	1.7	1.8	1.8
France	2.9	1.8	2.2	2.0	1.8
Western Germany	3.9	3.7	3.7	2.7	2.1
Italy	6.1	4.8	4.3	3.5	2.8
Japan	3.2	0.9	1.1	1.0	1.0
United Kingdom	4.2	3.1	1.8	3.6	3.7
Average, weighted by 1987-89 GDP	3.9	2.4	2.3	2.2	2.0
Average, weighted by share of U.S. non-oil imports	3.8	1.9	1.8	1.8	1.7

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U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
GDP Net Exports of Goods and Services (87$)	-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2	-54.7	-19.1	-33.6
Exports of G+S	519.4	542.9	546.9	564.2	571.0	570.2	579.3	591.6	588.0	593.2	510.5	543.4	578.0
Merchandise	381.6	396.1	398.2	410.7	414.4	415.9	423.0	437.3	430.2	434.5	368.9	396.7	422.7
Services	137.8	146.8	148.7	153.5	156.6	154.2	156.3	154.3	157.8	158.6	141.6	146.7	155.4
Imports of G+S	541.0	556.2	571.9	580.7	586.2	608.2	621.8	630.3	647.9	668.4	565.1	562.4	611.6
Merchandise	442.1	457.2	474.6	481.7	486.8	509.0	521.6	530.3	545.9	565.7	461.4	463.9	511.9
Oil	44.7	52.0	52.9	47.1	47.3	51.6	53.1	52.8	53.4	57.8	52.1	49.2	51.2
Non-oil	397.5	405.2	421.7	434.7	439.6	457.4	468.5	477.6	492.5	507.9	409.3	414.8	460.8
Services	98.9	99.1	97.3	98.9	99.3	99.2	100.1	100.0	102.0	102.7	103.7	98.5	99.6
Memo: (Percent change 1/)													
Exports of G+S	-0.8	19.4	3.0	13.3	4.9	-0.6	6.5	8.8	-2.4	3.6	6.8	8.7	4.9
of which: Goods	7.7	16.1	2.1	13.2	3.7	1.5	7.0	14.2	-6.3	4.1	5.8	9.8	6.6
Imports of G+S	-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3	0.6	4.7	8.6
of which: Non-oil Goods	-11.3	8.0	17.3	12.9	4.6	17.2	10.1	8.0	13.1	13.1	0.8	6.7	10.0
Current Account Balance	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-71.1	-94.7	-89.2	-108.7	-91.9	-8.3	-66.4
Merchandise Trade, net	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-110.4	-103.8	-117.2	-137.5	-109.0	-73.8	-96.1
Exports	405.3	416.8	415.1	430.5	433.4	433.2	438.0	456.0	446.1	452.5	389.3	416.9	440.1
Agricultural	39.5	38.5	39.7	42.8	43.3	42.6	44.7	45.5	43.4	43.1	40.2	40.1	44.0
Nonagricultural	365.8	378.3	375.4	387.7	390.0	390.6	393.3	410.4	402.7	409.4	349.1	376.8	396.1
Imports	480.5	482.1	493.6	506.7	504.4	532.4	548.4	559.8	563.4	590.0	498.3	490.7	536.3
Oil	52.4	52.3	53.0	49.4	41.9	52.4	57.2	54.9	51.0	57.3	62.3	51.8	51.6
Non-oil	428.1	429.8	440.7	457.4	462.5	480.0	491.2	505.0	512.3	532.7	436.0	439.0	484.7
Other Current Account	89.7	60.7	24.6	34.8	26.6	22.6	32.5	12.3	28.2	28.7	-3.2	52.5	23.5
Invest. Income, net	23.1	11.6	6.5	10.9	17.7	3.6	6.8	-3.2	-0.2	0.2	20.3	13.0	6.2
Direct, net	60.3	52.8	45.1	52.8	57.6	47.6	47.1	40.8	45.2	46.8	56.2	52.8	48.3
Portfolio, net	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-40.3	-44.0	-45.3	-46.6	-35.9	-39.7	-42.0
Military, net	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-2.5	-3.3	-0.6	-0.9	-7.8	-5.9	-2.8
Other Services, net	43.4	50.8	55.6	57.2	58.5	57.5	63.6	57.1	59.1	58.7	38.5	51.7	59.2
Transfers, net	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-28.6	-41.4	-30.3	-29.2	-33.8	6.6	-32.9

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

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

(Billions of dollars, seasonally adjusted annual rates)

	1993		Projection 1994				1995				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995
GDP Net Exports of Goods and Services (87$)	-87.3	-91.0	-102.3	-112.5	-119.8	-125.8	-130.1	-133.3	-135.7	-137.5	-78.3	-115.1	-134.2
Exports of G+S	591.0	603.6	611.0	619.2	628.4	638.2	649.1	661.0	674.5	689.1	593.9	624.2	668.4
Merchandise	434.1	445.4	452.2	459.2	466.9	475.1	484.1	494.1	505.6	518.1	436.0	463.3	500.5
Services	156.9	158.2	158.9	160.0	161.5	163.2	164.9	166.9	168.9	171.1	157.9	160.9	168.0
Imports of G+S	678.3	694.5	713.4	731.7	748.2	764.0	779.2	794.3	810.2	826.7	672.3	739.3	802.6
Merchandise	575.2	590.7	608.5	626.1	641.8	657.0	671.4	686.0	701.3	717.1	569.4	633.4	693.9
Oil	56.9	55.8	55.6	56.8	58.8	59.9	60.3	60.9	61.8	62.9	56.0	57.8	61.5
Non-oil	518.3	534.9	552.9	569.4	583.0	597.1	611.1	625.1	639.4	654.3	513.4	575.6	632.5
Services	103.2	103.9	104.9	105.7	106.5	107.2	107.8	108.4	109.0	109.7	103.0	106.1	108.7
Memo:(Percent change 1/)													
Exports of G+S	-1.5	8.8	5.0	5.5	6.0	6.4	7.0	7.6	8.4	9.0	2.1	5.7	8.0
of which: Goods	-0.4	10.8	6.3	6.4	6.9	7.2	7.9	8.5	9.6	10.3	2.0	6.7	9.1
Imports of G+S	6.1	9.9	11.3	10.7	9.3	8.7	8.2	8.0	8.3	8.4	10.2	10.0	8.2
of which: Non-oil Goods	8.4	13.4	14.2	12.5	10.0	10.0	9.7	9.5	9.5	9.6	12.0	11.6	9.6
Current Account Balance	-111.9	-120.5	-120.4	-134.0	-138.4	-151.5	-149.2	-156.4	-155.9	-168.3	-107.6	-136.1	-157.4
Merchandise Trade, net	-145.1	-142.4	-148.9	-160.8	-168.4	-175.7	-181.1	-185.6	-189.4	-192.3	-135.6	-163.5	-187.1
Exports	447.6	455.9	455.8	462.6	468.5	474.0	479.9	486.6	494.2	502.4	450.5	465.2	490.7
Agricultural	42.4	43.4	43.7	44.5	44.7	44.6	44.8	45.2	45.7	46.2	43.1	44.4	45.5
Nonagricultural	405.2	412.5	412.1	418.1	423.8	429.3	435.1	441.4	448.5	456.1	407.5	420.8	445.3
Imports	592.8	598.2	604.8	623.4	636.9	649.6	661.0	672.2	683.6	694.7	586.1	628.7	677.9
Oil	50.3	46.5	44.3	49.1	51.2	52.2	52.6	53.1	53.9	54.8	51.3	49.2	53.6
Non-oil	542.4	551.7	560.4	574.3	585.6	597.4	608.5	619.1	629.7	639.9	534.8	579.4	624.3
Other Current Account	26.2	22.5	27.5	28.7	30.1	27.0	33.2	35.4	37.7	35.1	26.4	28.4	35.3
Invest. Income, net	7.0	-0.7	1.0	-1.9	-0.1	-2.8	-1.2	-6.2	-4.1	-11.1	1.6	-1.0	-5.7
Direct, net	50.8	47.3	46.6	46.9	46.4	48.1	47.7	47.8	48.3	46.9	47.5	47.0	47.7
Portfolio, net	-43.8	-48.0	-45.6	-48.8	-46.5	-50.9	-48.9	-54.0	-52.4	-58.0	-45.9	-48.0	-53.3
Military, net	-1.4	-0.6	-0.4	-0.2	0.2	0.6	1.0	1.4	1.8	2.2	-0.9	0.0	1.6
Other Services, net	57.8	58.3	58.3	59.3	60.3	61.6	63.2	65.0	66.9	68.9	58.5	59.9	66.0
Transfers, net	-30.2	-35.2	-30.4	-30.4	-30.4	-35.2	-31.0	-31.0	-31.0	-36.0	-31.2	-31.6	-32.2

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