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Strictly Confidential (FR) Class II FOMC

May 13, 1994

SUMMARY AND OUTLOOK

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

Overview

Although real GDP growth in the first quarter evidently fell short of our expectations, we believe that the economy's underlying strength in the first half of 1994 has been at least as great as was anticipated in the March Greenbook. Stronger gains in employment, buoyant consumer sentiment, and favorable business expectations appear to have sustained rapid growth in domestic private final demand. With activity rebounding after the disruptions from adverse weather last winter, we look for a step-up in output growth this quarter--enough to yield a first-half GDP increase exceeding 3 percent at an annual rate.

However, we continue to project a substantial deceleration of activity in the second half of 1994 and only a moderate expansion in 1995, which will produce an average growth rate over those six quarters a shade below our 2.4 percent per year estimate for potential output. Underlying the slackening of growth in aggregate demand is our assumption that short-term interest rates will rise further. We anticipate that this firming will hold down stock and bond prices and thereby damp spending through cost-of-capital and wealth effects.

The projected slowing of output growth is expected to hold resource utilization near current levels. This should help keep overall inflation pressures in check, despite the sharp rise that has occurred in some materials costs and the less favorable direction anticipated for energy and food prices over the next few quarters. Moreover, although scattered tightness in labor markets has been reported, the prevailing psychology does not seem to point to any imminent broad acceleration of compensation. If, as we anticipate, inflation expectations edge down closer to the actual experience of the past few years and productivity continues to advance, unit labor costs should remain subdued, and CPI inflation should not move above 3 percent in 1994 or 1995.

Key Assumptions

The FOMC has again tightened money market conditions sooner than we had anticipated, and we now assume that the federal funds rate will rise further over the next several months before leveling out; the resulting trajectory is steeper than that in the March Greenbook. We do not have a coherent and compelling explanation for the recent stunning rise in intermediate- and long-term interest rates; thus, while it is tempting to think that the markets are "oversold" and that a substantial rally may be in the offing, we are reluctant to base our forecast on such a view. More important, we think that the higher level reached by bond rates may well be needed to constrain aggregate demand to a path consistent with progress over time toward price stability. We anticipate that the further rise in short rates will hold long rates near current levels for a while. However, we project that toward the end of 1994 and in 1995, as incoming data show that activity has not overshot potential and that inflation remains under control, bond yields will decline somewhat; that decline will represent both a slight easing of real rates and a narrowing of the inflation premium.

The growth rates of M2 and M3 are expected to edge up over 1994 and 1995. This pickup, even with the slowing in nominal income growth and the increase in short-term interest rates and opportunity costs, in part reflects our judgment that the recent backup in bond yields has engendered investor concern about potential losses on capital market instruments, especially bond funds. Such concerns should provide a lift to M2 growth over the forecast period. A modest rise in depository credit, as the runoff in thrift credit ends, should support slightly faster M3 growth. The velocities of M2 and M3 are projected to continue increasing in 1994 and 1995, but at a progressively slower pace.

On the fiscal front, the unified budget deficit is now projected to total $218 billion in FY1994 and $210 billion in FY1995. Both estimates are essentially the same as those in the March Greenbook. Revisions for economic and technical reasons are small in the aggregate and, apart from some fine-tuning to incorporate the budget resolution for FY1995, the fiscal policy assumptions are unchanged from those in the March Greenbook. (The budget resolution holds discretionary spending $13 billion below the OBRA spending caps over FY1995-99, but less than $1 billion of the reduction falls in 1995.) Our FY1995 deficit projection is substantially higher than those of the Administration and CBO, mainly because ours is based on higher interest rates and weaker economic activity.

Despite the tightening of monetary policy in the United States and some easing abroad, the trade-weighted value of the dollar in terms of other G-10 currencies has fallen somewhat on balance since the last FOMC meeting. We project that it will remain near recent levels over the forecast period. Meanwhile, the recent pace of economic activity abroad in the aggregate has been slightly stronger than expectations, and we have made small changes to the forecast for foreign GDP. After an increase of about 2 percent in 1993, foreign real GDP (on an export-weighted basis) is projected to rise nearly 3 percent in 1994 and 3-1/2 percent in 1995. Crude oil prices have risen since March, apparently in response to the firming of economic activity in some foreign industrial countries, and the West Texas Intermediate spot price has recently risen to roughly $18.25 per barrel, more than $3 per barrel above the March level.

Oil prices are anticipated to fluctuate narrowly during the summer and to average around $17.50 per barrel over the subsequent quarters.

Current-Quarter Economic Activity

The moderate increase reported for real GDP in the first quarter seems somewhat at odds with the strength in labor demand and the upbeat anecdotal and survey evidence.[1] It is quite

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

	1993		1994	
	Q3	Q4	Q1	Q2
Real GDP	2.9	7.0	2.6	4.2
Previous	2.9	7.5	3.2	2.5
Memo:				
Contribution of motor vehicle production	-0.9	2.2	1.6	-1.4
Civilian unemployment rate (percent)[1]	6.7	6.5	6.6	6.5
CPI inflation	2.0	3.1	1.9	2.7

1. Values for 1993 are from the old CPS.

conceivable, however, that the severe winter weather was actually more disruptive than we had thought and that it depressed productivity. One may also recall the similar, unexplained deceleration a year ago, which serves as a reminder that GDP growth, whether actual or measured, is characterized simply by a good deal of short-run volatility.

We currently project that real GDP is rising at an annual rate of 4.2 percent in the current quarter. This pace is broadly consistent with the strong labor market report for April, which

1. Indeed, the apparent discrepancy is exacerbated by the fact that the monthly expenditure indicators received since the Commerce Department's advance estimate was released--if taken literally--would lower the GDP growth rate to roughly 1-1/2 percent. We suspect, however, that subsequent data will move that number appreciably closer to the advance estimate, and we have based our forecast on that assumption.

showed an increase in payroll of 340,000 (strike-adjusted) and the workweek holding at the exceptionally high March level.

The sizable increase in real GDP projected for this quarter seems to be occurring despite a sharp decline in assemblies of motor vehicles, which are scheduled to drop from 13-1/4 million units at an annual rate in the first quarter to 12 million units in the second--enough, all else being equal, to lower real GDP growth 1-1/2 percentage points. Demand considerations would justify higher production of light vehicles; however, capacity is already strained at some assembly plants and parts suppliers, preventing the normal seasonal pickup in output. Partly reflecting these supply constraints, total sales of light vehicles (including imports) are expected to fall moderately in the current quarter; in April, they totaled 15-1/4 million units (annual rate), a touch below the 15-1/2 million unit first-quarter pace.

Apart from motor vehicles, consumer spending is expected to increase at an annual rate of about 2-1/2 percent in the second quarter. According to the advance report on retail sales, outlays for goods other than motor vehicles declined in April; however, given the big increases in the preceding two months, these outlays last month stood nearly 3/4 percent (in real terms, not an annual rate) above the first-quarter average. Meanwhile, spending for services is projected to grow relatively slowly, largely because we assume that outlays for energy services return to trend after the weather-related spurt in the winter.

Much of weakness in building activity in the first quarter undoubtedly was attributable to weather disruptions; thus, we have built in sharp rebounds this quarter in both private and state and local construction. In the case of housing, however, the improvement is likely to be smaller than that projected in the March

Greenbook, in part because mortgage rates are substantially higher than we had expected. In addition, the March pace of single-family starts and sales, though well above the weather-depressed rates in January and February, was disappointing relative to our expectations, suggesting that the restraint from earlier increases in mortgage rates was greater than we had judged. The information from consumers, builders, and mortgage bankers about developments in April and early May is mixed; on the whole, however, it suggests that activity is currently softening. All told, starts are expected to average 1.41 million units (AR) this quarter, compared with 1.35 million units in the first quarter.

Elsewhere, the sustained strength in new orders for nondefense capital goods (excluding aircraft) points to another solid gain in outlays for producers' durable equipment this quarter. Defense spending, which dropped significantly below its declining trend line in the first quarter, is projected to flatten out. We expect a step-up in inventory investment (from a downward-revised first-quarter pace) to contribute appreciably to real GDP growth.[2] And, although real net exports are projected to decrease further this quarter, the drag on growth is expected to be much smaller than that in the first quarter.

The Longer-Run Outlook for the Economy

Looking beyond the current quarter, we expect the less-favorable financial conditions to lead to a marked deceleration in real GDP in the second half of this year. The average pace of expansion over the final six quarters of the forecast period is expected to be about 2-1/3 percent at an annual rate.

2. Real non-auto, nonfarm inventory investment in the first quarter could be revised down by $15 billion (AR), judging by incoming data.

SUMMARY OF STAFF PROJECTIONS FOR 1994-95[1]
(Percent change, unless otherwise noted)

	1993	1994 Q1	1994 Q2	1994 H2	1995
	--Published--		----Projected---		
Real GDP	3.1	2.6	4.2	2.4	2.3
Previous	*3.2*	*3.2*	*2.5*	*2.5*	*2.3*
Real PCE	3.2	3.8	1.7	2.3	2.2
Real BFI	15.1	5.5	18.5	9.6	7.8
Civilian unemployment rate[2]	6.5	6.6	6.5	6.6	6.6

1. Percent changes are from final quarter of previous period to final quarter of period indicated.
2. Average level in the final quarter of period indicated, percent. The value for 1993 is from the old CPS.

The longer-run forecast for real GDP does not differ significantly from that in the March Greenbook. We continue to expect spending in major interest-sensitive categories--residential construction, producers' durable equipment, and consumer durables--to decelerate sharply. The tightening of monetary policy offsets the effects of a lessening of fiscal restraint and a diminution of the drag from the external sector as time passes. The slowing of growth prevents an overshooting of productive capacity; but it does not leave enough slack in the economy to extend the downward trend in overall inflation, in the face of less favorable movements in food and energy prices.

Consumer spending. We expect consumption growth to slow noticeably over the next several quarters and to average only about 2-1/4 percent per year after mid-1994, roughly in line with the pace of income growth. The recent favorable readings on consumer sentiment could be regarded as a sign that households might be willing to spend a still greater proportion of their incomes. But a number of fundamental factors will tend to damp spending in coming quarters. In particular, the drop in stock and bond prices this year has cut noticeably into household financial wealth; to the extent that the earlier run-up in asset values provided impetus to spending in recent quarters, some adjustment to consumption may be in the offing. In addition, interest rates on consumer loans will be rising, and mortgage refinancings--a windfall for many households in the past couple of years--have dwindled.

The projected deceleration in spending is centered in outlays for durables, which advanced rapidly over the past two years. Purchases of motor vehicles are expected to rise only gradually after the current quarter, as higher interest rates and increased prices limit the pace at which the remaining pent-up demand is satisfied. Spending on non-auto durables, which received an extra boost from the rise in home sales in recent quarters, is also likely to flatten out.

Residential investment. Given the higher mortgage rates in the current Greenbook, we have lowered our projection for housing activity through the end of 1995. After a spurt this quarter that is largely a catch-up from the winter weather disruptions, starts should settle at an annual rate of about 1.35 million units. Although this level of starts is roughly 100,000 units per year lower than that in the March Greenbook, it is still robust in relation to the pace of recent years and broadly consistent with underlying demographic trends. Despite the higher mortgage rates, single-family houses remain affordable by historical standards (gauged on a cash-flow basis), and the apparent firming in prices over the past year should make homes a more attractive investment. In the multifamily sector, starts are projected to improve a little but to stay at a low level; although financing has become more available, the still high rate of apartment vacancies will likely continue to damp new building.

Business fixed investment. Real outlays for producers' durable equipment are now projected to grow 12-1/4 percent in 1994 and 8-1/2 percent in 1995--well below the 19 percent increase in 1993, but substantially above the pace of GDP growth. Spending on office and computing equipment will continue to be spurred by technological innovations that improve performance and push down prices; we are looking for increases in real outlays of about 25 percent per year. Innovations in communications equipment will also provide appreciable impetus to investment. But capital spending across the board should be restrained by the deceleration in business output, which will both limit the need for additional capacity and, by crimping cash flow, reduce the ability of firms to finance investment with internal funds. Higher interest rates and lower equity prices have, of course, raised the cost of external capital in the current forecast.

Real investment in nonresidential structures is now projected to rise about 5-1/2 percent in both 1994 and 1995, a little less than in the March Greenbook. The downward revision is concentrated in public utilities, which, according to the latest Commerce Plant and Equipment Survey, have sharply lowered their planned spending for 1994. Outlays for buildings are still expected to rise moderately, with healthy advances for most types of structures. One exception is the office sector, in which spending is likely to be about flat over the next two years: Although the liquidity of the commercial mortgage market has improved and the margin of unleased space has started to shrink, vacancy rates remain high, and rents are still soft.

Business inventories. On the assumption that firms will continue efforts to economize on inventory holdings, we expect stockbuilding in 1994 and 1995 to remain moderate and be essentially a neutral factor in real GDP growth after the current quarter.[3] Arguably, the inventory forecast has some upside risk, particularly in manufacturing. Factory stock-sales ratios have fallen to new lows; in addition, the Purchasing Managers' survey reports that vendor performance has deteriorated and that order lead times for materials have lengthened over the past few months. These developments may well lead to some increase in desired inventory ratios, but, at least to this point, we see no evidence of a significant shift in stocking strategies.

Government purchases. As noted above, defense purchases fell sharply in the first quarter of 1994. We expect little movement in real defense purchases over the next two quarters, which would bring spending for FY1994 as a whole into line with the trends in appropriations. This implies a decline in real defense purchases of about 5-3/4 percent over the four quarters of 1994, compared with a drop of more than 9 percent in 1993; we see a further drop of 4-1/2 percent in 1995. Consistent with OBRA-1993, real nondefense purchases are expected to be about flat over 1994-95.

Real state and local purchases of goods and services are projected to grow only about 2 percent per year, on average, in 1994 and 1995. Outlays are expected to grow briskly in the near term as efforts are made to catch up on construction delayed by bad weather and as post-earthquake rebuilding in southern California continues.

3. As noted earlier, we anticipate a downward revision to real nonfarm inventory investment in the first quarter. To capture the expected quarter-to-quarter contributions of inventories to GDP growth, we have carried the "too high" published level of inventory investment throughout. If more realistic inventory numbers were used, the inventory-sales ratio would be about flat over the projection period, in contrast to the declining trend thus far in the expansion.

However, gains in subsequent quarters are likely to be smaller. Construction outlays have already surged to high levels in the past year or so, and, despite the recent upbeat news on the condition of the general funds budgets of many states, the sector as a whole continues to face fiscal difficulties.

Net exports. Real net exports continue to deteriorate over the projection period. However, the rate of decline is projected to slow appreciably as a gradual pickup in economic activity abroad bolsters exports and the moderation in the growth of U.S. domestic demand restrains imports. This pattern was evident also in the March forecast, but it is reinforced by the somewhat lower level of the dollar in the current Greenbook. After having widened by an amount equal to nearly 1 percent of real GDP in 1993, the deficit in real net exports should widen about 3/4 percentage point of real GDP during 1994 and 1/4 percentage point of real GDP during 1995. (A complete discussion of these developments is contained in the International Developments section.)

Labor markets. We anticipate that labor demand will remain fairly robust over the near term but will moderate thereafter with the slowing in output growth. Businesses no doubt will continue to look for ways to improve productivity, and the preoccupation with "head counts" is unlikely to disappear. However, productivity gains are likely to be harder to achieve than they were earlier in the cycle, and we project that output per hour in the nonfarm business sector will grow only a little more than 1 percent per year, on average, in 1994 and 1995 (versus 2 percent in 1993). With the average workweek also likely to shrink a bit from its recent high level, especially in manufacturing, employment gains are likely to account for a greater share of the increase in output than they have heretofore in the expansion. All told, we expect payroll employment to increase about 2-1/2 million in 1994 and 1-1/2 million in 1995.

Despite the strength of labor demand over the past few months, the rate of labor force participation apparently has not picked up. (We say "apparently" because the revision of the Current Population Survey (CPS) makes these numbers uncertain.) Still, perceptions of improved job availability--indicated, for example, by the Conference Board survey--should, before long, result in at least a modest increase in the number of job seekers. The unemployment rate is expected to average 6.5 percent in the second quarter and to tick up to 6.8 percent in the third quarter; it subsequently levels out at 6.6 percent.[4]

SUMMARY OF STAFF INFLATION PROJECTIONS
(Percent change, Q4 to Q4, unless otherwise noted)

	1993	1994	1995
ECI for compensation of private industry workers[1]	3.6	3.3	3.4
Previous	*3.6*	*3.6*	*3.6*
Consumer price index	2.7	2.9	2.9
Previous	*2.7*	*3.0*	*3.1*
Excluding food and energy	3.1	2.9	2.8
Previous	*3.1*	*2.9*	*2.9*
GDP deflator	2.2	2.3	2.1
Previous	*2.2*	*2.4*	*2.2*

1. December to December.

Wages and prices. Prices of some important industrial and construction materials have risen sharply over the past year, but labor cost increases have been moderate, and the broad measures of inflation have remained subdued. Looking ahead, if activity

4. Based on discussions with BLS staff, we think that seasonal adjustment and other difficulties in the new CPS will impart an upward bias to the measured unemployment rate over the summer months. The unemployment rate projection for 1995 assumes that BLS will by then have corrected the technical biases in the new survey.

decelerates as we are projecting, we anticipate no further tightening of labor and product markets. Under these circumstances, and barring any adverse changes in expectations or exogenous shocks, inflation should be held in check.

The incoming data on labor costs have been quite favorable. In particular, hourly compensation, as measured by the employment cost index for private industry workers, decelerated sharply in the first quarter. This reading brought the change in the ECI over the past year down to 3.3 percent from the 3-1/2 percent trend that had prevailed for more than a year. If anything, the slowing seems overdue, given the ample margins of slack in labor markets and decreasing CPI inflation in 1992-93. We have carried a bit of the good news across the projection period; however, given the limited amount of slack now remaining in the labor market--and with the best year-on-year CPI readings probably behind us--we expect compensation growth in coming quarters to return to the area of 3-1/2 percent per year. Combined with an assumed cyclically adjusted trend growth of productivity of about 1-1/2 percent per year, the compensation forecast translates into increases in trend unit labor costs of around 2 percent per year.

The recent data on prices have also been encouraging. For the current quarter, we have reduced our forecast of CPI inflation to 2-3/4 percent because of lower-than-expected food and energy prices. The 0.2 percent reading for core inflation in April was in line with our expectations.

Looking at the broader contour of the inflation projection, we expect little change in general price pressures through 1995, with the core CPI projected to rise a bit less than 3 percent both this year and next. The key factor in this forecast is the anticipation of continued restraint on labor costs. In addition, capacity utilization in manufacturing is expected not to deviate much from recent levels, which appear to be consistent with only scattered supply bottlenecks and limited price pressures. The recent weakness of the dollar may translate into somewhat firmer import prices in the near term, but the effect on domestic price measures should be trivial.

Increases in the total CPI have been lower than core inflation, on average, over the past several quarters. However, that pattern is expected to be reversed in the second half of 1994 as the higher crude oil prices feed through to prices of petroleum products. We have also built into the forecast a rebound in prices of fruits and vegetables, after their steep decline in the first part of the year, and a moderate pickup in prices of other foods. Barring supply shocks in the energy and agricultural sectors, increases in the total CPI are projected to move into line with core inflation in early 1995.

The GDP deflator is expected to increase about 2-1/4 percent in 1994 and about 2 percent in 1995, roughly the same as the rise in trend unit labor costs. These increases are well below those in the CPI, primarily because of the greater importance of declining computer prices for the GDP deflator.

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

May 13, 1994

Interval	Nominal GDP 3/16/94	Nominal GDP 5/13/94	Real GDP 3/16/94	Real GDP 5/13/94	GDP fixed-weight price index 3/16/94	GDP fixed-weight price index 5/13/94	Consumer price index[1] 3/16/94	Consumer price index[1] 5/13/94	Unemployment rate (level except as noted) 3/16/94	Unemployment rate (level except as noted) 5/13/94
ANNUAL										
1991[2]	3.2	3.2	-.7	-.7	4.1	4.1	4.3	4.3	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[2]	5.6	5.6	3.0	3.0	3.1	3.1	3.0	3.0	6.8	6.8
1994	5.7	5.7	3.6	3.7	2.7	2.6	2.8	2.6	6.6	6.6
1995	4.8	4.6	2.4	2.4	3.0	2.8	3.2	3.1	6.6	6.6
QUARTERLY										
1992 Q1[2]	7.4	7.4	3.5	3.5	4.2	4.2	2.6	2.6	7.3	7.3
Q2[2]	5.7	5.7	2.8	2.8	3.4	3.4	3.5	3.5	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	3.5	3.5	7.3	7.3
1993 Q1[2]	4.4	4.4	.8	.8	4.3	4.3	2.8	2.8	7.0	7.0
Q2[2]	4.3	4.3	1.9	1.9	2.8	2.8	3.1	3.1	7.0	7.0
Q3[2]	4.4	4.4	2.9	2.9	2.1	2.1	2.0	2.0	6.7	6.7
Q4[2]	8.8	8.4	7.5	7.0	2.3	2.3	3.1	3.1	6.5	6.5
1994 Q1[2]	5.7	5.2	3.2	2.6	2.9	2.9	2.1	1.9	6.5	6.6
Q2	5.0	6.2	2.5	4.2	2.9	2.6	3.6	2.7	6.6	6.5
Q3	5.0	5.1	2.7	2.7	2.8	2.8	3.4	3.5	6.8	6.8
Q4	4.7	4.4	2.4	2.1	2.8	2.8	3.0	3.3	6.6	6.6
1995 Q1	5.1	4.8	2.3	2.2	3.4	3.2	3.4	3.1	6.6	6.6
Q2	4.6	4.3	2.3	2.2	2.8	2.7	3.1	2.9	6.6	6.6
Q3	4.4	4.3	2.4	2.3	2.7	2.6	2.9	2.8	6.6	6.6
Q4	4.3	4.3	2.4	2.4	2.7	2.6	2.9	2.7	6.6	6.6
TWO-QUARTER[3]										
1992 Q2[2]	6.6	6.6	3.2	3.2	3.9	3.9	3.0	3.0	.5	.5
Q4[2]	6.9	6.9	4.6	4.6	2.8	2.8	3.2	3.2	-.2	-.2
1993 Q2[2]	4.3	4.3	1.3	1.3	3.4	3.4	3.1	3.1	-.3	-.3
Q4[2]	6.6	6.4	5.2	4.9	2.2	2.2	2.4	2.4	-.5	-.5
1994 Q2	5.3	5.7	2.8	3.4	2.9	2.7	2.8	2.4	.1	.0
Q4	4.8	4.7	2.5	2.4	2.8	2.8	3.2	3.4	.0	.1
1995 Q2	4.9	4.5	2.3	2.2	3.1	3.0	3.2	3.0	.0	.0
Q4	4.4	4.3	2.4	2.4	2.7	2.6	2.9	2.7	.0	.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[2]	5.5	5.4	3.2	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4	5.1	5.2	2.7	2.9	2.8	2.8	3.0	2.9	.1	.1
1995 Q4	4.6	4.4	2.3	2.3	2.9	2.8	3.1	2.9	.0	.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)

May 13 1994

Item	Unit[1]	1987	1988	1989	1990	1991	1992	1993	Projected 1994	Projected 1995
EXPENDITURES										
Nominal GDP	Bill. $	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6377.9	6744.6	7057.[illegible]
Real GDP	Bill. 87$	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5136.0	5324.3	5451.7
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.9	3.1	2.9	2.3
Gross domestic purchases		3.9	2.5	.9	-.4	-.2	4.3	4.0	3.6	2.5
Final sales		2.7	4.2	1.5	1.2	-.3	3.8	3.1	2.2	2.4
Private dom. final purch.		1.9	4.2	.5	-.1	-.7	5.0	5.0	3.6	3.0
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.0	3.2	2.5	2.2
Durables		-2.6	8.5	-.5	-.8	-.4	9.7	7.9	2.0	2.1
Nondurables		1.4	3.2	1.2	-.1	-1.3	3.6	1.7	2.8	2.0
Services		3.7	3.7	1.7	1.7	.9	2.8	2.9	2.5	2.3
Business fixed invest.		3.0	5.5	-.4	.7	-6.3	7.4	15.1	10.7	7.8
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.3	11.4	18.8	12.3	8.5
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.6	-2.0	5.1	5.7	5.5
Res. structures		-3.1	.9	-7.7	-15.2	1.6	17.6	7.9	.3	1.0
Exports		12.6	13.5	11.3	6.7	8.4	4.9	4.8	2.9	7.8
Imports		4.7	3.6	2.6	.4	4.2	8.5	11.8	7.9	8.1
Government purchases		3.3	.2	2.0	3.3	-.7	1.1	-.5	-.3	.4
Federal		3.7	-3.4	-.6	2.8	-3.7	.4	-6.6	-4.2	-3.0
Defense		4.5	-3.2	-1.5	1.5	-7.3	-1.4	-9.3	-5.7	-4.5
State and local		2.9	2.9	4.0	3.6	1.5	1.6	3.4	1.9	2.3
Change in bus. invent.	Bill. 87$	26.3	19.9	29.8	5.7	-8.4	6.5	14.3	40.3	43.5
Nonfarm		32.7	26.9	29.9	3.2	-8.6	2.7	19.7	39.5	41.1
Net exports		-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-76.5	-114.9	-130.6
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.7	6.7	5.4	5.2	4.4
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.5	110.2	112.5	114.4
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.8	6.6	6.6
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	4.2	4.4	2.8
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.6	80.6	82.8	82.4
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.29	1.36	1.35
Light Motor Vehicle Sales		14.84	15.43	14.53	13.85	12.30	12.83	13.89	15.25	15.46
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.38	8.71	9.31	9.30
North American prod.		7.07	7.54	7.08	6.90	6.14	6.28	6.74	7.37	7.43
Other		3.18	3.10	2.83	2.60	2.25	2.11	1.97	1.95	1.88
INCOME AND SAVING										
Nominal GNP	Bill. $	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6378.1	6737.3	7043.3
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	5.3	5.1	4.4
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.5	5.6	5.1
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	1.1	2.7	2.3
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	4.0	3.9	4.1
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	15.6	3.3	3.3
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.3	7.5	7.6
Federal surpl./def.	Bill. $	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-226.4	-141.9	-150.2
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	1.8	.1	4.3
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-56.7	-56.6	-51.2
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.2	2.3	2.1
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	2.8	2.8	2.8
Gross domestic purchases fixed-wt. price index		3.9	4.1	4.4	5.2	3.1	3.3	2.6	2.7	2.7
CPI		4.5	4.3	4.6	6.3	3.0	3.1	2.7	2.9	2.9
Ex. food and energy		4.3	4.5	4.4	5.3	4.4	3.5	3.1	2.9	2.8
ECI, hourly compensation[2]		3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.3	3.4
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.2	3.6	2.0	.9	1.2
Compensation per hour		3.9	3.8	3.1	6.2	4.7	5.2	2.8	3.5	3.4
Unit labor cost		1.9	3.3	4.6	5.7	2.5	1.5	.8	2.5	2.1

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

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

May 13 1994

Item	Units	1993		1994	Projected			1995			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	6395.9	6526.5	6609.4	6709.8	6793.3	6866.0	6946.4	7020.3	7094.3	7170.0
Real GDP	Bill. 87$	5138.3	5225.6	5259.0	5313.3	5348.5	5376.4	5405.4	5435.4	5466.7	5499.2
Real GDP	% change	2.9	7.0	2.6	4.2	2.7	2.1	2.2	2.2	2.3	2.4
Gross domestic purchases		3.7	6.7	4.1	4.7	3.3	2.2	2.4	2.4	2.5	2.5
Final sales		3.4	6.8	.9	3.4	2.3	2.2	2.1	2.4	2.4	2.5
Private dom. final purch.		5.1	8.0	4.3	4.0	3.2	2.8	2.8	3.0	3.1	3.0
Personal cons. expend.		4.4	4.4	3.8	1.7	2.3	2.3	2.1	2.1	2.2	2.2
Durables		7.6	15.2	9.7	-3.2	.1	1.6	1.8	2.1	2.4	2.1
Nondurables		3.7	2.7	2.4	4.1	2.6	2.2	2.0	2.0	2.0	2.0
Services		3.9	2.6	3.1	1.7	2.8	2.5	2.2	2.2	2.3	2.4
Business fixed invest.		7.4	22.5	5.5	18.5	10.4	8.7	8.5	8.1	7.6	7.1
Producers' dur. equip.		10.0	26.0	13.5	14.2	11.9	9.8	9.4	8.9	8.3	7.6
Nonres. structures		.3	12.2	-16.1	33.6	5.8	5.3	5.5	5.6	5.5	5.5
Res. structures		11.9	31.7	9.1	2.0	-3.1	-6.3	-2.2	1.1	2.1	3.1
Exports		-.9	20.4	-9.3	7.4	6.9	7.8	7.3	7.6	7.9	8.3
Imports		6.0	16.4	2.8	11.0	10.7	7.5	8.4	7.7	8.3	8.2
Government purchases		.3	.0	-6.2	3.7	1.4	.1	.1	.4	.5	.6
Federal		-6.2	-5.2	-12.0	.7	-1.5	-3.4	-3.2	-3.1	-3.0	-2.8
Defense		-9.8	-4.9	-13.9	-.5	-2.6	-5.2	-4.7	-4.6	-4.5	-4.2
State and local		4.5	3.3	-2.6	5.3	3.1	2.1	2.0	2.3	2.4	2.4
Change in bus. invent.	Bill. 87$	6.5	8.5	30.5	40.5	45.6	44.3	45.6	44.1	42.9	41.6
Nonfarm		19.4	12.9	30.7	40.4	44.4	42.4	43.5	41.7	40.3	38.9
Net exports		-86.3	-84.5	-104.2	-112.2	-120.6	-122.4	-126.4	-129.1	-132.2	-134.7
Nominal GDP	% change	4.4	8.4	5.2	6.2	5.1	4.4	4.8	4.3	4.3	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	110.4	110.9	111.4	112.3	112.9	113.4	113.8	114.2	114.6	114.9
Unemployment rate[1]	%	6.7	6.5	6.6	6.5	6.8	6.6	6.6	6.6	6.6	6.6
Industrial prod. index	% change	2.8	6.7	8.1	4.1	3.2	2.3	2.6	2.7	2.9	2.9
Capacity util. rate-mfg[1]	%	80.3	81.5	82.5	82.9	82.9	82.8	82.6	82.4	82.4	82.3
Housing starts	Millions	1.31	1.48	1.35	1.41	1.34	1.33	1.33	1.34	1.36	1.37
Light Motor Vehicle Sales		13.56	14.55	15.54	15.07	15.14	15.27	15.31	15.40	15.51	15.61
Auto sales in U.S		8.60	8.95	9.49	9.27	9.26	9.23	9.23	9.27	9.33	9.38
North American prod.		6.63	7.08	7.46	7.33	7.34	7.34	7.35	7.40	7.45	7.50
Other		1.97	1.87	2.03	1.95	1.92	1.89	1.88	1.87	1.88	1.88
INCOME AND SAVING											
Nominal GNP	Bill. $	6402.3	6520.9	6609.4	6701.7	6785.3	6852.8	6934.5	7004.5	7081.0	7153.0
Nominal GNP	% change	4.8	7.6	5.5	5.7	5.1	4.0	4.9	4.1	4.4	4.1
Nominal personal income		3.0	7.6	4.8	7.6	4.5	5.7	6.1	4.7	4.2	5.5
Real disposable income		1.6	5.4	2.7	2.5	3.0	2.5	3.2	.1	3.1	2.8
Personal saving rate[1]	%	3.8	4.0	3.7	3.9	4.0	4.1	4.4	3.9	4.1	4.2
Corp. profits, IVA&CCAdj	% change	9.4	38.1	-26.3	41.2	8.9	.5	3.9	2.7	3.9	2.8
Profit share of GNP[1]	%	7.3	7.8	7.1	7.7	7.7	7.7	7.6	7.6	7.6	7.6
Federal govt. surpl./def.	Bill. $	-212.7	-207.0	-155.6	-124.7	-134.6	-152.6	-156.0	-132.5	-146.1	-166.2
State/local surpl./def.		-1.7	7.2	-4.1	2.4	1.1	1.1	2.0	1.5	6.1	7.6
Ex. social ins. funds		-60.2	-50.7	-61.3	-54.4	-55.4	-55.1	-53.9	-54.1	-49.2	-47.6
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	1.4	2.5	1.9	2.3	2.2	2.5	2.0	1.9	1.9
GDP fixed-wt. price index		2.1	2.3	2.9	2.6	2.8	2.8	3.2	2.7	2.6	2.6
Gross domestic purchases fixed-wt. price index		1.8	2.3	2.3	2.8	3.0	2.9	3.2	2.7	2.5	2.5
CPI		2.0	3.1	1.9	2.7	3.5	3.3	3.1	2.9	2.8	2.7
Ex. food and energy		2.4	2.9	2.6	3.1	3.0	2.8	2.9	2.8	2.8	2.8
ECI, hourly compensation[2]		3.4	3.4	2.7	3.5	4.2	2.8	3.4	3.4	4.1	2.7
Nonfarm business sector											
Output per hour		4.0	6.4	.5	1.2	1.1	.8	1.0	1.2	1.3	1.4
Compensation per hour		3.7	2.8	5.6	1.8	3.5	3.4	3.7	3.3	3.3	3.3
Unit labor cost		-.4	-3.3	5.0	.6	2.3	2.5	2.6	2.0	1.9	1.8

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)

May 13, 1994

Item	1993 Q3	1993 Q4	Projected 1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4	1992	1993	Projected 1994	Projected 1995
Real GDP	36.2	87.3	33.4	54.3	35.2	27.9	29.0	30.0	31.3	32.4	188.7	157.3	150.8	122.8
Gross domestic purchases	47.2	85.4	53.3	62.2	43.6	29.7	33.0	32.7	34.5	34.9	211.1	202.9	188.8	135.0
Final sales	42.7	85.3	11.5	44.2	30.1	29.2	27.7	31.6	32.5	33.7	187.1	157.5	115 0	125.4
Private dom. final purch.	53.2	83.5	46.1	43.8	35.2	30.8	31.5	33.3	34.6	34.7	198.8	208.4	155.9	134.0
Personal cons. expend.	36.9	37.3	32.9	15.1	20.4	20.2	18.5	18.8	20.0	20.2	129.7	109.7	88.6	77.5
Durables	8.9	17.8	12.0	-4.2	.1	2.1	2.3	2.8	3.1	2.8	41.9	37.5	10.0	10.9
Nondurables	9.9	7.2	6.5	11.1	7.1	6.1	5.6	5.5	5.7	5.7	37.8	18.4	30.8	22.5
Services	18.1	12.3	14.4	8.2	13.3	12.0	10.6	10.5	11.2	11.7	50.0	53.8	47.8	44.0
Business fixed invest.	10.5	30.9	8.4	27.4	16.6	14.3	14.2	13.9	13.4	12.7	37.6	82.0	66.8	54.2
Producers' dur. equip.	10.4	26.4	15.1	16.4	14.3	12.2	12.0	11.6	11.1	10.4	40.5	74.3	58.0	45.1
Nonres. structures	.1	4.4	-6.7	11.2	2.3	2.1	2.2	2.3	2.3	2.3	-3.0	7.6	8.9	9.1
Res. structures	5.9	15.1	5.0	1.2	-1.8	-3.7	-1.3	.6	1.2	1.8	31.5	16.6	.6	2.3
Change in bus. invent.	-6.5	2.0	22.0	10.0	5.1	-1.3	1.2	-1.5	-1.2	-1.2	1.6	-.2	35 8	-2 7
Nonfarm	2.3	-6.5	17.8	9.7	4.0	-2.0	1.0	-1.8	-1.4	-1.3	-2.8	5.4	29.5	-3.5
Farm	-8.8	8.5	4.2	.3	1.1	.7	.2	.3	.2	.1	4.4	-5.6	6.3	.8
Net exports	-11.1	1.8	-19.7	-8.0	-8.4	-1.7	-4.0	-2.6	-3.2	-2.4	-22.4	-45.7	-37.9	-12.3
Exports	-1.3	28.1	-15.0	10.8	10.3	11.9	11.4	11.9	12.7	13.5	27.4	28.4	18.0	49.6
Imports	9.8	26.3	4.8	18.8	18.7	13.6	15.5	14.6	15.9	16.0	49.6	74.2	55.9	61.9
Government purchases	.6	.0	-14.9	8.4	3.3	.2	.3	.9	1.1	1.4	10.7	-5.2	-3.0	3.7
Federal	-5.7	-4.7	-11.0	.6	-1.3	-2.9	-2.7	-2.6	-2.5	-2.3	1.6	-24.7	-14.6	-10.1
Defense	-6.3	-3.0	-8.7	-.3	-1.5	-3.0	-2.7	-2.6	-2.5	-2.3	-3.6	-24.2	-13.5	-10.1
Nondefense	.7	-1.9	-2.2	.9	.2	.1	.0	.0	.0	.0	5.2	-.6	-1.0	0
State and local	6.4	4.8	-3.9	7.7	4.6	3.1	3.0	3.5	3.6	3.7	9.1	19.6	11.5	13.8

1. Annual changes are from Q4 to Q4.

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

Item	Fiscal year				1993				1994				1995			
	1992[a]	1993[a]	1994	1995	Q1[a]	Q2[a]	Q3[a]	Q4[a]	Q1[b]	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1090	1153	1258	1322	262	331	295	287	289	364	317	299	290	405	328	311
Outlays[1]	1381	1408	1475	1532	324	349	349	379	348	373	376	380	388	380	384	401
Surplus/deficit[1]	-290	-255	-218	-210	-62	-18	-54	-92	-59	-8	-59	-81	-98	25	-56	-90
On-budget	-340	-301	-273	-271	-90	-49	-54	-105	-66	-40	-61	-88	-109	-12	-62	-96
Off-budget	50	46	55	61	27	31	0	13	8	32	2	7	11	38	5	6
Surplus excluding deposit insurance[2]	-287	-282	-224	-219	-68	-25	-61	-92	-65	-7	-59	-82	-102	25	-60	-92
Means of financing																
Borrowing	311	249	205	233	60	61	46	89	51	6	59	79	81	22	51	79
Cash decrease	-17	6	8	-15	8	-39	8	3	5	1	-2	5	20	-40	0	20
Other[3]	-4	0	4	-8	-6	-4	0	0	2	1	1	-3	-3	-8	5	-9
Cash operating balance, end of period	59	53	45	60	22	61	53	50	45	43	45	40	20	60	60	40
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1163	1246	1360	1438	1218	1268	1276	1316	1342	1394	1390	1405	1426	1464	1458	1475
Expenditures	1435	1487	1516	1585	1482	1491	1489	1523	1497	1518	1524	1558	1582	1597	1604	1641
Purchases	445	447	437	438	443	448	444	440	434	436	437	435	440	438	437	436
Defense	313	308	295	291	305	308	302	299	293	294	293	291	293	291	289	288
Nondefense	132	139	142	147	138	140	142	141	141	143	144	144	147	148	148	149
Other expenditures	990	1040	1079	1147	1039	1043	1045	1083	1063	1082	1088	1123	1142	1158	1167	1204
Surplus/deficit	-271	-241	-155	-147	-264	-223	-213	-207	-156	-125	-135	-153	-156	-132	-146	-166
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-212	-193	-135	-133	-215	-173	-165	-177	-132	-111	-122	-140	-143	-118	-131	-150
Change in HEB, percent of potential GDP	.9	-.3	-.9	0	0	-.7	-.1	.2	-.7	-.3	.2	.3	0	-.4	.2	.3
Fiscal impetus (FI), percent, cal. year	-4.5	-4.5	-7.7	-4.4	-4.9	1.3	-.8	-1.1	-5.3	-1.8	-.2	-.9	-1.9	-1.6	-.1	-.6

1. OMB's February 1994 deficit estimates are $235 billion in FY94 and $176 billion in FY95(excluding health reform). CBO's April 1994 deficit estimates of the budget are $227 billion in FY94 and $182 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 February 1994 deficit estimates, excluding deposit insurance spending, are $238 billion in FY94 and $187 billion in FY95. CBO's April 1994 deficit estimates, excluding deposit insurance spending, are $230 billion in FY94, and $194 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.
b--Unified and NIPA data are actuals except for NIPA corporate profit tax total which is a staff projection.

Recent Developments

The sense that the economy has substantial forward momentum has become more widespread in financial markets of late, and the dollar has experienced bouts of weakness--sparking concerns about prospective inflationary pressures and substantial further System tightening. Two quarter-point increases in the federal funds rate over the intermeeting period were viewed only as early, modest steps in the tightening process and were more than fully passed through to other short-term rates. The prime rate rose to 6-3/4 percent in two increments of 1/4 percentage point and 1/2 percentage point that came hard on the heels of System action. In volatile trading, longer-term yields have risen between 60 and 100 basis points, on net, since the March FOMC meeting, pushing the yield on the thirty-year Treasury bond above 7-1/2 percent, its highest level since December 1992.

The rise in nominal bond rates apparently resulted from increases in both their real and their inflation expectations components. As to inflation expectations, while survey measures show little change in longer-run anticipations, readings on the short-term outlook have edged up. Despite a recent firming, the dollar lost about 1 percent in weighted-average terms over the intermeeting period, and some sensitive commodity prices are on a clear uptrend. As for real rates, implied nominal forward rates have risen the most at the three- to five-year horizon, suggestive of stronger anticipated credit demands as this business cycle progresses, and the 5 to 9 percent decline in most major equity indexes probably has been associated with a rise in earnings-price ratios.

The substantial capital losses posted on securities over the past few months undoubtedly have led many investors to reevaluate their positions in stock and bond mutual funds. Bond funds, experiencing net redemptions in March and, by preliminary estimates, April, appear to have fared more poorly in that reappraisal; inflows to stock funds slowed appreciably but remained positive over the two months. A pickup in the growth of M2 in March and April, to around an average rate of 4 percent, probably resulted in part from the return of some investors seeking refuge from capital markets. M2-type money market mutual funds were the chief beneficiary and grew at more than a 30 percent rate over the past two months. However, it is notable that the runoff of small time deposits has slowed further. But liquid deposits shrank in response to the rise in the short-term opportunity cost of holding such instruments, and M1 grew only a little, on net, in March and April. Further restraining the narrow aggregate, increases in long-term rates have slashed mortgage refinancing, reducing the amount of demand deposits held in connection with that activity.

The strength in M2 showed through to M3 in March and April, with the broader aggregate increasing 2-1/2 percent on average. In addition, increases in term RPs and Eurodollars in April turned the growth of the non-M2 portion of M3 positive for the first time this year. In general, banks have increased their reliance on nondeposit funds to finance the expansion of their assets.

Bank credit, fueled by increases in the securities portfolio that exceeded 20 percent in March and April, grew at a 10 percent pace in both months. While a new accounting standard boosted the other securities component of that total, bank holdings of U.S. government securities, which were unaffected by the accounting change, grew 20 percent in March and April. Total loan growth remained around 4-1/2 percent over the two months, about the pace of the past two quarters. Growth in business loans picked up to rates of 9-1/4 percent and 13-1/2 percent in March and April, respectively, consistent with reports of an easing of lending terms as well as with increased demands for external funds as spending on inventories and fixed capital evidently rose relative to business cash flow. Real estate loans rebounded last month, after declining in February and March, and consumer lending recorded a third consecutive month of double-digit growth.

Overall, though, the pace of household borrowing appears to have slowed a bit after picking up in the second half of last year. Rising mortgage rates brought an abrupt reduction in the volume of refinancings, and with it the impetus to net mortgage lending associated with some cashing out of equity. Borrowing to purchase homes has been tempered by the winter disruption of sales and building activity as well as by higher mortgage rates. Growth of consumer credit slowed somewhat from its very rapid fourth-quarter pace but was still relatively brisk in the first quarter and provided the financing for a further large increase in purchases of durable goods, particularly motor vehicles.

With the rise in long-term rates outpacing the policy-related increase at the short end of the yield curve, businesses have been shying away from capital markets. Gross public offerings of bonds by nonfinancial firms in March and April slowed to half the pace of 1993, and lesser-quality credits were particularly hard hit. The widespread declines of stock prices were associated with a slowing in gross equity issuance. Moreover, with mergers and repurchases retiring a sizable volume of shares, net equity issuance probably was negative in the first quarter for the first time since early 1991.

The pace of tax-exempt bond issuance has also slackened markedly. Last year's hectic activity had already reduced the volume of securities potentially available for advance refunding, but the runup in bond yields since has further cut into issuance. There were frequent reports in February and March that the market was under pressure from substantial sales by muni-bond funds, but more recently that sector has rallied, reportedly on the strength of a pickup in direct purchases of bonds by individuals.

The federal government's efforts at deficit reduction, coupled with cyclical improvements in the budget, have resulted in a notable slowing in government debt growth this year. U.S. government debt is now estimated to have increased 6 percent in the first quarter, down 2-1/4 percentage points from the pace in 1993, and it is on a track to slow even further this quarter. Within the total, the Treasury has tilted toward shorter-maturity instruments; it adhered to its established semiannual auction schedule and did not issue a thirty-year bond at the May refunding.

Outlook

Judging by the prevailing forward rate structure, markets are anticipating a sizable increase in short-term interest rates--perhaps another 1-1/2 percentage points by year-end and more than 2 percentage points by late 1995. To be sure, such an upswing has its precedents in previous business cycle expansions, and those past patterns may indeed be conditioning the market's thinking about the outlook. The staff does not dismiss the possibility that such a rise in short-term yields may prove necessary this time as well, but we continue to think that a less-pronounced tightening will likely be sufficient to prevent an overheating of the economy in the present case. Among other things, the System has "enjoyed" extraordinary leverage in its recent tightening, as bond traders have vastly magnified the policy actions taken at the short end of the market. The rise in long rates undoubtedly has reflected to some extent a step-up in inflation expectations; however, we believe that the bond rate increases since last October are mainly real and are beginning to impose what will soon be a substantial degree of restraint on aggregate demand.

As noted in the earlier forecast discussion, we believe that the continuation of the current higher bond yields for a while longer may be necessary to maintain favorable inflation trends. Given the steepness of the term structure--and the expected moderate tone of incoming economic data--we think that there would be a tendency toward an easing of long rates if short rates were to remain at current levels. The assumed further tightening of reserve conditions is expected to work against that tendency--holding bond yields near current levels. Some months down the road, as the threat of inflation, and of further Fed tightening, is perceived to subside, we project that long rates will retrace a portion of the rise that has occurred this year. Even before then, the added term premiums associated with recent market volatility will likely diminish.

Growth of the debt of the nonfinancial sectors is expected to average around 5 percent this year and next. In 1994, a pickup in borrowing by the nonfederal sectors should about offset slowing in the demands of the federal sector. Federal borrowing rises a bit in 1995 as the deficit widens as a consequence of growing interest payments.

The continuing economic expansion is expected to be buttressed by strong capital spending on the part of nonfinancial businesses. This spending was in close alignment with internally generated funds in 1992 and 1993, but an appreciable gap is expected to emerge over-coming quarters. With the term structure of interest rates expected to retain a steep upward tilt, at least for a while, businesses probably will maintain their recent greater use of short-term means of finance, including bank loans. Lower price-earnings multiples on equities and a continued interest in strategic mergers--such as those seen in the communications and defense industries--make it likely that net equity issuance will be subdued over the forecast period.

In the household sector, spending on durables and housing should continue to support debt growth. New household debt is anticipated to expand 6-1/2 percent in 1994 before edging back to a 6 percent growth rate in 1995. Both mortgage and consumer credit are expected to grow faster than nominal income; the higher level of debt to income, along with increases in consumer rates, should raise households' interest service burden.

The growth of the debt of state and local governments is anticipated to slow 2-1/2 percentage points over the next two years, to 4 percent at the end of 1995. Net borrowing declines, in part, because budget deficits are expected to shrink and the immediate opportunities to pre-refund debt remain unattractive.

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	0.9	6.7
1993	5.0	8.3	3.9	6.1	6.4	6.1	0.8	6.5	-1.2	5.4
1994	5.0	5.8	4.7	6.5	6.7	7.8	2.6	4.6	1.6	5.2
1995	5.1	6.6	4.5	6.0	6.2	7.0	3.0	4.0	1.0	4.4
Quarter (seasonally adjusted annual rates)										
1993:1	3.4	7.5	2.0	3.3	4.2	2.4	-0.7	7.2	-5.3	4.4
2	5.7	11.1	3.8	5.3	6.1	2.8	1.3	6.8	0.8	4.3
3	4.8	5.5	4.5	7.9	7.8	7.4	0.7	5.1	-2.3	4.4
4	5.8	8.2	5.0	7.4	7.0	11.2	1.8	6.3	1.8	8.4
1994:1	4.8	5.9	4.5	5.8	6.8	5.2	2.8	4.7	1.3	5.2
2	4.5	3.9	4.7	6.8	6.7	8.9	2.3	4.5	1.2	6.2
3	5.2	6.6	4.7	6.5	6.5	8.4	2.6	4.4	2.0	5.1
4	5.1	6.5	4.6	6.2	6.2	7.9	2.6	4.5	1.8	4.4
1995:1	5.7	9.0	4.5	6.1	6.0	7.1	2.8	4.0	1.6	4.8
2	4.8	5.5	4.5	5.9	6.0	6.9	2.9	4.2	0.7	4.3
3	4.6	5.2	4.4	5.8	6.1	6.7	2.9	3.8	0.8	4.3
4	4.9	6.1	4.4	5.7	6.1	6.5	3.1	3.7	1.1	4.3

1. Data after 1993:4 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 5.2 in 1994 and 5.1 in 1995.

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

		Calendar year 1993	1994	1995	1993-Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2	1995 Q3	1995 Q4
					Seasonally Adjusted Annual Rates								
	Net funds raised by domestic nonfinancial sectors												
1	Total	615.3	627.8	672.4	738.0	594.7	566.6	687.6	662.3	755.2	638.2	630.3	666.1
2	Net equity issuance	23.0	12.3	12.0	28.0	-2.0	7.0	32.0	12.0	12.0	12.0	12.0	12.0
3	Net debt issuance	592.3	615.6	660.4	710.0	596.7	559.6	655.6	650.3	743.2	626.2	618.3	654.1
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	17.8	86.1	111.7	8.4	51.4	88.6	99.9	104.4	109.6	111.9	112.1	113.1
5	Net equity issuance	23.0	12.3	12.0	28.0	-2.0	7.0	32.0	12.0	12.0	12.0	12.0	12.0
6	Credit market borrowing	27.8	98.2	113.7	66.2	106.1	88.0	99.0	99.6	108.9	111.0	113.6	121.2
	Households												
7	Net borrowing, of which:	243.7	273.9	269.5	308.5	245.1	291.7	282.8	276.1	273.4	268.7	270.1	265.5
8	Home mortgages	177.0	197.0	193.0	202.1	199.8	201.0	196.0	191.0	188.0	189.0	195.0	200.0
9	Consumer credit	49.0	67.2	64.5	93.3	44.9	77.0	75.0	72.0	66.0	65.0	64.0	63.0
10	Debt/DPI (percent)[3]	87.1	87.7	88.6	87.7	88.1	88.4	88.4	88.6	88.6	89.3	89.4	89.5
	State and local governments												
11	Net borrowing	64.7	48.8	44.0	65.7	49.6	48.6	47.5	49.5	44.5	46.5	42.5	42.5
12	Current surplus[4]	-58.6	-63.6	-59.8	-63.0	-67.4	-60.8	-62.7	-63.4	-61.3	-62.3	-58.3	-57.3
	U.S.government												
13	Net borrowing	256.1	194.7	233.3	269.6	195.9	131.3	226.2	225.2	316.3	199.9	192.1	224.9
14	Net borrowing;quarterly, nsa	256.1	194.7	233.3	89.2	51.2	6.1	58.8	78.5	81.3	22.1	51.2	78.8
15	Unified deficit;quarterly, nsa	226.3	206.3	218.8	92.1	58.6	8.2	58.7	80.8	98.1	-25.5	56.1	90.0
	Funds supplied by												
16	depository institutions	133.9	171.3	165.8	190.0	143.3	188.2	169.0	184.9	174.7	164.2	164.8	159.6
	MEMO: (percent of GDP)												
17	Dom. nonfinancial debt[3]	188.8	187.5	188.2	189.1	189.0	188.2	188.3	188.7	189.2	189.4	189.6	189.9
18	Dom. nonfinancial borrowing	9.3	9.1	9.4	10.9	9.0	8.3	9.7	9.5	10.7	8.9	8.7	9.1
19	U.S. government[5]	4.0	2.9	3.3	4.1	3.0	2.0	3.3	3.3	4.6	2.8	2.7	3.1
20	Private	5.3	6.2	6.1	6.7	6.1	6.4	6.3	6.2	6.1	6.1	6.0	6.0

1. Data after 1993:4 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

Since the March 22 FOMC meeting, the weighted-average foreign exchange value of the dollar in terms of the other G-10 currencies has declined more than 1-1/4 percent on balance, having recovered 1-1/2 percent from its low reached on May 3 before the U.S.-led concerted intervention operation on May 4. Over the intermeeting period, the dollar depreciated about 1-1/4 percent against the yen and the mark. Concerns that political paralysis in Japan would prevent progress on measures to open the Japanese economy or to further stimulate their domestic spending contributed to downward pressure on the dollar, and the dollar declined about 5 percent against both the mark and the yen from highs early in the period through May 3. The intervention on May 4 and a statement by Treasury Secretary Bentsen that the United States was not seeking a weaker value of the dollar helped to stabilize the dollar and to produce moderate recovery of its foreign exchange value.

During the intermeeting period, short-term interest rates in Germany fell 75 basis points while rates in Japan dropped 15 basis points and U.S. short-term rates rose about 75 basis points. In the wake of recent strength of the yen, the Bank of Japan has encouraged the overnight rate to decline toward 2 percent. Declines in German market rates were accompanied by reductions in Bundesbank official rates; on April 14 and again on May 11, the Bundesbank announced reductions in its discount and Lombard rates that totaled 3/4 percentage point for each, and over the period the Bundesbank reduced its RP rate a total of more than 50 basis points. Several other European central banks lowered official lending rates following both German announcements, and short-term European interest rates generally declined along with German rates. Long-term interest rates in Europe have tended to rise since the March FOMC, but less than U.S. rates. The U.S.-German long-term interest differential moved about 65 basis points in favor of dollar assets. The U.S.-Japanese differential moved up about 130 basis points as Japanese long-term rates fell nearly 40 basis points.

. The Desk engaged in substantial purchases of dollars on April 29 and on May 4; altogether the Desk purchased $1.25 billion against marks and $700 million against yen. Operations on both days were accompanied by statements by Secretary Bentsen acknowledging the intervention and providing reasons for it. In the first case, disorderly market conditions were cited; and in the second case, concern was expressed that the dollar's movements were inconsistent with economic fundamentals. In earlier, unrelated operations, the Desk purchased $213 million against a variety of currencies, liquidating holdings of all currencies other than yen and marks in the System and Treasury accounts.

Recent economic indicators point to recovery at a moderate pace in the major foreign industrial countries on average. Evidence of recovery in Japan is the most tentative. Japanese industrial production rose in the first quarter, as did new car registrations and housing starts. However, new machine orders fell in February. In the first quarter, west German manufacturing orders rose as foreign orders increased sharply, and the volume of retail sales expanded strongly. Survey measures of confidence and spending plans were up in January and February. West German industrial production dropped further in the first quarter, but substantial upward revision of that figure is expected. In the United Kingdom and Canada, recovery is more firmly established. U.K. real GDP expanded moderately in the first quarter, and unemployment edged down. Canadian industrial production was unchanged on balance in January and February, while retail sales rose. Indexes of both consumer and business confidence rebounded.

The U.S. nominal trade deficit for goods and services increased to $9.7 billion, seasonally adjusted, in February. For January and February combined, the deficit widened to about $98 billion, s.a.a.r., a substantially larger deficit than in any recent quarter. Exports of goods declined from the unusually strong level recorded in the fourth quarter of 1993 while exports of services rose slightly. Imports of goods and services over the two months declined slightly from the fourth-quarter level, with nearly all of the decline in oil imports.

After declining a little in February, prices of U.S. non-oil imports rose slightly in March, resulting in a small increase for the quarter as a whole. Prices of U.S. nonagricultural exports rose in both February and March; the quarter recorded a moderate increase. In contrast, prices of U.S. agricultural exports in the first quarter rose sharply. While fluctuating in response to the weather, oil import prices on balance declined significantly during the first quarter. However, oil prices (spot West Texas Intermediate (WTI)) have recently risen to roughly $18.25 per barrel from around $15 per barrel at the time of the March FOMC. As a result, oil import prices likely have increased.

Outlook

The staff projects that growth of real GDP in foreign industrial and developing countries will rise to 3 percent during the second half of this year and then to 3-1/2 percent next year, somewhat above the projected path of U.S. growth. In light of recent developments, the dollar is projected to remain about unchanged from current levels, somewhat lower than in the March Greenbook. With imports expected to continue growing faster than exports, real net exports of goods and services are projected to subtract nearly 1/2 percentage point from the annual rate of growth of real GDP during the second half of this year. The decline in net exports should slow in 1995 as the growth of foreign GDP strengthens and U.S. growth slows; as a result, real net exports of goods and services subtract only 1/4 percentage point from annual GDP growth in 1995.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain near its current level throughout the forecast period. This level, down about 3 percent from that projected in the March Greenbook, represents a middle ground between two types of risk. On the one hand, the dollar may move higher if the factors contributing to its recent and not-well-understood decline unwind. On the other hand, the dollar may move lower if market expectations for the magnitude of further tightening by the Federal Reserve, as expressed in the futures market, go unrealized, as they would under the assumptions on which this forecast is based. Against the currencies of key developing countries, we expect the CPI-adjusted value of the dollar to show a moderate depreciation on average through the end of the forecast period.

Foreign industrial countries. Real GDP in the foreign G-6 countries (weighted by U.S. nonagricultural exports) is projected to strengthen over the remainder of 1994 and into 1995, averaging about 3 percent during the second half of this year and more than 3 percent next year. For 1994, the forecasts for Germany, France, Canada, and the United Kingdom have been raised since the March Greenbook. For 1995, small offsetting changes to projected growth in several of the foreign G-6 countries have left the forecast for growth on average essentially unchanged.

Japanese real GDP growth is expected to strengthen over the forecast period, rising from about 1 percent at an annual rate in the current quarter to 2-3/4 percent next year, spurred by a government-led pickup in domestic demand and a somewhat reduced drag from net exports. German output is projected to have resumed growing during the first half of this year and to average about 2-1/2 percent at an annual rate during the remaining six quarters of the forecast period, as investment spending recovers and consumption growth turns positive.

Consumer price inflation in the foreign G-6 countries is projected to decline further this year and to remain low in 1995.[1] Since the March Greenbook, Canadian inflation has been revised upward but is still projected to be less than 1 percent during 1994 because of the influence of the tobacco tax reduction. Average inflation for the G-6 countries is forecast to decrease about 1/2 percentage point this year, to 1-1/2 percent (weighted by U.S. non-oil imports), and to remain essentially unchanged in 1995.

The staff forecast incorporates the assumption of some additional easing of monetary conditions in most foreign industrial

1. Foreign G-6 consumer price inflation continues to be forecast using west German prices.

countries. Average foreign short-term rates are expected to decline almost 1/4 percentage point from current levels by the end of this year and then to rise very slightly over 1995. German short-term rates are expected to fall somewhat further during 1994 and then to remain in the neighborhood of 4-3/4 percent through 1995. Rates in most other Continental European countries are assumed to move down with German rates over the forecast period. Canadian rates are forecast to decline nearly 1 percentage point from recently elevated levels by the end of 1994 and to drop another 1/2 percentage point in 1995. In contrast, short-term rates in the United Kingdom and Japan are projected to rise slightly this year and to increase more sharply next year for total increases of almost 3/4 percentage point in each country. On average, the path for foreign short-term rates has been revised up from that in the March Greenbook about 1/4 percentage point over the forecast period as a result of increases in the assumed level of rates for Canada, Japan, and the United Kingdom.

The path for foreign long-term rates has been moved up, in part in response to recent increases in rates that we believe will be only partially reversed over the forecast period; the stronger demand evident in recent data and incorporated in our forecast also contributes to the higher assumed path for long-term rates.

Developing countries. Real GDP growth in the developing countries that are major U.S. trading partners is forecast to be around 4 percent in 1994 and to increase to 4-3/4 percent in 1995 (weighted by U.S. nonagricultural exports). Since the last Greenbook, the GDP growth forecast for developing countries has been revised slightly downward in both 1994 and 1995. The growth forecast for Mexico has been reduced about 1/4 percent in 1994 because of increased political and financial uncertainty following the assassination of presidential candidate Colosio on March 23. The growth forecast for Asia in 1995 is also slightly weaker, in part because the upward adjustment to the interest rate forecast for industrial countries implies weaker expected investment demand in the developing countries, particularly in Asia. In addition, a downward revision to the forecast for growth in China implies a weaker outlook for exports of its Asian trading partners.

U.S. real net exports. Real net exports of goods and services are projected to decline about $18 billion over the remaining three quarters of 1994. During 1995 the pace of decline in net exports should slow a bit as U.S. growth settles down near potential while activity strengthens further in the rest of the world. For the forecast period as a whole, the decline in real net exports is slower than in the previous Greenbook because of the lower path for the dollar and the higher path for foreign growth.

TRADE QUANTITIES*
(percent change from end of previous period, saar)

		----Projection------			
	1993	1994			1995
		Q1	Q2	H2	
Exports					
Total	5.9	-13.4	8.7	8.2	8.8
Agricultural	-4.9	-32.8	20.8	5.9	2.1
Computers	19.9	13.0	26.3	29.0	33.6
Other nonag.	4.9	-15.5	4.1	4.0	3.6
Imports					
Total	12.9	3.5	12.3	10.0	9.1
Oil	10.0	-18.5	9.4	8.5	8.1
Computers	34.9	20.5	41.0	30.1	27.4
Other non-oil	9.6	3.3	7.2	5.6	4.5

* GDP basis, 1987 dollars.

The quantity of merchandise exports is projected to rebound this quarter from its decline in the first quarter and to grow moderately over the rest of the forecast period. Exports of computers are projected to strengthen somewhat this quarter, to grow rapidly during the second half of this year, and to accelerate slightly next year as recovery takes hold in Europe. After declining last quarter, other nonagricultural exports are expected to grow at an average rate of about 3-1/2 percent through 1995. The value of agricultural exports is also expected to bounce back this quarter from a sizable drop last quarter and then to expand slowly on balance over the forecast period.

Non-oil imports other than computers should rebound a bit this quarter from slow growth in the first quarter as a result of stronger U.S. activity and expand at about 5 percent (annual rate) on average over the remainder of this year and next. Computer imports are expected to be particularly strong in the near term, following reduced growth in the first quarter, but then to slow somewhat to steady, rapid growth through 1995, in line with growth in the office and computing component of U.S. PDE.

We expect that the quantity of oil imports will increase slightly in the current quarter as domestic stocks are rebuilt after large drawdowns in the first quarter. Over the remainder of the forecast period, imports are projected to increase further as U.S. oil production continues its trend decline.

Oil prices. Since the last Greenbook, oil prices (spot West Texas Intermediate (WTI)) have increased roughly $3 per barrel. Given little change in OPEC production, much of the increase appears consistent with a strengthening of oil demand. Most of the recovery in prices was assumed in the March Greenbook, leaving the assumption for the oil import unit value essentially unchanged. On the basis of longer-dated futures prices and expected increases in demand, we assume spot WTI trading will trade at $17.50 per barrel in September ($15.00 per barrel oil import unit value). Prices should remain at that level through 1995, as further increases in oil demand are offset by OPEC production hikes, especially in 1995 when, we assume, Iraq will return to the oil market.

Prices of non-oil imports and exports. The prices of non-oil imports excluding computers are expected to rise at an annual rate of more than 3 percent over the remainder of this year, as a result of rapid increases in non-oil commodity prices and the lagged effects of recent exchange rate changes. Next year, increases in these prices are expected to fall back to 1-3/4 percent. The increase in prices of U.S. nonagricultural exports tend to move over time in line with increases in U.S. producer prices, about 2-1/4 percent annually.

SELECTED PRICE INDICATORS
(percent change from end of previous period except as noted, ar)

		----Projection-----			
	1993	1994			1995
		Q1	Q2	H2	
PPI (export. wts.)	0.8	-0.2	3.1	2.2	2.0
Nonag. exports*	0.7	2.5	2.5	2.4	1.9
Non-oil imports*	1.2	1.2	3.4	3.0	1.7
Oil imports (Q4 level, $/bl.)	14.04	12.59	13.79	14.81	15.00

* Excluding computers.

Nominal trade and current account balances. The nominal trade deficit for goods and services is projected to increase from about $100 billion at an annual rate in the current quarter to nearly $113 billion by the end of 1994 and $118 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, as dollar interest rates rise further. We expect that, as a result of these developments, the current account deficit will rise to $175 billion by the end of 1995.

May 13, 1994

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

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

Measure and country	1991	1992	1993	Projection 1994	Projection 1995
REAL GDP					
Canada	-0.1	0.8	3.0	3.5	3.7
France	1.3	0.6	-0.3	1.6	2.5
Germany	2.2	0.7	-0.3	2.0	2.6
W. Germany	2.7	0.0	-0.8	1.5	2.3
Italy	1.7	-0.4	0.3	1.7	2.3
Japan	3.6	-0.3	0.0	1.4	2.7
United Kingdom	-1.6	0.2	2.4	2.6	2.8
Average, weighted by 1987-89 GDP	1.7	0.1	0.6	1.9	2.7
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.7	1.2	2.2	2.8	3.5
G-6	0.8	0.4	1.7	2.6	3.1
Developing countries	4.9	4.0	4.2	4.2	4.9
CONSUMER PRICES					
Canada	4.1	1.8	1.8	0.6	1.8
France	2.9	1.8	2.1	1.7	1.5
Western Germany	3.9	3.7	3.7	2.7	2.1
Italy	6.1	4.8	4.1	3.4	3.0
Japan	3.2	0.9	1.2	1.0	0.8
United Kingdom	4.2	3.1	1.6	3.1	3.5
Average, weighted by 1987-89 GDP	3.9	2.4	2.2	2.0	1.9
Average, weighted by share of U.S. non-oil imports	3.8	1.9	1.9	1.4	1.6

U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
NIPA Real Net Exports of Goods & 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
Goods	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
Agricultural	34.8	33.8	35.5	37.8	38.8	38.2	40.8	41.1	38.7	38.8	35.1	35.5	39.7
Computers	38.7	40.3	42.9	44.5	45.5	49.4	52.5	56.4	55.9	57.0	33.7	41.6	51.0
Other Goods	308.1	322.0	319.7	328.4	330.2	328.3	329.7	339.7	335.6	338.7	300.1	319.6	332.0
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
Goods	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
Computers	36.3	39.5	44.5	46.5	50.0	56.6	64.2	68.2	73.1	79.0	29.8	41.7	59.8
Other Goods	361.2	365.7	377.2	388.2	389.6	400.8	404.3	409.4	419.4	428.9	379.5	373.1	401.0
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	6.7	8.4	4.9
Agricultural	9.7	-11.0	21.7	28.5	11.0	-6.0	30.1	3.0	-21.4	1.0	-6.3	11.2	8.7
Computers	46.1	17.6	28.4	15.8	9.3	39.0	27.6	33.2	-3.5	8.1	16.2	26.4	26.7
Other Goods	3.6	19.3	-2.8	11.3	2.2	-2.3	1.7	12.7	-4.7	3.7	6.0	7.5	3.4
Services	-20.2	28.8	5.3	13.6	8.3	-6.0	5.6	-5.0	9.4	2.0	9.7	5.3	0.5
Imports of G&S	-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3	0.4	4.2	8.5
Oil	11.5	83.1	7.1	-37.2	1.7	41.6	12.1	-2.2	4.6	37.3	-15.7	8.3	12.1
Computers	74.1	40.2	61.1	19.2	33.7	64.2	65.5	27.3	32.0	36.4	9.3	47.2	46.7
Other Goods	-16.6	5.1	13.2	12.2	1.5	12.0	3.5	5.1	10.1	9.4	-0.0	2.7	5.5
Services	-18.5	0.8	-7.1	6.7	1.6	-0.4	3.7	-0.4	8.2	2.8	7.9	-5.0	1.1
Current Account Balance	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-71.1	-94.7	-89.5	-108.9	-91.9	-8.3	-66.4
Goods & Serv (BOP), net	-41.8	-20.1	-27.7	-22.1	-14.9	-44.6	-49.3	-50.1	-58.7	-79.6	-78.4	27.9	-39.7
Goods (BOP), net	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-110.4	-103.8	-117.3	-137.6	-109.0	-73.8	-96.1
Services (BOP), net	33.3	45.2	50.9	54.1	56.2	54.6	61.1	53.7	58.6	58.0	30.7	45.9	56.4
Investment Income, net	23.1	11.6	6.5	10.9	17.7	3.6	6.8	-3.2	-0.4	-0.1	20.3	13.0	6.2
Direct, net	60.3	52.8	45.1	52.8	57.6	47.6	47.1	40.8	44.9	46.5	56.2	52.8	48.3
Portfolio, net	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-40.3	-44.0	-45.4	-46.6	-35.9	-39.7	-42.0
Unilateral Transfers, net	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-28.6	-41.4	-30.4	-29.2	-33.8	6.6	-32.9

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

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT

(Billions of dollars, seasonally adjusted annual rates)

			Projection								Projection		
	1993		1994				1995				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995
NIPA Real Net Exports of Goods & Services (87$)	-86.3	-84.5	-104.2	-112.1	-120.5	-122.3	-126.3	-129.0	-132.1	-134.6	-76.5	-114.8	-130.5
Exports of G&S	591.9	620.0	605.0	615.8	626.2	638.0	649.4	661.4	674.1	687.6	598.3	621.3	668.1
Goods	434.1	463.0	446.7	456.1	464.8	474.8	484.4	494.5	505.2	516.8	440.4	460.6	500.2
Agricultural	37.3	39.1	35.4	37.1	37.2	38.2	38.4	38.6	38.8	39.0	38.5	37.0	38.7
Computers	62.5	67.6	69.7	73.9	79.1	84.6	91.0	97.8	105.1	113.0	60.8	76.8	101.7
Other Goods	334.3	356.3	341.6	345.1	348.5	352.0	355.0	358.1	361.3	364.7	341.2	346.8	359.8
Services	157.8	157.0	158.3	159.8	161.3	163.2	165.0	166.9	168.8	170.9	157.8	160.6	167.9
Imports of G&S	678.2	704.5	709.3	728.1	746.8	760.4	775.8	790.4	806.3	822.3	674.7	736.1	798.7
Goods	574.9	598.9	604.0	621.8	639.7	652.8	667.6	681.6	696.8	712.0	571.3	629.6	689.5
Oil	56.7	58.1	55.2	56.5	59.0	58.9	61.2	61.7	63.2	63.7	56.5	57.4	62.4
Computers	85.8	92.0	96.4	105.0	112.9	120.8	128.6	137.0	145.2	153.9	82.5	108.8	141.2
Other Goods	432.4	448.7	452.4	460.3	467.8	473.1	477.8	482.9	488.4	494.4	432.3	463.4	485.9
Services	103.3	105.6	105.3	106.3	107.1	107.6	108.3	108.9	109.5	110.2	103.4	106.6	109.2
Memo: (Percent change 1/)													
Exports of G&S	-0.9	20.4	-9.3	7.4	6.9	7.8	7.3	7.6	7.9	8.3	4.8	2.9	7.8
Agricultural	-14.6	20.7	-32.8	20.8	1.2	11.2	1.8	1.8	2.5	2.5	-4.9	-2.2	2.1
Computers	44.6	36.9	13.0	26.3	31.1	31.1	33.6	33.6	33.6	33.6	19.9	25.2	33.6
Other Goods	-5.1	29.0	-15.5	4.1	4.1	4.0	3.5	3.5	3.6	3.8	4.9	-1.2	3.6
Services	-2.0	-2.0	3.4	3.7	4.0	4.7	4.6	4.6	4.7	4.8	1.7	3.9	4.7
Imports of G&S	6.0	16.4	2.8	11.0	10.7	7.5	8.4	7.7	8.3	8.2	11.8	7.9	8.1
Oil	-7.4	10.2	-18.5	9.4	19.6	-0.8	16.1	3.4	10.0	3.5	10.0	1.4	8.1
Computers	39.1	32.2	20.5	41.0	33.5	31.0	28.6	28.6	26.2	26.2	34.9	31.3	27.4
Other Goods	3.3	16.0	3.3	7.2	6.7	4.6	4.0	4.4	4.6	5.0	9.6	5.4	4.5
Services	2.4	9.2	-1.1	3.7	3.0	2.1	2.5	2.2	2.5	2.6	5.6	1.9	2.4
Current Account Balance	-112.4	-126.2	-124.9	-139.3	-149.6	-165.3	-157.7	-162.6	-161.6	-174.9	-109.2	-144.8	-164.2
Goods & Serv (BOP), net	-88.5	-80.4	-91.0	-100.7	-111.3	-112.7	-114.8	-115.7	-117.1	-117.8	-76.8	-103.9	-116.3
Goods (BOP), net	-143.9	-131.1	-142.5	-153.4	-165.3	-168.9	-173.1	-176.1	-179.7	-182.6	-132.5	-157.5	-177.9
Services (BOP), net	55.4	50.7	51.5	52.6	54.1	56.2	58.4	60.5	62.6	64.8	55.7	53.6	61.6
Investment Income, net	6.5	-5.6	-3.5	-8.1	-8.0	-13.3	-11.9	-15.8	-13.3	-17.0	0.1	-8.2	-14.5
Direct, net	50.2	42.3	43.5	43.5	43.7	44.4	44.9	45.5	45.8	46.8	46.0	43.7	45.7
Portfolio, net	-43.7	-47.9	-47.0	-51.6	-51.6	-57.6	-56.8	-61.4	-59.1	-63.8	-45.9	-52.0	-60.3
Unilateral Transfers, net	-30.4	-40.1	-30.4	-30.4	-30.4	-39.4	-31.1	-31.1	-31.1	-40.1	-32.5	-32.6	-33.4

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