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Part 1

November 8, 1995

CURRENT ECONOMIC AND FINANCIAL CONDITIONS

Summary and Outlook

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

Overview

The Commerce Department's estimate of a 4.2 percent annualized increase in real GDP in the third quarter is considerably higher than we, and most others, had expected. Moreover, a conventional reading of the October labor market report suggests that the fourth quarter might see a comparable gain in output. We are inclined to discount these indications of strength considerably, though, given the more subdued signals from the manufacturing sector in particular. But, that said, the economic expansion probably has had greater underlying thrust than we had appreciated, and we have raised our growth forecast somewhat going forward.

Currently, we are projecting that real GDP growth will taper down to 2-1/2 percent in the current quarter and then average a little less than that pace over the next two years. As a result, the projected level of output at the end of 1997 is about 1-1/4 percent above that in the September Greenbook (1/2 percentage point of that difference reflecting the third-quarter surprise alone). In updating the forecast, we have not assumed an easier monetary policy; indeed, we have eliminated the slight decline in money market rates included in the previous forecast. But this restrictive change is outweighed by other considerations. First, the sustained strength in private domestic final demand this year suggests that monetary policy is not imposing as much restraint as we had thought. Second, stock prices have risen further, and bond yields have fallen relative to our expectations, implying somewhat greater support for household and business spending in coming months. Third, a somewhat lower projected path for the dollar has improved the prospects for real net exports a bit. Finally, we have made some changes to our fiscal assumptions that, on net, imply a little less restraint on economic activity. Each of these four positive factors is small in itself, but cumulatively they are significant enough to warrant a persistently higher level of activity than previously projected.

News on inflation has been quite favorable of late, suggesting that "supply-side" constraints on growth are less binding. Core consumer prices have been rising at a steady 0.2 percent per month since May, offsetting the bulge that occurred earlier in the year. In addition, the third-quarter increase in the employment cost index was smaller than the average for the first half of the year--and considerably below our expectations. Responding to this evidence, we have become a bit more optimistic about the levels of resource utilization that can be maintained, at least for the time being, without generating added inflation.

Nonetheless, with resource utilization notably higher in this forecast than in the last (to wit, the unemployment rate remains in the range of 5-1/2 percent to 5-3/4 percent, rather than moving above 6 percent), we foresee a slight tendency toward wage and price acceleration. The core CPI is projected to rise about 3 percent per year, compared with 2.9 percent in the past twelve months. The total CPI is expected to rise somewhat faster than the core CPI in the first half of 1996 because of a predicted near-term firming of oil prices and some acceleration in food prices.

<u>Key Assumptions</u>

As noted above, we have revised our assumed deficit reduction package to take account of recent legislative developments and to base our forecast on a plan that more nearly approximates a compromise between the expressed positions of the Congress and the Administration. To be sure, the set of potential compromises is still enormous, and we cannot rule out the possibility that the process will break down, with a stalemate on mandatory spending and taxes and with continuing resolutions used to fund discretionary programs for the remainder of the fiscal year; indeed, it is conceivable that even getting to that outcome could involve one or more brief shutdowns of government operations. But our working assumption is that major disruptions will be avoided and that agreement will be reached on a package that achieves a balanced budget by 2002 (based on the economic and technical assumptions underlying the congressional budget resolution).

STAFF DEFICIT REDUCTION PACKAGE
(Relative to CBO baseline, fiscal years, billions of dollars)

	1996	1997	1998	1996-2002 Staff	1996-2002 Congress[1]
Total	-34	-46	-73	--	--
Previous	*-30*	*-55*	*-80*	--	--
Outlays ex. interest	-32	-62	-87	-909	-1066
Discretionary	-17	-28	-37	-418	-440
Mandatory	-15	-34	-50	-491	-626
Medicare	-6	-12	-18	-199	-270
CPI adjustment	-2	-4	-7	-72	--
Other	-8	-18	-26	-220	-357
Revenues	1	-19	-21	-122	-245
Child tax credit	-4	-20	-20	-137	--
Capital gains	4	-2	-6	-34	--
CPI adjustment	1	3	5	49	--
Net interest	-1	-3	-7	--	--

1. CBO estimate of the effect of the concurrent budget resolution for fiscal year 1996.

The yearly pattern of deficit reduction (and thus the seven-year totals) in our package differs somewhat from that implied by the congressional budget resolution. We have also modified the specific provisions of the congressional plan to take the President's priorities into account. In particular, we have assumed that the reductions in discretionary spending will not be quite as large as those implied by the caps in the budget resolution. In addition, the reductions in mandatory spending--in particular, Medicare, Medicaid, the earned income tax credit, and nutrition programs--are smaller and reflect substantial compromise with the President's position. The additional deficit reduction needed to balance the budget by fiscal 2002 is provided by a smaller tax cut and by subtracting 1/2 percentage point each year from the formulas that use the CPI increase to adjust entitlements and the individual income tax for inflation. Our tax package includes the child tax credit and capital gains provisions in the Senate plan, which account for about two-thirds of the seven-year revenue loss in the Senate plan. On balance, the fiscal package is expected to reduce the deficit $34 billion in fiscal year 1996, $46 billion in fiscal 1997, and $73 billion in fiscal 1998. On net, this package reduces the deficit a little less over this span than did our earlier one, mainly because we have increased the size of the assumed tax cuts.[1]

We continue to anticipate that, one way or another, default in Treasury debt will be avoided. However, progress remains slow on appropriations bills for fiscal 1996, and funding for affected programs is still being provided by a continuing resolution. According to OMB, if the continuing resolution were left in place for the entire fiscal year, it would hold discretionary spending $34 billion below the level implied by the caps in OBRA-1993, which would be roughly twice the size of the reduction implied by last June's budget resolution. The continuing resolution will expire on

1. Moreover, some of the fiscal 1996 deficit reduction in our revised package reflects the initial increase in revenues that results from the "unlocking" of accumulated capital gains. Presumably, investors will only realize gains if they think that doing so will improve their lifetime wealth; such a revenue increase is likely to imply little, if any, restraint on spending.

November 13, but we expect it to be extended through mid-December.[2] On the assumption that discretionary spending in fiscal 1996 as a whole will not fall below the levels stipulated by the June budget resolution, we have allowed the shortfall in the current quarter to be made up over the remainder of the fiscal year. All told, we expect the deficit to total $165 billion in fiscal 1996, about the same as in fiscal 1995, and $173 billion in fiscal 1997.

On the monetary policy front, the federal funds rate is assumed to remain at 5-3/4 percent through 1997. Long-term rates have been lowered in the near term to reflect recent market developments. We have built in no explicit further response to the signing of a budget agreement, which has probably already been largely anticipated by the markets. Rather, we foresee some back-up in bond rates as the economy continues to grow moderately, resource utilization remains high, core inflation lingers at 3 percent, and the anticipation of easing by the Federal Reserve disappears.

With respect to the external sector, we have lowered the path for the trade-weighted value of the dollar in terms of other G-10 currencies somewhat to reflect developments since the previous Greenbook. We continue to expect a moderate pickup in the pace of economic activity abroad: As in the previous Greenbook, foreign real GDP (on an export-weighted basis) is projected to increase about 3-1/2 percent in each of the next two years, after having risen about 2 percent in 1995. The posted price for WTI crude oil has dropped over the intermeeting period, and we now expect it to average around $16.50 per barrel in the fourth quarter.

2. On the assumption that the spending reductions will be phased in over the year, we estimate that a continuing resolution through mid-December would hold nominal discretionary spending in the fourth quarter only about $15 billion (annual rate) below the level implied by the OBRA-1993 caps.

Nonetheless, in light of the projected increase in world demand, we still expect WTI to move up to around $17.50 per barrel by the middle of 1996--$1 per barrel lower than projected in the last Greenbook and to remain around that price through 1997.

Recent Developments and the Outlook for the Near Term

Our current estimate of third-quarter GDP growth, at 4.1 percent, is 2 percentage points above the prediction in the last Greenbook. About half of this surprise was already apparent to us in the data available before BEA published its advance estimate. The remainder of the gap appears largely related to mix-shifts that were not visible but that--owing to the use of 1987 weights--substantially elevated the GDP number. While we still are somewhat discomforted by the tension between the measured GDP growth and other economic indicators, the additional statistical information received over the past two weeks provides no basis for anticipating a significant downward revision to the BEA estimate.

REAL GDP AND SELECTED COMPONENTS IN 1995:H2
(Percent change, at annual rates, unless otherwise noted)

	1995:Q3			1995:Q4	
	Sept. GB	BEA Adv	Nov. GB	Sept. GB	Nov. GB
Real GDP	2.2	4.2	4.1	2.5	2.6
Final sales	3.4	4.2	4.6	2.8	3.5
Private domestic	4.4	4.2	4.4	3.6	5.4
Government	1.3	3.1	3.7	-1.4	-4.7
Change in billions of 1987 dollars					
Nonfarm inventory investment	-13.8	3.6	-2.9	-3.7	-10.5
Net exports	-7.3	.9	2.7	-.5	-3.6

In fact, the rise in final sales may well have been even larger than BEA had estimated: The September data on construction-put-in-place imply upward revisions to business fixed investment and state and local purchases. On the other hand, we have penciled in a downward revision to real nonfarm inventory investment of $6-1/2 billion, reflecting the extent to which the sum of manufacturing and wholesale trade inventories in September fell short of BEA's expectations.

At this stage, we have few data on activity in the fourth quarter. However, the labor market report for October suggests that real GDP may be growing appreciably faster than we had anticipated in the September Greenbook. Aggregate hours of private production workers jumped in October to a level 1 percent above the third-quarter average, and the unemployment rate fell to 5.5 percent. We have been cautious in interpreting the labor market report, though, in part because the surge in hours resulted mainly from what may have been a fluky jump in the workweek. Still, even discounting the labor market data fairly generously, we conclude that real GDP is probably growing at an annual rate of about 2-1/2 percent this quarter (about 2 percent on the chain-weighted basis). Were it not for the strike at Boeing, which we assume will be settled by December, real GDP growth would be about a quarter point greater.

If these early indications hold up, real GDP will rise faster than industrial output in the fourth quarter. The data on hours worked in manufacturing and the available physical output information suggest that industrial production fell in October. Moreover, the preponderance of evidence, including a variety of anecdotal reports and the weakness in materials prices, is that output will likely remain tepid in November and December as efforts to pare inventories continue in a number of sectors. In particular, we expect motor vehicle producers to hold assemblies to an annual rate of only about 11-1/4 million units for the quarter as a whole, 1/2 million below the third-quarter pace; although this outcome would be below current assembly schedules, it seems realistic in light of the sluggish pace of sales and the uncomfortable levels of dealer stocks.

Final sales are expected to post another sizable gain this quarter, paced by continued rapid growth in business fixed investment. At this stage, we estimate that real BFI is increasing at an annual rate of about 13 percent. Orders and shipments of computing equipment rose sharply in August and September, and industry contacts suggest that demand for these items continues to surge. And, although the uptrend in bookings for other types of equipment (excluding aircraft) has flattened out, backlogs are large enough to provide support for shipments over the near term.

Residential investment should also post a hefty gain this quarter as the sizable rise in single-family starts in the third quarter translates, with a lag, into increased real construction outlays. Moreover, recent indicators from this sector, such as homebuilders' surveys and loan applications, have been upbeat enough to lead us to anticipate a further gain in starts this quarter.

Consumer spending is likely to grow considerably as well. To be sure, sales of motor vehicles were soft in October, and chain-store figures for the month were rather negative on the whole. However, anecdotal reports suggest that spending on consumer electronics is booming, and these sales probably are not well reflected in the chain reports. In addition, the solid increase in income implied by the October labor market figures, along with the big gains on financial assets and the strong home sales, should bolster overall spending.

In contrast, federal purchases are projected to fall sharply this quarter, with double-digit declines in both the defense and nondefense categories. The drop largely reflects the restraint on discretionary spending imposed by the continuing resolution described earlier, but it is exaggerated by the retracing of the surge in real spending in the third quarter.

We have lowered the forecast for the increase in the total CPI to an annual rate of only about 2 percent in the current quarter, largely because we now expect to see a further drop in retail energy prices. But core inflation is also expected to be a bit lower than forecast in the September Greenbook, edging up only a tad from the 2-1/2 percent pace of the third quarter. Automakers have announced only modest price increases on their new models and are offering incentives to boost sales. In addition, the difficulties faced by a number of major retailers suggest that apparel and other merchandise will be priced aggressively to trim stocks. As for labor costs, the employment cost index is projected to rise at an annual rate of 2-3/4 percent, only a shade above the average over the first three quarters of the year.

The Outlook for the Economy in 1996 and 1997

We are now projecting that real GDP will increase about 2-1/2 percent in 1996 and about 2-1/4 percent in 1997. Although these growth rates are slightly higher than the ones in the last Greenbook, the broad contours of the projection are similar. In particular, we continue to anticipate a sharp deceleration in private domestic final demand that more than accounts for that in real GDP: Growth in business and residential fixed investment is expected to slow substantially, cutting into the rise in employment and income needed to support gains in consumption. However, inventory investment is expected to be a neutral influence on real GDP growth in 1996 and 1997, after subtracting roughly 1/2 percentage point in 1995. In addition, the improvement in the economies of our key trading partners, along with some stimulus from the past depreciation of the dollar, should help to stabilize real net exports.

SUMMARY OF STAFF PROJECTIONS[1]
(Percent change at annual rates, except as noted)

	1995	1996 H1	1996 H2	1997
Real GDP	2.7	2.7	2.4	2.3
Previous	2.1	2.2	2.1	2.0
Private domestic final purchases[2]	4.4	3.2	2.9	2.6
Previous	4.0	3.0	2.7	2.3
Civilian unemployment rate (percent)[3]	5.6	5.6	5.6	5.7
Previous	5.8	5.9	6.0	6.2
Memo:				
Chain-type real GDP	2.1	2.3	1.9	1.8

1. Percent change from final quarter of previous period to final quarter of period indicated, unless otherwise indicated.
2. Personal consumption expenditures plus business fixed investment plus residential investment.
3. Average level for the final quarter of period indicated.

We estimate that real GDP will rise just about 2 percent per year, on average, in 1996 and 1997 when measured on the chain-type basis that BEA will adopt in the upcoming benchmark revisions to the NIPAs. The chain-type projection of real GDP is about 1/2 percentage point per year lower than our "official" projection, mainly because the reweighting reduces the importance of computer outlays in real GDP. However, our procedures for estimating chain-type GDP are not yet fully developed, and these projections should be considered approximations. Be that as it may, our forecast--whether measured in 1987 dollars or on the chain basis--should be viewed as one in which output is growing at close to its potential rate and pressures on labor and capital resources are not changing much.

<u>Consumer spending</u>. We have made a few adjustments to the consumption projection, mainly to reflect the bigger tax cuts we are

now assuming. The most important element in this change is the child tax credit. Although the credit will lower liabilities beginning in 1996, its effect on spending is likely to emerge gradually--in part because history suggests that taxpayers are slow to adjust their witholding. We expect it to provide particular impetus to consumption in the first half of 1997, when taxpayers file their returns for 1996.

On balance, we expect consumer spending to rise only a bit more than 2 percent per year in 1996 and 1997, compared with an increase of around 3 percent in 1995. The deceleration in spending essentially mirrors the projected slowing in the underlying pace of income growth; the saving rate is expected to be little changed, on net, over the next two years. In the main, the projection of a flat saving rate reflects our expectation that the impetus to consumption from the recent gains in securities markets will diminish over the next few quarters--and our assumption that household wealth will stay roughly in line with income from here on. The apparent rise in the number of households having difficulty in servicing their debts is another reason to be cautious about the consumption outlook, although we do not subscribe to the view that households in the aggregate are hitting a debt wall. We also do not think lenders will curb the availability of credit to households to any major degree.

We continue to expect outlays for durables to be the strongest component of spending, although they are projected to rise only a little faster than other components of PCE. The demand for home electronic equipment will probably remain fairly strong, but sales of light motor vehicles are expected to run at only about 14-1/2 million units per year, a bit below the pace now estimated for 1995. As home sales respond to the projected backup in mortgage rates, the demand for furniture and appliances is likely to flatten out.

Business fixed investment. After three years of double-digit increases, real BFI is expected to grow about 7 percent in 1996 and about 5 percent in 1997. Real expenditures on equipment are projected to grow about 7 percent per year, on average, in 1996 and 1997, after rising about 15 percent in 1995. The projected slowdown reflects the waning of the accelerator effects that have stimulated spending over the past few years and a moderation of the increases in cash flow; these influences should more than offset the lagged effects of the drop in the cost of capital in 1995. Among the major components of equipment, spending on office and computing machines is expected to rise appreciably, but growth is not expected to match the 40 percent increase now estimated for 1995. Elsewhere, business purchases of motor vehicles are anticipated to edge down over the next two years, with particular weakness in deliveries of heavy trucks. And, spending on other equipment (excluding aircraft), which has risen more than 10 percent per year, on average, over the past two years, is expected to rise only about 2 percent per year, on average, in 1996 and 1997.

Although the uptrend in permits seems to have weakened a bit, outlays for nonresidential construction are still forecast to increase moderately in 1996 and be relatively well-maintained in 1997.. In the office sector, the drop in vacancy rates that has occurred in some areas, and the availability of financing for qualified borrowers, should help support activity for some time. Meanwhile, in the industrial sector, firms, not only in high-tech sectors like semiconductors but also in steel and some other "basic" industries, are in the midst of substantial expansions of capacity. The failure of some major retailing firms suggests the possibility of a consolidation in this sector and the freeing up of space, but the negative effects on commercial construction may be rather limited in the near term because rapidly growing discounters and "category killers" often construct new stores rather than renovating vacant facilities.

Residential investment. We are projecting that mortgage rates will edge up over the next two years--but the increase will not be large enough to significantly reverse the substantial improvement in cash-flow affordability of homeownership this year. Thus, after an increase in single-family starts this quarter to 1.16 million units (annual rate), we expect that such starts will recede only moderately in 1996-97. Historically, this would be a relatively high level of building activity on a sustained basis.

In contrast, we anticipate that multifamily starts will remain at a subdued pace, although they should increase somewhat from recent levels. Financial conditions are quite favorable, and vacancy rates in some locales have receded enough to make new construction economic.

Arguably, the projected level of total starts in 1996 and 1997--at an annual rate of 1.45 million units--is optimistic when viewed in the context of longer-term demographic considerations. However, the pace of household formation has been erratic in recent years, demonstrating the potential short-run variability around the underlying trend. With affordability so much improved, pent-up demand for homeownership could well give a substantial boost to construction for a time. The homeownership rate has risen noticeably over the past year, but it remains below the peak in the early 1980s.

Business inventories. With nonfarm inventory investment about matching the strong growth in final sales in the third quarter, the aggregate inventory-sales ratio has changed little, on net, over the first three quarters of the year. But looking ahead, the projection of a downtrend in the inventory-sales ratio seems reasonable in light of the continuing efforts of firms to move to leaner stocks. Thus, we have projected that real inventory investment will drop to around $20 billion per year--a little less than 2 percent growth in stocks. In the current quarter, that pace reflects a sizable run-off in motor vehicle stocks coupled with a still-high rate of accumulation elsewhere. In early 1996, we expect that auto stocks will stabilize while the accumulation of other inventories will drop to a sustainable pace.

This forecast for inventory investment could well have a modest upside risk. Supply conditions are expected to remain relatively tight, which could cause firms to be a bit cautious about trimming stocks. Moreover, recent labor disturbances have underscored the vulnerability of firms operating on a just-in-time basis.

Government purchases. As noted previously, real federal purchases are expected to drop markedly in the current quarter. Consistent with the caps on discretionary spending in the congressional budget resolution, we have built in sizable decreases in real nondefense purchases over the next few years: They are projected to drop about 8-1/2 percent over the four quarters of 1996 and 5 percent over the four quarters of 1997. Real defense spending is expected to decline about 3 percent per year over this period, after having fallen much more sharply over the preceding few years.

Real state and local purchases of goods and services are projected to remain on the moderate uptrend that has been evident over the past two years, with projected growth rates for 1996 and 1997 of around 2 percent per year. Even though the general funds budgets of many states seem to be in reasonable shape, significantly higher outlays for public services and infrastructure improvements do not seem likely, given the anticipated cuts in federal grants and the relatively subdued growth in tax receipts implied by our forecast. An obvious caveat: The "devolution" of responsibilities for current federal programs adds to the uncertainty attending the outlook for the state and local sector.

Net exports. After having increased substantially over the past four years, the deficit in real net exports is projected to be little changed, on balance, over the next two years. The leveling out is partly attributable to the lagged effects of the weak dollar in 1994-95. In addition, the firming of economic activity abroad should bolster exports. (A complete discussion of these developments is contained in the International Developments section.)

Labor markets. We have made some significant changes to the labor market forecast for this Greenbook. First, we have raised the projection for productivity growth in the nonfarm business sector. Our previous forecast was based on the assumption that recent gains in productivity had raised output per hour substantially above its longer-run trend, and thus that it was likely to grow at below-trend rates, on average, over the next two years. However, we have reassessed the productivity relationships in light of the new chain-weighted data, and we now think that the gap between the current and trend levels of productivity probably is, in fact, small--and consequently that productivity growth does not need to fall much below its trend rate to eliminate the gap in the levels. Extrapolating this result to the 1987 fixed-weighted measure implies productivity growth on that basis of about 1-1/2 percent per year, 1/4 percentage point per year higher, on average, than was projected in the September Greenbook.

The other major change is to the unemployment rate, which is now expected to average only 5.6 percent in the current quarter, 0.2 percentage point lower than in the last Greenbook. Given our projection that real output and labor productivity will grow at close to their trend rates over the next two years, the unemployment rate is likely to edge up only a little from current levels. In the last Greenbook, the jobless rate reached 6-1/4 percent by the end of 1997.

SUMMARY OF STAFF INFLATION PROJECTIONS
(Percent change at annual rates)

	1995	1996 H1	1996 H2	1997
Employment cost index for compensation of private industry workers[1]	2.5	2.8	2.9	3.0
Previous	2.8	3.1	3.1	3.0
Consumer price index[2]	2.6	3.3	3.0	2.9
Previous	2.8	3.1	2.8	2.7
Excluding food and energy	3.1	2.9	3.0	3.0
Previous	3.1	2.8	2.7	2.7

1. Percent change from final month of previous period to final month of period indicated.
2. Percent change from final quarter of previous period to final quarter of period indicated.

Wages and prices. Once again, the incoming data on hourly compensation have been more favorable than we had anticipated: Over the past year, the employment cost index for private industry workers has increased at only about a 2-1/2 percent annual rate, as wage increases have remained moderate and employers' payments for health insurance have been flat. Looking ahead, we still expect some pickup in the rate of increase in the ECI. Employers will continue to restructure health insurance packages to hold down costs, but we suspect that the biggest savings may have already occurred--especially if providers try to offset reductions in payments for Medicare and Medicaid recipients by raising the fees for members of private insurance plans. Moreover, with the unemployment rate now expected to remain in the range of 5-1/2 percent to 5-3/4 percent through 1997, workers' concerns about job security are likely to become less of a restraint on pay increases than they have been in recent years.

The higher levels of resource utilization in the current projection reduce the likelihood that underlying price performance will improve over the next two years--as had been forecast in the September Greenbook. Nonetheless, we still do not see the sort of pressures that would cause the core CPI to rise faster than its expected 1995 pace of about 3 percent. Labor costs are rising less rapidly in the near term than we had projected previously. And even though compensation is expected to move up over 1996 and 1997, the widening of profit margins over the past few years has created a cushion for firms to absorb the higher compensation rates. In addition, while the weaker dollar in this Greenbook adds a bit to non-oil import prices, its effect on overall inflation is likely to be negligible.

In the food and energy areas, we have allowed for some price pressures in 1996, but under our current assumptions about supply, they do not carry through into 1997. With farm crop prices continuing to surge in recent weeks, we now think that the increase in food prices in 1996 will be somewhat larger than those of recent years. However, we expect the rate of increase to moderate in 1997 on the assumption that crop production will bounce back this coming year. Retail energy prices are anticipated to surge in the first half of 1996 as the projected rebound in crude oil prices feeds through to product prices, but increases thereafter are expected to be moderate. All told, the total CPI is expected to rise a bit more than 3 percent in 1996 and a bit less than 3 percent in 1997.

Our forecast could be viewed as embodying a slightly lower NAIRU than previous projections--something closer to 5-3/4 percent, a tenth of a percentage point or so less than before. We would characterize the trend of inflation as having been essentially flat over the past year, while the unemployment rate has fluctuated between 5-1/2 and 5-3/4 percent. Given that observation alone, one might argue that the NAIRU is still lower. However, we believe some caution is warranted. As noted, we are skeptical that businesses will continue to be able to capture a disproportionate share of the medical cost savings, and at some point the job insecurity factor is likely to impose less restraint on wages; in effect, there may have been a favorable supply shock in the labor market that has yielded a temporary improvement in the short-run inflation-unemployment trade-off that will not be sustained over time.

Alternative Simulations

We have run an alternative set of forecast simulations with the Board's econometric model in which the federal funds rate is assumed to be raised or lowered relative to the baseline path by 100 basis points--implemented in four installments between now and the third quarter of 1996. Under the lower funds rate assumption, real GDP growth is raised about 1/4 percentage point in 1996 and about 3/4 percentage point in 1997. The unemployment rate is nearly 1/2 percentage point lower by the end of 1997, and core inflation is 0.1 percentage point higher in 1996 and about 1/4 percentage point higher in 1997. The results for the tighter monetary policy simulations are symmetrical.

ALTERNATIVE FEDERAL FUNDS RATE ASSUMPTIONS
(Percent change, Q4 to Q4, except as noted)

	1996	1997
Real GDP		
Baseline	2.5	2.3
Lower funds rate	2.8	3.1
Higher funds rate	2.2	1.5
Civilian unemployment rate[1]		
Baseline	5.6	5.7
Lower funds rate	5.5	5.3
Higher funds rate	5.7	6.1
CPI excluding food and energy		
Baseline	2.9	3.0
Lower funds rate	3.0	3.3
Higher funds rate	2.8	2.7

1. Average for the fourth quarter.

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

November 8, 1995

Interval	Nominal GDP 9/20/95	Nominal GDP 11/8/95	Real GDP 9/20/95	Real GDP 11/8/95	GDP fixed-weight price index 9/20/95	GDP fixed-weight price index 11/8/95	Consumer price index[1] 9/20/95	Consumer price index[1] 11/8/95	Unemployment rate (level except as noted) 9/20/95	Unemployment rate (level except as noted) 11/8/95
ANNUAL										
1993[2]	5.4	5.4	3.1	3.1	3.0	3.0	3.0	3.0	6.8	6.8
1994[2]	6.2	6.2	4.1	4.1	2.7	2.7	2.6	2.6	6.1	6.1
1995	5.1	5.0	3.0	3.3	2.9	2.8	2.9	2.9	5.7	5.6
1996	4.6	4.7	2.2	2.7	2.9	3.0	2.9	2.9	5.9	5.6
1997	4.0	4.5	2.1	2.5	2.7	2.9	2.7	3.0	6.1	5.6
QUARTERLY										
1994 Q1[2]	6.1	6.1	3.3	3.3	3.1	3.1	2.2	2.2	6.6	6.6
Q2[2]	7.2	7.2	4.1	4.1	2.9	2.9	2.5	2.5	6.2	6.2
Q3[2]	6.2	6.2	4.0	4.0	3.0	3.0	3.6	3.6	6.0	6.0
Q4[2]	6.4	6.4	5.1	5.1	2.6	2.6	2.2	2.2	5.6	5.6
1995 Q1[2]	4.7	4.7	2.7	2.7	3.3	3.3	3.2	3.2	5.5	5.5
Q2[2]	2.8	3.0	1.1	1.3	2.8	2.8	3.2	3.2	5.7	5.7
Q3	5.1	4.6	2.2	4.1	2.8	2.1	2.0	2.1	5.7	5.6
Q4	5.1	4.8	2.5	2.6	3.1	2.7	2.8	2.1	5.8	5.6
1996 Q1	5.1	5.3	2.3	2.7	3.4	3.7	3.0	3.2	5.8	5.6
Q2	4.3	5.0	2.2	2.7	2.7	3.1	3.1	3.4	5.9	5.6
Q3	4.1	4.2	2.2	2.1	2.6	2.9	2.9	3.0	5.9	5.6
Q4	4.1	4.6	2.1	2.7	2.6	2.8	2.7	3.0	6.0	5.6
1997 Q1	4.1	4.6	2.0	2.5	2.9	3.1	2.7	2.9	6.0	5.6
Q2	3.9	4.8	2.0	2.9	2.6	2.8	2.7	2.9	6.1	5.6
Q3	3.9	3.9	2.0	1.9	2.6	2.8	2.7	2.9	6.1	5.7
Q4	3.8	3.8	2.0	2.0	2.6	2.8	2.7	2.9	6.2	5.7
TWO-QUARTER[3]										
1994 Q2[2]	6.6	6.6	3.7	3.7	3.0	3.0	2.3	2.3	-.3	-.3
Q4[2]	6.3	6.3	4.6	4.6	2.8	2.8	2.9	2.9	-.6	-.6
1995 Q2[2]	3.7	3.9	1.9	2.0	2.9	2.9	3.2	3.2	.1	.1
Q4	5.1	4.7	2.3	3.4	3.0	2.5	2.4	2.1	.1	-.1
1996 Q2	4.7	5.2	2.2	2.7	3.0	3.4	3.1	3.3	.1	.0
Q4	4.1	4.4	2.1	2.4	2.6	2.9	2.8	3.0	.1	.0
1997 Q2	4.0	4.7	2.0	2.7	2.7	2.9	2.7	2.9	.1	.0
Q4	3.8	3.9	2.0	2.0	2.6	2.8	2.7	2.9	.1	.1
FOUR-QUARTER[4]										
1993 Q4[2]	5.0	5.0	3.1	3.1	2.8	2.8	2.7	2.7	-.8	-.8
1994 Q4[2]	6.5	6.5	4.1	4.1	2.9	2.9	2.6	2.6	-.9	-.9
1995 Q4	4.4	4.3	2.1	2.7	3.0	2.7	2.8	2.6	.2	.0
1996 Q4	4.4	4.8	2.2	2.5	2.8	3.1	2.9	3.1	.2	.0
1997 Q4	3.9	4.3	2.0	2.3	2.7	2.9	2.7	2.9	.2	.1

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)

Item	Unit[1]	1989	1990	1991	1992	1993	1994	Projected 1995	Projected 1996	Projected 1997
EXPENDITURES										
Nominal GDP	Bill. $	5250.8	5546.1	5724.8	6020.2	6343.3	6738.4	7077.6	7413.4	7746.2
Real GDP	Bill. 87$	4838.0	4897.3	4867.6	4979.3	5134.5	5344.0	5520.4	5669.6	5810.0
Real GDP	% change	1.6	.2	.3	3.7	3.1	4.1	2.7	2.5	2.3
Gross domestic purchases		.9	-.4	-.1	4.1	3.9	4.5	3.0	2.5	2.2
Final sales		1.5	1.2	-.4	3.8	3.0	3.4	3.3	2.6	2.4
Private dom. final purch.		.5	.1	.8	5.1	5.0	4.9	4.4	3.0	2.6
Personal cons. expend.		1.2	.7	.0	4.2	3.0	3.5	2.9	2.2	2.2
Durables		-.5	-.8	-1.3	9.6	9.0	8.6	5.6	3.0	2.9
Nondurables		1.2	-.1	-1.6	3.2	1.3	3.1	1.5	1.5	1.5
Services		1.7	1.7	1.2	3.5	2.5	2.4	2.8	2.3	2.4
Business fixed invest.		-.4	.7	-6.2	6.7	16.0	12.9	13.8	6.8	5.2
Producers' dur. equip.		-1.7	2.9	-3.2	11.0	21.3	15.5	15.1	7.7	6.4
Nonres. structures		2.3	-3.9	-12.4	-3.4	1.6	4.6	9.2	3.2	.5
Res. structures		-7.7	-15.2	.7	17.0	8.1	3.1	.4	3.7	.5
Exports		11.3	6.7	8.1	5.0	5.8	11.6	9.1	10.4	10.5
Imports		2.6	.4	4.0	8.6	12.4	13.8	10.4	8.8	8.7
Government purchases		2.0	3.3	-.8	.7	-1.0	-1.0	-.4	-.4	.1
Federal		-.6	2.8	-3.2	.8	-6.9	-5.9	-4.9	-4.7	-3.8
Defense		-1.5	1.5	-7.0	-1.3	-9.0	-8.2	-4.0	-3.0	-3.3
State and local		4.0	3.6	.8	.6	3.0	2.0	2.0	1.9	2.0
Change in bus. invent.	Bill. 87$	29.8	5.7	-1.1	2.5	15.3	47.8	33.0	20.2	18.8
Nonfarm		29.9	3.2	-1.3	-2.0	18.5	40.7	33.1	20.2	17.8
Net exports		-73.7	-54.7	-19.5	-32.3	-73.9	-110.0	-124.2	-131.8	-126.6
Nominal GDP	% change	6.0	4.7	3.5	6.4	5.0	6.5	4.3	4.8	4.3
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	107.9	109.4	108.3	108.6	110.7	114.0	116.6	118.0	119.3
Unemployment rate	%	5.3	5.5	6.7	7.4	6.8	6.1	5.6	5.6	5.6
Industrial prod. index	% change	-.1	-.2	.2	4.0	3.6	6.0	1.7	3.8	2.6
Capacity util. rate-mfg.	%	83.2	81.3	78.0	79.2	80.9	83.4	83.3	82.5	82.5
Housing starts	Millions	1.38	1.19	1.01	1.20	1.29	1.46	1.36	1.45	1.45
Light Motor Vehicle Sales		14.53	13.85	12.31	12.80	13.89	15.07	14.68	14.50	14.60
Auto sales in U.S.		9.91	9.50	8.39	8.35	8.72	9.24	8.85	8.61	8.67
North American prod.		7.08	6.90	6.14	6.26	6.75	7.28	7.12	7.00	7.05
Other		2.83	2.60	2.25	2.10	1.97	1.96	1.73	1.61	1.62
INCOME AND SAVING										
Nominal GNP	Bill. $	5266.8	5567.8	5740.8	6025.8	6347.8	6726.9	7057.9	7388.3	7718.1
Nominal GNP	% change	6.1	4.9	3.2	6.1	5.0	6.1	4.4	4.7	4.3
Nominal personal income		6.5	6.5	3.7	8.1	2.8	6.8	5.2	4.8	4.6
Real disposable income		1.1	1.1	.9	5.0	.5	4.4	2.9	2.0	2.2
Personal saving rate	%	4.0	4.2	5.0	5.5	4.1	4.1	4.4	4.4	4.4
Corp. profits, IVA&CCAdj	% change	-6.3	2.3	8.8	9.6	23.4	4.9	4.1	6.1	2.5
Profit share of GNP	%	6.9	6.8	6.8	6.7	7.7	8.1	8.3	8.3	8.2
Federal surpl./def.	Bill. $	-122.3	-163.5	-202.9	-282.7	-241.4	-159.1	-144.9	-130.3	-145.3
State/local surpl./def.		44.8	25.1	17.0	24.8	26.3	26.2	21.7	16.5	27.5
Ex. social ins. funds		-17.5	-35.6	-46.5	-41.6	-40.0	-39.3	-42.9	-47.4	-36.1
PRICES AND COSTS										
GDP implicit deflator	% change	4.4	4.5	3.3	2.6	1.8	2.3	1.6	2.2	1.9
GDP fixed-wt. price index		4.4	4.6	3.6	3.2	2.8	2.9	2.7	3.1	2.9
Gross domestic purchases fixed-wt. price index		4.4	5.2	2.9	3.2	2.5	2.9	2.7	3.0	2.8
CPI		4.6	6.3	3.0	3.1	2.7	2.6	2.1	3.1	2.9
Ex. food and energy		4.4	5.3	4.4	3.5	3.1	2.8	3.1	2.9	3.0
ECI, hourly compensation[2]		4.8	4.6	4.4	3.5	3.6	3.1	2.5	2.8	3.0
Nonfarm business sector										
Output per hour		-1.4	.4	2.3	3.1	1.3	1.8	2.5	1.5	1.4
Compensation per hour		3.1	6.2	4.7	5.1	1.9	3.2	3.6	3.4	3.4
Unit labor cost		4.6	5.7	2.3	1.9	.5	1.4	1.1	1.9	2.0

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)

November 8, 1995

Item	Unit	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
EXPENDITURES											
Nominal GDP	Bill $	6235.9	6299.9	6359.2	6478.1	6574.7	6689.9	6791.7	6897.2	6977.4	7030.0
Real GDP	Bill 87$	5075.3	5105.4	5139.4	5218.0	5261.1	5314.1	5367.0	5433.8	5470.1	5487.8
Real GDP	% change	1.2	2.4	2.7	6.3	3.3	4.1	4.0	5.1	2.7	1.3
Gross domestic purchases		2.7	3.3	4.0	5.8	5.0	4.6	4.4	4.2	3.5	1.9
Final sales		.2	2.4	3.2	6.4	2.2	1.5	4.3	5.7	2.6	2.6
Private dom. final purch.		3.5	3.7	5.3	7.4	5.8	2.7	4.1	6.8	4.2	3.7
Personal cons. expend.		1.6	2.6	3.9	4.0	4.7	1.3	3.1	5.1	1.6	3.4
Durables		3.2	9.8	7.7	15.5	8.8	.4	5.8	20.4	-3.4	3.5
Nondurables		-1.6	1.6	2.8	2.4	3.8	2.2	3.3	3.1	2.3	1.9
Services		3.1	1.4	3.6	2.0	4.0	1.1	2.2	2.3	2.6	4.2
Business fixed invest.		15.1	15.6	12.2	21.1	10.9	9.2	14.1	17.6	21.5	11.3
Producers' dur. equip.		20.0	21.6	16.2	27.5	18.6	6.1	18.1	19.6	24.5	11.9
Nonres. structures		2.5	.3	.5	3.3	-11.8	20.6	1.6	11.0	11.5	9.0
Res. structures		5.3	-7.6	9.4	28.2	10.0	7.0	-6.0	2.3	-3.4	-13.7
Exports		-1.0	7.7	-3.2	21.7	-3.5	16.6	14.8	20.2	4.8	6.6
Imports		11.6	14.9	7.4	16.0	9.5	18.9	15.6	11.4	10.1	9.9
Government purchases		-5.9	1.2	1.1	-.1	-4.9	-1.2	6.7	-4.1	-.7	.2
Federal		-15.4	-3.6	-3.0	-5.0	-10.3	-7.9	10.9	-14.4	-3.8	-2.9
Defense		-20.0	-2.2	-9.2	-3.6	-16.0	-4.1	12.8	-21.8	-7.5	.2
State and local		.9	4.4	3.7	2.9	-1.4	2.9	4.3	2.3	1.0	2.0
Change in bus. invent.	Bill. 87$	18.5	18.9	13.0	10.8	25.4	59.2	57.1	49.4	52.1	34.3
Nonfarm		19.7	22.8	20.9	10.7	22.1	51.7	47.4	41.7	49.1	33.2
Net exports		-57.6	-69.3	-86.3	-82.2	-104.0	-111.8	-117.0	-107.1	-118.5	-126.7
Nominal GDP	% change	4.4	4.2	3.8	7.7	6.1	7.2	6.2	6.4	4.7	3.0
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	109.7	110.4	111.0	111.8	112.7	113.6	114.5	115.3	116.1	116.4
Unemployment rate[1]	%	7.0	7.0	6.7	6.5	6.6	6.2	6.0	5.6	5.5	5.7
Industrial prod. index	% change	5.1	.7	3.3	5.3	7.1	6.0	4.9	5.9	5.2	-2.3
Capacity util. rate-mfg.[1]	%	80.8	80.6	80.7	81.4	82.3	83.1	83.6	84.5	84.7	83.2
Housing starts	Millions	1.16	1.25	1.31	1.47	1.36	1.44	1.47	1.51	1.31	1.28
Light Motor Vehicle Sales		13.23	14.11	13.69	14.53	15.45	14.76	14.65	15.44	14.90	14.35
Auto sales in U.S.		8.32	8.93	8.65	8.97	9.45	9.15	9.09	9.25	8.84	8.72
North American prod.		6.36	6.87	6.68	7.08	7.44	7.16	7.09	7.42	7.03	6.91
Other		1.96	2.07	1.97	1.89	2.00	1.99	2.01	1.83	1.81	1.82
INCOME AND SAVING											
Nominal GNP	Bill $	6243.9	6303.3	6367.8	6476.2	6574.0	6682.5	6779.6	6871.3	6959.5	7008.6
Nominal GNP	% change	5.1	3.9	4.2	7.0	6.2	6.8	5.9	5.5	5.2	2.9
Nominal personal income		-5.8	8.6	2.4	6.7	5.3	7.7	5.4	8.8	7.4	3.1
Real disposable income		-7.4	4.7	.8	4.3	3.4	3.5	3.1	7.5	4.1	1.1
Personal saving rate[1]	%	4.0	4.6	3.9	4.0	3.6	4.1	4.1	4.6	5.1	4.0
Corp. profits, IVA&CCAdj	% change	9.6	30.7	18.4	37.0	-17.9	33.6	7.2	3.1	6.9	8.2
Profit share of GNP[1]	%	7.1	7.5	7.7	8.2	7.7	8.2	8.2	8.2	8.2	8.3
Federal govt. surpl./def.	Bill $	-283.5	-237.0	-224.9	-220.1	-176.2	-145.1	-154.0	-161.1	-148.6	-129.6
State/local surpl./def.		21.6	25.3	23.9	34.5	25.2	27.0	23.9	28.8	28.2	23.4
Ex. social ins. funds		-44.7	-41.1	-42.4	-31.7	-40.7	-38.9	-41.4	-36.4	-36.9	-41.5
PRICES AND COSTS											
GDP implicit deflator	% change	3.3	1.6	1.0	1.3	2.9	2.9	1.9	1.3	2.2	1.6
GDP fixed-wt. price index		4.2	2.4	2.0	2.4	3.1	2.9	3.0	2.6	3.3	2.8
Gross domestic purchases fixed-wt. price index		3.3	2.6	1.6	2.4	2.5	3.2	3.5	2.6	3.0	3.2
CPI		3.1	2.8	1.7	3.4	2.2	2.5	3.6	2.2	3.2	3.2
Ex. food and energy		3.5	3.5	2.4	2.9	2.9	2.9	3.1	2.3	3.3	3.6
ECI, hourly compensation[2]		4.2	3.5	3.4	3.4	3.0	3.4	3.3	2.6	2.3	2.9
Nonfarm business sector											
Output per hour		-2.2	.4	2.9	4.2	1.7	-1.4	2.7	4.3	2.5	4.9
Compensation per hour		1.9	2.4	1.5	1.6	4.9	1.4	2.7	3.8	4.1	3.7
Unit labor cost		4.1	2.0	-1.3	-2.5	3.1	2.8	0	-.4	1.6	-1.2

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							
		1995		1996				1997			
Item	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill $	7109.6	7193.4	7287.0	7376.4	7453.0	7537.1	7623.2	7713.6	7787.0	7860.9
Real GDP	Bill 87$	5543.7	5579.9	5617.4	5654.9	5684.2	5722.0	5757.9	5799.3	5826.7	5856.1
Real GDP	% change	4.1	2.6	2.7	2.7	2.1	2.7	2.5	2.9	1.9	2.0
Gross domestic purchases		3.8	2.8	3.0	2.6	2.5	1.8	2.5	2.8	2.2	1.3
Final sales		4.6	3.5	2.7	2.4	1.9	3.2	2.6	2.7	1.7	2.5
Private dom. final purch		4.4	5.4	3.3	3.1	2.9	2.8	3.0	3.0	2.3	2.3
Personal cons. expend.		2.9	3.5	2.0	2.3	2.2	2.2	2.6	2.7	1.8	1.8
Durables		11.8	11.3	.9	4.2	3.5	3.6	4.9	5.1	.9	.8
Nondurables		.1	1.9	1.9	1.4	1.4	1.4	1.7	1.7	1.3	1.3
Services		2.2	2.3	2.4	2.3	2.3	2.3	2.5	2.5	2.3	2.3
Business fixed invest.		9.6	13.0	8.1	6.9	6.0	6.1	5.2	5.2	5.1	5.3
Producers' dur. equip.		10.3	14.1	9.5	7.9	6.8	6.8	6.1	6.5	6.4	6.6
Nonres. structures		7.0	9.1	3.0	3.3	3.3	3.4	1.5	.3	.3	-.1
Res. structures		11.1	9.7	8.3	3.3	1.9	1.5	.6	.6	.5	.4
Exports		12.1	13.2	8.5	12.8	5.8	14.8	8.9	13.6	6.2	13.6
Imports		8.8	13.0	9.2	10.7	7.9	7.3	7.8	11.6	7.6	7.9
Government purchases		3.7	-4.7	1.2	-1.7	-.6	-.4	.4	.3	.4	-.8
Federal		4.8	-16.3	.0	-8.1	-5.4	-5.2	-2.9	-3.0	-3.0	-6.3
Defense		2.1	-10.1	3.4	-4.3	-4.4	-6.3	-3.3	-3.3	-3.3	-3.4
State and local		3.1	2.1	1.8	1.8	1.9	2.1	2.1	1.9	2.1	1.8
Change in bus. invent.	Bill 87$	28.8	17.8	17.8	21.4	24.5	17.2	16.2	19.7	23.1	16.1
Nonfarm		30.3	19.8	18.9	21.1	24.0	16.6	15.4	18.7	22.1	15.0
Net exports		-124.0	-127.6	-131.8	-131.3	-137.9	-126.4	-126.5	-126.2	-131.6	-122.1
Nominal GDP	% change	4.6	4.8	5.3	5.0	4.2	4.6	4.6	4.8	3.9	3.8
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	116.8	117.1	117.5	117.9	118.2	118.5	118.9	119.2	119.5	119.8
Unemployment rate[1]	%	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.7	5.7
Industrial prod. index	% change	3.5	.5	4.5	3.8	3.7	3.3	3.3	3.3	2.0	2.0
Capacity util. rate-mfg[1]	%	82.8	82.3	82.6	82.6	82.6	82.5	82.5	82.6	82.4	82.3
Housing starts	Millions	1.40	1.45	1.44	1.45	1.45	1.45	1.45	1.45	1.44	1.44
Light Motor Vehicle Sales		14.74	14.72	14.49	14.50	14.50	14.50	14.59	14.70	14.59	14.50
Auto sales in U.S.		9.15	8.69	8.61	8.61	8.61	8.61	8.66	8.73	8.66	8.61
North American prod.		7.39	7.15	7.00	7.00	7.00	7.00	7.05	7.10	7.05	7.00
Other		1.75	1.54	1.61	1.61	1.61	1.61	1.61	1.63	1.61	1.61
INCOME AND SAVING											
Nominal GNP	Bill. $	7092.4	7171.1	7265.2	7350.0	7429.1	7509.0	7598.1	7684.3	7761.4	7828.8
Nominal GNP	% change	4.9	4.5	5.4	4.8	4.4	4.4	4.8	4.6	4.1	3.5
Nominal personal income		4.7	5.8	5.8	4.4	4.3	4.7	6.0	4.2	3.9	4.3
Real disposable income		4.4	4.5	3.5	.0	2.5	1.9	4.9	1.5	.9	1.5
Personal saving rate[1]	%	4.2	4.4	4.8	4.2	4.3	4.2	4.7	4.4	4.2	4.1
Corp. profits, IVA&CCAdj	% change	10.9	-8.4	14.0	3.3	2.9	4.6	3.0	3.1	2.5	1.2
Profit share of GNP[1]	%	8.4	8.1	8.3	8.3	8.2	8.2	8.2	8.2	8.1	8.1
Federal govt. surpl./def.	Bill $	-144.3	-157.2	-152.8	-116.2	-122.1	-130.2	-154.8	-142.9	-135.9	-147.7
State/local surpl./def.		19.9	15.3	13.9	14.6	17.9	19.6	22.8	26.2	31.1	29.8
Ex. social ins. funds		-44.4	-48.9	-50.2	-49.4	-46.0	-44.2	-40.9	-37.4	-32.4	-33.6
PRICES AND COSTS											
GDP implicit deflator	% change	.5	2.1	2.5	2.2	2.1	1.9	2.1	1.9	1.9	1.8
GDP fixed-wt. price index		2.2	2.7	3.7	3.1	2.9	2.8	3.1	2.8	2.8	2.8
Gross domestic purchases fixed-wt. price index		1.9	2.5	3.1	3.1	2.8	2.8	3.0	2.7	2.7	2.7
CPI		2.1	2.1	3.2	3.4	3.0	3.0	2.9	2.9	2.9	2.9
Ex. food and energy		2.5	2.7	2.9	2.9	2.9	3.0	3.0	3.0	3.0	3.0
ECI, hourly compensation[2]		2.3	2.7	2.7	2.8	2.8	2.9	2.9	3.0	3.0	3.1
Nonfarm business sector											
Output per hour		2.0	.5	2.0	1.7	.8	1.6	1.5	2.0	.9	1.2
Compensation per hour		3.1	3.4	3.6	3.3	3.4	3.4	3.6	3.4	3.4	3.4
Unit labor cost		1.1	2.9	1.5	1.6	2.6	1.8	2.1	1.4	2.5	2.1

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

Strictly Confidential (FR)
Class II FOMC

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

November 8, 1995

Item	1993				1994				1995					Projected
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1992	1993	1994	1995
Real GDP	14.6	30.1	34.0	78.6	43.1	53.0	52.9	66.8	36.3	17.7	179.9	157.3	215.8	146.1
Gross domestic purchases	33.7	41.8	51.1	74.4	64.9	60.7	58.2	56.9	47.7	25.9	201.6	201.0	240.7	166.6
Final sales	2.7	29.7	40.0	80.7	28.5	19.2	55.1	74.4	34.6	34.5	186.8	153.1	177.2	177.7
Private dom. final purch	35.9	38.6	54.5	76.9	61.9	29.8	45.4	74.3	47.7	42.2	202.2	205.9	211.4	202.1
Personal cons. expend.	13.8	22.0	33.0	34.0	40.1	11.5	26.9	44.9	14.3	30.4	138.1	102.8	123.4	103.7
Durables	3.7	11.2	9.0	18.1	10.9	.5	7.4	25.2	-4.8	4.8	41.1	42.0	44.0	31.1
Nondurables	-4.2	4.3	7.4	6.3	10.3	6.0	9.1	8.5	6.3	5.3	33.8	13.8	33.9	17.3
Services	14.4	6.4	16.6	9.6	18.9	5.1	10.4	11.1	12.8	20.3	63.1	47.0	45.5	55.4
Business fixed invest	19.4	20.7	16.9	29.3	16.4	14.3	22.1	28.2	35.4	20.1	34.0	86.3	81.0	97.5
Producers' dur. equip	18.4	20.7	16.6	28.2	20.9	7.5	21.5	24.2	31.1	16.6	39.1	83.9	74.1	83.2
Nonres. structures	.9	.1	.2	1.2	-4.6	6.9	.6	4.0	4.3	3.5	-5.1	2.4	6.9	14.2
Res. structures	2.7	-4.1	4.7	13.5	5.4	3.9	-3.6	1.3	-2.0	-8.3	30.2	16.8	7.0	.9
Change in bus. invent.	11.9	.4	-5.9	-2.2	14.6	33.8	-2.1	-7.7	1.7	-16.8	-6.9	4.2	38.6	-31.6
Nonfarm	13.4	3.1	-1.9	-10.2	11.4	29.6	-4.3	-5.7	7.4	-15.9	-8.3	4.4	31.0	-21.9
Farm	-1.5	-2.7	-4.0	8.0	3.2	4.2	2.2	-2.0	-5.7	-.9	1.4	-.2	7.6	-9.7
Net exports	-19.1	-11.7	-17.0	4.1	-21.8	-7.8	-5.2	9.9	-11.4	-8.2	-21.6	-43.7	-24.9	-20.5
Exports	-1.5	11.0	-4.9	29.9	-5.6	24.3	22.6	31.4	8.3	11.4	28.1	34.5	72.7	63.6
Imports	17.5	22.8	12.0	25.8	16.2	32.0	27.9	21.5	19.6	19.7	49.9	78.1	97.6	84.1
Government purchases	-14.1	2.8	2.5	-.3	-11.6	-2.8	14.9	-9.8	-1.7	.5	6.2	-9.1	-9.3	-4.0
Federal	-15.4	-3.3	-2.7	-4.5	-9.4	-7.0	8.8	-13.1	-3.2	-2.4	2.9	-25.9	-20.7	-16.1
Defense	-14.2	-1.4	-5.9	-2.2	-10.2	-2.4	6.9	-13.9	-4.2	.1	-3.4	-23.7	-19.6	-8.7
Nondefense	-1.3	-1.8	3.2	-2.3	.8	-4.5	1.8	.8	1.0	-2.5	6.4	-2.2	-1.1	-7.4
State and local	1.3	6.1	5.2	4.2	-2.1	4.1	6.1	3.3	1.5	2.9	3.2	16.8	11.4	12.1

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)

November 8, 1995

Item	1995 Q3	1995 Q4	Projected 1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1994	Projected 1995	1996	1997
Real GDP	55.9	36.2	37.5	37.5	29.3	37.8	35.9	41.4	27.4	29.4	215.8	146.1	142.1	134.0
Gross domestic purchases	53.2	39.8	41.7	37.0	35.9	26.3	36.0	41.1	32.7	19.8	240.7	166.6	140.9	129.7
Final sales	61.4	47.2	37.5	34.0	26.2	45.1	36.9	37.9	24.0	36.4	177.2	177.7	142.7	135.1
Private dom. final purch.	50.4	61.9	39.0	37.3	34.2	34.4	36.0	36.9	28.3	28.7	211.4	202.1	145.0	130.1
Personal cons. expend.	26.8	32.2	18.5	21.5	20.8	20.9	24.8	25.4	17.0	17.0	123.4	103.7	81.7	84.1
Durables	15.6	15.4	1.4	6.0	5.2	5.3	7.2	7.7	1.3	1.3	44.0	31.1	17.9	17.5
Nondurables	.2	5.4	5.4	4.0	4.0	4.0	4.9	4.9	3.8	3.8	33.9	17.3	17.4	17.3
Services	10.9	11.4	11.7	11.5	11.6	11.6	12.7	12.8	11.9	11.9	45.5	55.4	46.5	49.3
Business fixed invest.	17.7	24.3	15.8	13.8	12.4	12.6	10.9	11.2	11.1	11.5	81.0	97.5	54.6	44.7
Producers' dur. equip.	14.9	20.6	14.6	12.5	10.9	11.1	10.2	11.1	11.0	11.5	74.1	83.2	49.1	43.8
Nonres. structures	2.8	3.7	1.2	1.4	1.4	1.4	.6	.1	.1	.0	6.9	14.2	5.5	.9
Res. structures	5.9	5.3	4.7	2.0	1.1	.9	.3	.3	.3	.3	7.0	.9	8.6	1.2
Change in bus. invent.	-5.5	-11.0	.0	3.5	3.1	-7.3	-1.0	3.5	3.4	-7.0	38.6	-31.6	-.6	-1.1
Nonfarm	-2.9	-10.5	-.9	2.1	2.9	-7.4	-1.2	3.3	3.4	-7.1	31.0	-21.9	-3.2	-1.6
Farm	-2.6	-.5	.9	1.4	.2	.1	.2	.2	.0	.1	7.6	-9.7	2.6	.5
Net exports	2.7	-3.6	-4.2	.5	-6.6	11.5	-.2	.3	-5.4	9.5	-24.9	-20.5	1.2	4.3
Exports	20.7	23.2	15.6	23.8	11.3	28.5	18.1	27.8	13.4	29.2	72.7	63.6	79.2	88.5
Imports	18.0	26.8	19.9	23.3	17.9	17.0	18.3	27.5	18.8	19.7	97.6	84.1	78.0	84.2
Government purchases	8.3	-11.1	2.7	-3.9	-1.4	-.8	1.0	.7	1.0	-1.9	-9.3	-4.0	-3.5	.7
Federal	3.8	-14.3	.0	-6.6	-4.2	-4.0	-2.2	-2.2	-2.2	-4.7	-20.7	-16.1	-14.9	-11.4
Defense	1.1	-5.7	1.8	-2.3	-2.3	-3.3	-1.7	-1.7	-1.7	-1.7	-19.6	-8.7	-6.2	-6.8
Nondefense	2.7	-8.6	-1.8	-4.3	-1.9	-.7	-.5	-.5	-.5	-3.0	-1.1	-7.4	-8.6	-4.6
State and local	4.5	3.2	2.7	2.7	2.8	3.2	3.2	2.9	3.2	2.8	11.4	12.1	11.4	12.1

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)

November 8, 1995

Item	Fiscal year				1995				1996				1997			
	1994[a]	1995	1996	1997	Q1[a]	Q2[a]	Q3[b]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1257	1351	1405	1450	307	404	333	322	304	425	354	340	316	431	364	350
Outlays[1]	1461	1514	1571	1623	380	381	373	388	396	392	395	410	414	397	402	422
Surplus/deficit[1]	-203	-164	-165	-173	-73	23	-40	-66	-92	33	-40	-71	-98	34	-38	-72
On-budget	-259	-226	-228	-232	-85	-11	-43	-75	-102	-7	-43	-77	-109	-5	-42	-77
Off-budget	56	62	63	59	12	34	2	9	11	40	3	6	11	38	4	6
Surplus excluding deposit insurance[2]	-210	-181	-172	-177	-79	18	-42	-69	-94	33	-43	-70	-101	34	-40	-71
Means of financing																
Borrowing	185	171	203	173	66	26	20	53	100	5	45	49	69	13	42	50
Cash decrease	17	-2	-22	0	8	-42	23	12	-4	-30	0	25	20	-45	0	25
Other[3]	1	-5	-15	0	-1	-6	-3	1	-4	-8	-4	-3	9	-1	-5	-3
Cash operating balance, end of period	36	38	60	60	18	61	38	26	30	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1355	1449	1516	1568	1441	1476	1469	1488	1502	1536	1538	1555	1555	1572	1590	1605
Expenditures	1529	1595	1653	1709	1590	1605	1615	1645	1655	1652	1660	1686	1710	1715	1726	1753
Purchases	439	434	424	418	434	435	437	424	429	423	420	417	419	419	418	414
Defense	296	285	285	282	284	287	286	282	287	286	284	282	283	283	282	281
Nondefense	144	149	139	136	151	148	151	142	142	137	135	135	136	136	136	132
Other expenditures	1090	1160	1229	1291	1155	1170	1178	1222	1226	1229	1240	1269	1290	1296	1308	1339
Surplus/deficit	-174	-146	-137	-141	-149	-130	-146	-157	-153	-116	-122	-130	-155	-143	-136	-148
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-164	-173	-173	-181	-176	-154	-178	-191	-188	-155	-159	-169	-194	-185	-176	-186
Change in HEB, percent of potential GDP	- 7	1	0	1	- 1	- 3	3	2	0	- 5	1	1	3	- 1	- 1	1
Fiscal impetus (FI), percent, cal year	-7 3	-5	-10 4	-5.4	-1 7	-1 1	2 3	-5 1	-3 8	-3 7	- 6	-3 2	- 2	2 6	4 6	-5 2

1 OMB's July 1995 deficit estimates are $160 billion in FY95, $163 billion in FY96 and $179 billion in FY97 CBO's August 1995 deficit estimates are $161 billion in FY95, $189 billion in FY96 and $218 billion in FY97 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 July 1995 deficit estimates, excluding deposit insurance spending, are $177 billion in FY95, $170 billion in FY96 and $182 billion in FY97 CBO's August 1995 deficit estimates, excluding deposit insurance spending, are $177 billion in FY95, $197 billion in FY96 and $222 billion in FY97

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--Preliminary

Recent Developments

Financial market participants apparently have discounted recent signals of stronger economic growth and seem confident that inflationary pressures will continue to be subdued. Investors also appear to be optimistic that there will be significant federal deficit reduction, although the political conflict over the budget remains heated and far from resolution. While short-term interest rates are about unchanged or down slightly on net since the September FOMC meeting, longer-term Treasury rates have dropped roughly 30 basis points. Thirty-year Treasury bonds currently yield about 6.3 percent, essentially the same rate as prevailed just before the System began tightening in early 1994.

Interest rates on corporate bonds have declined somewhat less than Treasury yields, and risk spreads, which had been running near historical lows, have moved up, especially for bonds with very low ratings. The declines in interest rates have continued to fuel the rally in equity markets--as have recent corporate earnings reports, which were generally on the high side of analysts' expectations. Major indexes of equity prices have risen about 1/2 percent in the intermeeting period.

The broad monetary aggregates weakened in October. M2 was flat, after rising 7-3/4 percent (annual rate) in the third quarter. The sluggish pace of M2 reflected, in large part, a drop-off in the growth of retail money market mutual funds. M3 eased to a 4 percent pace in October; weakness in M2 and a drop in bank balances due to their foreign offices was mostly offset by strong growth in large time deposits and institution-only money funds.

Bank credit was essentially flat last month; neither security holdings nor total loans showed much change from September. All major categories of loans were weaker, but the figures reflect mainly shifts in demand away from banks. Indeed, senior loan officers surveyed in November indicated little change from August in bank standards or terms for consumer credit and a slight further easing for loans to businesses. Demand from investors for asset-backed securities has been strong, and attractive prices have encouraged banks to move loans from their balance sheets to pools; home equity loans and consumer receivables have been especially favored for securitization. Business loans at banks were little changed on balance in October. Lessened needs for inventory financing may be a factor, but there are no data yet available to confirm this. Quite clearly, though, the bond rally has encouraged corporations to focus a greater share of their credit demands on the longer-term markets.

Gross public bond issuance in September and October moved near the pace recorded in the second quarter, with proceeds in some cases explicitly slated for use in paying down bank loans. The volume of commercial paper outstanding also rose, but on net such borrowing was small because new borrowing was nearly matched by run-offs of merger-related paper issued earlier in the year. Spreads on below-investment-grade debt have risen 10 to 20 basis points over the intermeeting period, signaling growing concerns about defaults in the junk bond market; still, these spreads remain low relative to the early 1990s, as do spreads on investment-grade debt. Many nonfinancial firms, especially those in the high-tech sector, have tapped the equity markets. But while the pace of gross issuance in September and October was the highest since November 1993, share retirements resulting from mergers and acquisitions and from repurchase programs have continued to exceed new issues by a wide margin.

Available information points to reduced growth of household debt. Although interest rates on fixed-rate mortgage loans have fallen to their lowest levels in a year and a half, indicators imply only a small rise in mortgage borrowing, and there is no evidence to suggest that equity cash outs from home loan refinancings have been significant in recent months. Consumer installment credit growth fell to an annual rate of 6-1/2 percent in September, following double-digit increases over earlier months this year; bank data on consumer loans, even adjusted for securitization, point to a further slowing in the pace of borrowing in October. Respondents to the November senior loan officer survey indicated that demand for consumer credit had changed little from three months ago.

With federal debt outstanding closing in on the statutory ceiling, the Treasury cut back the size of a recent bill auction, postponed the midquarter refunding auctions, and made other adjustments to remain within the legal limit. Other administrative actions to stay below the ceiling are available, but only extraordinary, unprecedented measures would prevent the Treasury from exhausting its borrowing authority on November 15 without congressional action. Even assuming a temporary elevation of the ceiling, federal government debt in the fourth quarter is expected to grow at an annual rate of only 3-1/2 percent.

In the municipal securities market, retirements of refunding bonds continued to be heavy in October, and the stock of outstanding state and local debt fell at roughly a 10 percent annual rate. Meanwhile, the ratio of yields on long-term tax-exempt bonds to yields on taxable debt remained high because of investor concerns about reduction or elimination of the tax advantage for municipal securities in possible tax-reform legislation.

Outlook

The staff assumes that the federal funds rate will remain at its current level throughout the projection period. This path would be something of a disappointment to the markets, which have come to anticipate that the System will ease policy somewhat by early next year--if not simply in response to the completion of a deficit reduction then to bolster aggregate demand. The ability of the economy to maintain reasonable movement and the failure of the Fed to cut money market rates is expected to lead to upward pressures on bond yields in the coming year, but the projected rise retraces only a small part of the 1995 decrease in yields--and leaves the yield curve with only a moderate upward slope by historical standards.

The weakening in growth of the broad monetary aggregates in recent months is likely to keep M2 in the upper part of its annual growth range of 1 to 5 percent for 1995. The deceleration in M3, however, has not been sufficient to pull it into its 2 to 6 percent range for the year; it appears M3 will close the year fractionally above the upper end of its range. Given the staff interest rate pattern, M2 growth is projected to roughly parallel fluctuations of nominal GDP over the next two years, with a slight pickup in 1996 and then a slowing in 1997. A reduced pace of bank credit expansion will likely lead to a downward drift in the growth of M3 over the next two years.

Growth of domestic nonfinancial debt is projected to be 5-1/4 percent this year, 4-3/4 percent in 1996, and 4-1/2 percent in 1997. The deceleration reflects reduced borrowing by households and businesses. A widening of the budget deficit will push up federal debt growth next year, offsetting some of the decline in 1996. Meanwhile, municipal debt is expected to continue to contract, although the pace moderates in 1996 and 1997.

In the household sector, growth in consumer credit is expected to slacken a bit along with that of spending on automobiles and other durable goods. Rising repayments of the hefty volume of consumer credit extended over the past few years will tend to damp increases in household debt. A growing number of households may be feeling the effects of heavy debt burdens, as highlighted by recent reports of increases in delinquency rates on consumer loans. Nonetheless, in view of the projected steady gains in employment and income, credit problems in the household sector should be confined to a relatively small segment of the population, and lenders are not expected to impose significant restrictions on credit availability.

Business borrowing is also projected to be considerably less in 1996 and 1997. The corporate financing gap widened substantially over the first three quarters of 1995. In our projection, investment spending grows more slowly than internal funds and the gap narrows somewhat. Borrowing is still likely to be augmented by mergers and acquisitions, although to a lesser degree than in 1995. (Nonetheless, equity retirements--including share repurchases--are projected to exceed issuance by a considerable margin again in 1996 and 1997.) Given the level and structure of interest rates we have assumed, corporations are anticipated to rely heavily on the bond market to meet their financing requirements. The ratio of interest payments to corporate cash flow is likely to move up only a little from the low reached this past summer, and capital markets are expected to absorb the additional debt with little further rise in quality spreads. Although concerns about the aggressiveness of current lending practices are widely expressed by bankers, lending standards and terms are assumed to remain relatively favorable, and in the projection, banks continue to be a significant--albeit reduced--source of funds for businesses.

The outlook for state and local finance is clouded by uncertainties regarding the federal budget and possible tax reforms. We have assumed that the debate about tax reform will drag on without resolution until at least very late in the forecast period, keeping the ratio of long-term tax-exempt yields to Treasury yields elevated--but the prevailing level of borrowing costs should not in itself be a major impediment to state and local spending. More important is the substantial net reduction in revenues to states from the federal government, which we expect will force cutbacks in expenditures--including some that typically involve bond finance. The volume of pre-refunded tax-exempt bonds maturing will also remain large over the forecast period, and debt of the sector is forecast to contract further over the next two years.

Confidential FR Class II
November 8, 1995

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

			Nonfederal						MEMO	
				Households						
	Total	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
1983	11.9	18.9	10.1	11.8	10.8	12.6	8.7	9.7	12.5	11.0
1984	14.6	16.9	13.9	13.0	11.7	18.7	15.6	9.1	12.8	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.6	12.4	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	9.8	7.3	4.7
1987	9.4	8.0	9.8	11.4	14.9	5.0	7.9	12.1	8.1	8.0
1988	8.9	8.0	9.2	10.5	12.7	7.2	8.7	6.0	8.6	7.7
1989	7.8	7.0	8.1	9.2	10.8	6.2	6.9	9.3	5.8	6.0
1990	6.3	11.0	5.0	6.5	7.9	2.0	3.4	5.7	4.7	4.7
1991	4.5	11.1	2.4	4.7	6.5	-1.8	-0.9	7.4	-1.0	3.5
1992	4.8	10.9	2.8	5.7	6.7	0.9	0.0	2.4	0.7	6.4
1993	5.3	8.3	4.2	7.0	6.4	7.3	0.5	6.8	-0.1	5.0
1994	4.9	4.7	4.9	8.3	6.5	14.0	3.7	-4.4	4.9	6.5
1995	5.2	4.7	5.4	7.0	6.0	11.6	6.6	-7.4	2.1	4.3
1996	4.8	5.4	4.6	6.2	6.3	7.4	4.8	-5.8	1.0	4.8
1997	4.4	4.5	4.3	5.9	6.2	5.9	4.2	-4.8	1.0	4.3
Quarter (seasonally adjusted annual rates)										
1994:1	5.3	6.3	4.9	7.2	6.4	8.0	3.6	-0.3	6.1	6.1
2	4.2	3.6	4.4	7.1	5.2	13.9	3.8	-4.7	4.8	7.2
3	4.8	3.9	5.1	8.8	7.0	14.4	3.5	-5.4	2.4	6.2
4	4.9	4.5	5.0	9.0	6.6	17.1	3.5	-7.5	5.9	6.4
1995:1	6.3	7.8	5.8	6.5	5.4	10.2	7.8	-5.9	2.6	4.7
2	6.4	5.4	6.8	7.5	5.4	14.6	8.3	-2.9	4.2	3.0
3	3.6	1.8	4.3	7.0	6.3	10.5	4.6	-11.6	0.7	4.6
4	4.1	3.6	4.3	6.4	6.2	9.3	5.0	-10.0	1.0	4.8
1996:1	6.6	11.3	4.8	6.3	6.2	8.4	5.7	-7.3	1.0	5.3
2	4.2	3.0	4.6	6.2	6.2	7.3	4.5	-4.1	1.0	5.0
3	4.3	4.2	4.3	5.9	6.2	6.8	4.4	-6.0	1.0	4.2
4	3.9	2.9	4.2	5.8	6.2	6.2	4.4	-6.5	1.0	4.6

1. Data after 1995:q2 are staff projections. Changes are measured from end of the preceding period to end of period indicated except annual nominal GDP growth, which is Q4 to Q4. On a quarterly average basis, total debt grows 5.2 percent in 1995, 4.7 percent in 1996, and 4.5 percent in 1997. Federal debt rises 4.6 percent in 1995, 5.2 percent in 1996, and 4.8 percent in 1997. Nonfederal debt is projected to increase 5.5 percent in 1995, 4.6 percent in 1996, and 4.3 percent in 1997.

2.6.3 FOF

Confidential FR Class II
November 8, 1995

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

	Calendar year				1995				1996		1997	
	1994	1995	1996	1997	Q1	Q2	Q3	Q4	H1	H2	H1	H2
					Seasonally Adjusted Annual Rates							
Net funds raised by domestic nonfinancial sectors												
1 Total	557.7	604.0	587.0	597.8	751.7	773.9	394.9	495.5	652.1	521.9	625 7	569.9
2 Net equity issuance	-44.9	-70.6	-66.5	-30.0	-68.4	-73.2	-84.8	-56.0	-84.0	-49.0	-35.0	-25.0
3 Net debt issuance	602.6	674.6	653.5	627.8	820.1	847.1	479.7	551.5	736.1	570.9	660.7	594 9
Borrowing sectors												
Nonfinancial business												
4 Financing gap[2]	48.5	97.5	72.3	70.8	124.8	89.8	99.4	76.1	73.4	71.1	67.9	73 8
5 Net equity issuance	-44.9	-70.6	-66.5	-30.0	-68.4	-73.2	-84.8	-56.0	-84.0	-49.0	-35.0	-25.0
6 Credit market borrowing	137.1	255.4	199.4	181.6	302.4	328.8	187.7	202.8	212.0	186.8	178.1	185.2
Households												
7 Net borrowing, of which:	353.7	325.3	307.3	312.1	302.1	352.1	336.4	310.6	311.8	302.9	306.6	317.6
8 Home mortgages	191.8	189.1	212.2	220.7	169.6	174.3	206.3	206.2	209.7	214.7	213.2	228.2
9 Consumer credit	121.2	114.5	81.0	70.0	100.3	147.9	109.7	100 2	87.2	74.7	70 0	70.0
10 Debt/DPI (percent)[3]	90.0	91.5	92.8	93.7	90.2	91.5	91.9	92.1	92.5	93.2	93.2	94 1
State and local governments												
11 Net borrowing	-44.0	-70.5	-51.5	-40.0	-56.2	-27.5	-107.6	-90.8	-49.7	-53 2	-40.0	-40.0
12 Current surplus[4]	-46.8	-77.1	-65.8	-54.8	-111.6	-68.8	-60.9	-67.0	-68.0	-63.5	-57 8	-51.8
U.S.government												
13 Net borrowing	155.9	164.4	198.3	174.1	271.8	193.6	63.2	128.9	262.0	134.5	216.1	132.2
14 Net borrowing;quarterly, nsa	155.9	164.4	198 3	174.1	65.6	25.6	20.1	53.1	104.9	93.4	81.9	92 2
15 Unified deficit;quarterly, nsa	184.5	154.5	169.7	173.9	71.3	-23.0	40.1	66.1	58.9	110.8	64.7	109.2
Funds supplied by												
16 depository institutions	196.9	247.1	212.7	216.2	388.9	298.2	181.7	119.5	212.7	212.7	217 7	214.7
MEMO: (percent of GDP)												
17 Dom. nonfinancial debt[3]	188.0	188.0	188.5	188.6	187.4	188.9	189 1	188.7	188.6	188.9	188.6	188.9
18 Dom. nonfinancial borrowing	8.9	9.5	8.8	8.1	11.8	12.0	6.7	7.7	10.0	7.6	8.6	7.6
19 U.S. government[5]	2.3	2.3	2.7	2.2	3 9	2.8	0.9	1.8	3.6	1.8	2.8	1.7
20 Private	6.6	7.2	6.1	5.9	7.9	9.3	5.9	5.9	6.5	5.8	5.8	5.9

1. Data after 1995:q2 are staff projections.
2 For corporations: Excess of capital expenditures over U.S. internal funds.
3. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

2 6.4 FOF

Recent Developments

The foreign exchange value of the dollar in terms of the other G-10 currencies declined about 3/4 percent on balance since the September FOMC meeting (and 2-1/4 percent since the September Greenbook was prepared). The dollar is down 1-1/2 percent against the mark and up nearly 1-1/2 percent against the yen and 1 percent against the Canadian dollar.

The yen weakened largely in the wake of concerns about the financial problems of Japanese banks. The three-month interbank rate in Japan edged up, reflecting in part the premium on the cost of funds paid by Japanese banks even in the yen interbank market. The premium paid by Japanese banks on three-month funds in the dollar interbank market reached 50 to 70 basis points in late October but has since declined to 30 to 40 basis points.

The Canadian dollar depreciated 2 percent as the Quebec separatists gained momentum in the polls ahead of the provincial referendum on October 30. The decline was fully reversed when the referendum was defeated by a narrow margin, but the Canadian dollar has weakened slightly subsequently. Canadian three-month interest rates rose sharply during the lead-up to the referendum but fell even more the day after, as Canadian financial markets recovered strongly and the Bank of Canada lowered the target range for its overnight rate by 25 basis points. On balance, three-month rates were down about 50 basis points over the intermeeting period, while Canadian long-term rates fell 35 basis points, about in line with U.S. long-term rates.

The mark appreciated somewhat over the intermeeting period, as the U.S.-German long-term interest rate differential moved against the dollar. German three-month interest rates were little changed and long-term rates declined 20 basis points.

The Mexican peso has declined nearly 20 percent since the September FOMC meeting on indications of continuing weakness in Mexico's real economic activity and market uncertainties about Mexican economic policy. Three-month interest rates have risen nearly 20 percentage points from their late-September lows, to above the 50 percent level. Stock prices declined another 7 percent during the period.

. The Desk did not intervene.

Economic activity has been sluggish recently in most of the major foreign industrial countries. The Japanese economy has still shown little evidence of a sustained recovery. Industrial production declined further in the third quarter, although some tentative signs of improvement emerged. Growth in much of continental Europe has been weak in recent months as well. German industrial production declined in the third quarter, and retail sales fell in July and August. French consumption of manufactured products was down in the third quarter. In Italy, industrial production grew strongly in July and August after GDP recorded a decline in the second quarter. GDP in the United Kingdom showed a 2 percent rate of growth in the third quarter on a preliminary basis, and industrial production continued to expand. The Canadian economy appears to have turned up after contracting sharply earlier in the year, as the growth of industrial production, orders, and retail sales strengthened in July and August on average.

Inflation remains subdued in most countries, with Japanese prices continuing to fall, German and French inflation running at or below 2 percent, and Canadian inflation only slightly higher. However, U.K. consumer price inflation edged above its target limit of 3 percent in October, and Italian inflation has been running at just under 6 percent in recent months; in both countries, past currency depreciations have put upward pressure on domestic prices.

The U.S. external deficit narrowed in July-August relative to the second quarter. Imports and exports of most categories of goods declined, with imports dropping more sharply than exports. The volume of trade in computers continued to expand rapidly, however. The rate of increase in both export prices and non-oil import prices declined sharply in the third quarter. The deceleration in export prices reflected declines in U.S. prices of industrial supplies and materials; import prices weakened partly as a result of the appreciation of the dollar over the late summer. Oil import prices dropped significantly in the third quarter following earlier declines in spot oil prices.

Outlook

We project that U.S. real net exports, after having declined substantially during each of the past four years, will show little net change over the next two years. The expected shift in net exports to a roughly neutral stance over the next two years reflects the combined effects of a pickup in growth abroad and stimulus from the net depreciation of the dollar over the past two years. We project the growth of foreign real GDP (weighted by U.S. nonagricultural export shares) to rise from about 2 percent in 1995 to 3-1/2 percent in 1996 and 1997, reflecting a modest upturn in Mexican GDP and pickups in the major foreign industrial countries. The path of U.S. net exports is slightly stronger in this outlook than in September, largely because of a somewhat lower projected path of the dollar; the outlook for foreign growth on average is much the same as in September.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain little changed from its recent levels throughout the forecast period. This path is somewhat lower than the level forecast in the September Greenbook--in response to the net depreciation of the dollar since that Greenbook was prepared--although our basic outlook for the dollar has not changed appreciably since January. We expect that the CPI-adjusted value of the dollar in terms of the currencies of key developing countries will depreciate at a moderate rate both next year and during 1997. In particular, the peso is expected to appreciate in real terms over the forecast period, as the peso's nominal exchange value against the dollar depreciates on balance by less than the extent to which Mexican inflation exceeds U.S. inflation.

Foreign G-7 countries. Real GDP growth in the foreign G-7 countries (weighted by U.S. export shares) is projected to pick up from an average rate of about 1 percent over the first three quarters of 1995 to between 2-1/2 and 2-3/4 percent during 1996 and 1997. The outlook is little changed in the aggregate for the near term and is a little stronger for next year, as an upward revision to our Canadian projection outweighs downward revisions to the outlooks for Germany and France.

We expect Japanese GDP to expand at a 1-1/2 to 2 percent pace during the current quarter and the first quarter and to grow somewhat faster thereafter as activity is stimulated by a combination of the recent depreciation of the yen, the relatively easy stance of monetary policy, and recent and prospective fiscal stimulus. Japan's structural budget deficit is estimated to have widened by 1/2 to 1 percent of GDP during 1995 and is projected to widen a similar amount during 1996. We do not expect the Japanese expansion to be credit constrained, despite evidence of a premium in the cost of funds to Japanese banks recently, partly because easing action by the Bank of Japan has kept short-term interest rates from rising appreciably, and partly because the widening gap between Japanese short-term and long-term interest rates should help banks improve their financial position.

In Canada, the narrow margin of the recent Quebec referendum leaves much to be resolved in the longer term; nonetheless, the initial reaction of financial markets was strongly favorable. We expect the recent declines in Canadian interest rates and the stronger outlook for the U.S economy to help stimulate Canadian growth to a 2 1/2 to 3 percent rate over the forecast period.

German real GDP is projected to expand at a 2 percent rate during the fourth quarter and a 2-3/4 percent rate over the next two years. German consumption and investment are expected to strengthen, with consumption, in particular, supported by recent strong advances in wages. We expect growth in France and the United Kingdom to follow a similar pattern. Our outlook for France is now predicated on the assumption that the tightening of fiscal policy over the next two years will not be sufficient to meet a strict interpretation of the Maastricht criteria by 1997. In this event, the most likely outcome would seem to be a delay in the move to begin the European Monetary Union, now planned for January 1, 1999.[1] Italy is even less likely to meet the Maastricht criteria by 1997.

Consumer price inflation in the G-7 countries (weighted by U.S. non-oil import shares) is projected to average about 1 percent in 1996, and slightly higher in 1997. This average is held down by continuing deflation in Japan.

Our outlook incorporates the assumption that, on average, short-term market interest rates in the foreign G-7 countries will rise about 75 basis points over the next two years as a result of the pickup in real output growth in these economies, with most of the rise coming in 1997. Long-term market rates, on average, are expected to remain little changed over the forecast period.

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[1] Under the current Maastricht Treaty, France would need to reduce its budget deficit from an estimated 5 percent of GDP during 1995 to an actual 3 percent of GDP by 1997 in order to qualify for EMU membership in 1999. Given both the current high level of French unemployment and the high level of French interest rates needed to stabilize the franc against the mark, attempting to meet the Maastricht fiscal criteria by 1997 would likely depress the growth of French output below a level that would be politically acceptable and sustainable.

Other countries. The real GDP growth rate of key developing countries (weighted by U.S. nonagricultural export shares) is projected to increase from about 2-1/2 percent during 1995 to around 5-1/2 percent during 1996-97. The pickup in growth in 1996-97 largely reflects an anticipated recovery in Mexico.

We expect real GDP in Mexico to fall nearly 10 percent during 1995. Growth is expected to resume by next year as a result of a slight loosening of fiscal policy, some relaxation of tight credit conditions, and a gradual revival of household spending as the effects of balance sheet adjustments wear off. The recovery could be delayed if the recent instability of Mexican financial markets persists, if the condition of the banking sector deteriorates further, or if current levels of unemployment both reported and otherwise lead to greater social unrest.

Among the other major U.S. trading partners in Latin America, we have strengthened projected growth in Venezuela to reflect an increased probability that recent discussions between the government and the IMF will lead to a stand-by agreement and the implementation of economic reforms.

Growth in our major developing-country trading partners in Asia is expected to continue at a robust rate over the next two years, though a bit slower than the 7 percent rate projected for 1995. Monetary policies in these countries are expected to be a bit less stimulative on average over the period ahead, and the recent reversal of the yen's earlier sharp appreciation against the currencies of these countries should take a little steam out of their net exports.

U.S. real net exports. The deficit on real net exports of goods and services is projected to widen somewhat in the fourth quarter and to be little changed on average during 1996 and 1997. With real output growth abroad stronger than that in the United States, real export growth is expected to remain vigorous, at an annual rate of more than 10 percent over the next two years. At the same time, import growth is projected to average about 9 percent per year, leaving net exports little changed. This outlook is a bit more positive than that of the September Greenbook, which had net exports declining slightly over the next two years.

QUANTITIES OF GOODS AND SERVICES
(Percent change from end of previous period, SAAR)

		-----------Projection-----		-----	
	1995			1996	1997
	Year	Q3	Q4		
Exports of G&S	9.1	12.1	13.2	10.4	10.5
Services	-1.3	-2.9	0.5	4.1	5.2
Computers	45.4	98.2	41.1	31.0	31.0
Other goods[1]	6.2	0.7	12.0	6.5	4.7
Imports of G&S	10.4	8.8	13.0	8.8	8.7
Services	3.7	4.4	0.9	2.6	2.9
Oil	2.6	26.3	-7.4	2.2	3.8
Computers	39.5	68.7	51.5	22.6	21.5
Other goods[2]	5.4	-4.7	7.7	6.2	5.5

Note. NIPA basis, 1987 dollars.
1. Nonagricultural exports of goods excluding computers.
2. Non-oil imports of goods excluding computers.

We expect that growth of real nonagricultural exports of goods other than computers will show a strong seasonal increase in the fourth quarter, bringing the average rate of expansion for the year to a little over 6 percent. This rate of increase was a good deal faster than we would have expected in view of the sluggishness of economic activity abroad during 1995. While we are not assuming that this unexplained component will persist, we are nevertheless projecting that exports will continue to grow strongly during 1996 because of the anticipated pickup in foreign GDP growth and the ongoing stimulus from the significant net depreciation of the dollar that has occurred since early 1994. This export expansion should slow somewhat in 1997 as the stimulative effects of the past depreciation subside. Rapid growth of the quantity of computer exports helps to boost the growth of total exports throughout the forecast period.

Real imports of goods other than oil and computers are projected to show strong seasonal growth in the fourth quarter, raising average growth for the year 1995 to 5-1/2 percent. We expect these imports to grow more than 6 percent during 1996, about in line with the average for 1995, as they receive some additional stimulus from recent declines in the relative price of imports.[2] Growth of computer imports should remain strong. We expect the quantity of oil imports to be little changed during the fourth quarter from the rate in the third quarter, and to increase over the next two years as U.S. consumption rises and production declines.

Oil prices. Since the September Greenbook was prepared, the spot oil price (West Texas intermediate) has declined about $1.00 per barrel in light of a more robust outlook for non-OPEC production. Accordingly, we have revised down our longer-run oil price assumption by $1.00 per barrel. The WTI spot price is now projected to rise from its current level of $17.70 per barrel to $18.50 per barrel by mid-1996 in line current market expectations and to remain there through 1997. This spot price path is consistent with an import unit value reaching $16.00 per barrel by late 1996.

Prices of non-oil imports and exports. Non-oil import prices are projected to decline in the fourth quarter of 1995, reflecting the somewhat stronger dollar recently and the decrease in global non-oil commodity prices. These prices are expected to increase only slightly during 1996, as inflation abroad remains very low, commodity prices change little, and the dollar is stable. They should rise a bit faster during 1997 as commodity prices begin to increase. Prices of nonagricultural exports excluding computers, which declined in the

[2] Our models suggest that imports tend to respond to changes in exchange rates and relative prices with a shorter lag than exports. Whereas we expect exports in 1996 still to be influenced by the significant depreciation during 1994, imports in 1996 will be influenced more by the modest appreciation that has occurred since the second quarter of 1995.

third quarter, are projected to increase at an annual rate of about 2-1/2 percent during 1996 and to decelerate a bit in 1997. These prices tend to move roughly in line with comparable U.S. producer prices.

SELECTED PRICE INDICATORS
(Percent change from end of previous period except as noted, AR)

		----------Projection---------			
	1995			1996	1997
	Year	Q3	Q4		
U.S. PPI[1]	3.2	0.6	1.0	2.5	2.1
Nonag.exports[2]	3.9	-0.9	1.0	2.6	2.0
Non-oil imports[2]	2.2	1.9	-1.8	0.9	1.7
Oil imports					
(Q4 level, $bl.)	15.44	16.07	15.44	16.00	16.00

1. Selected categories (excluding computers) weighted by U.S. exports.
2. Excluding computers.

Nominal trade and current account balances. The nominal U.S. trade deficit on goods and services reached a peak in the second quarter of more than $130 billion (annual rate); it is projected to decline on balance through the end of 1996 and to remain about unchanged in 1997 at around $105 billion. U.S. investment income is projected to fluctuate narrowly during the remainder of this year and to deteriorate somewhat in 1996 and 1997. The current account deficit is expected to remain around $160 billion, a shade above 2 percent of GDP, through the forecast period.

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1993-96
(Percent; quarterly change at an annual rate except as noted)

		Projected			Projected						
					1995			1996			
Measure and country	1994	1995	1996	1997	Q2	Q3	Q4	Q1	Q2	Q3	Q4
REAL GDP											
Canada	5.4	1.0	3.0	2.6	-1.0	1.6	2.5	2.9	3.1	3.0	3.0
France	4.1	1.7	2.6	2.8	1.6	0.6	1.6	2.4	2.5	2.7	2.8
Germany	3.7	2.0	2.8	2.7	4.3	1.1	1.9	3.5	2.7	2.6	2.5
W. Germany	3.1	1.6	2.3	2.2	3.8	0.6	1.5	3.0	2.2	2.0	2.1
Italy	3.1	3.2	2.8	2.4	-1.5	5.2	3.8	3.3	2.8	2.7	2.5
Japan	0.8	1.1	2.5	2.2	3.1	-0.3	1.6	1.8	2.5	3.3	2.4
United Kingdom	4.0	2.2	2.5	2.3	2.2	2.0	2.2	2.5	2.5	2.5	2.5
Average, weighted by 1987-89 GDP	2.9	1.8	2.7	2.5	1.9	1.3	2.1	2.6	2.6	2.9	2.6
Average, weighted by share of U.S. nonagricultural exports											
Total foreign	4.4	1.9	3.6	3.5	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	3.9	1.4	2.8	2.5	0.8	1.3	2.2	2.7	2.8	2.9	2.7
Developing countries	5.8	2.5	5.5	5.6	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
Canada	0.0	2.4	2.0	2.5	3.1	0.9	1.6	1.8	2.0	2.0	2.0
France	1.6	2.8	1.7	1.9	2.1	1.2	5.7	1.6	1.6	1.6	1.8
Western Germany	2.5	1.8	2.2	2.2	2.2	1.5	0.3	3.4	2.7	2.4	0.3
Italy	3.8	5.6	4.6	4.1	8.0	3.9	4.2	6.1	6.7	2.6	3.2
Japan	0.8	-0.5	-0.9	-0.5	0.7	-1.0	0.8	-0.4	-0.8	-1.0	-1.4
United Kingdom	2.6	3.5	3.7	3.6	7.5	1.1	1.9	3.3	7.5	1.3	2.9
Average, weighted by 1987-89 GDP	1.8	2.0	1.6	1.7	3.3	0.9	2.1	2.1	2.5	1.0	0.9
Average, weighted by share of U.S. non-oil imports	1.0	1.5	1.1	1.4	2.5	0.4	1.5	1.4	1.6	0.8	0.6

Note. Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.

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

(Billions of dollars, seasonally adjusted annual rates)

	1993				1994				1995		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1992	1993	1994
NIPA Real Net Exports of Goods & Services (87$)	-57.6	-69.3	-86 3	-82.2	-104.0	-111.8	-117.0	-107.1	-118 5	-126.7	-32.4	-73.9	-110.0
Exports of G&S	589.2	600 2	595.3	625.2	619.6	643.9	666.5	697.9	706 2	717.6	578 8	602 5	657.0
Goods	433.9	443 3	438.5	468.2	464.4	484.6	505.1	533.5	543.2	554.5	426.5	446.0	496.9
Agricultural	39.1	39.3	36.9	39.1	36.6	37.5	40.7	45.9	45.9	43.1	39.8	38.6	40 2
Computers	60.9	62.9	68.5	74.0	76.9	79.3	85.9	95.8	102.0	107.7	53.9	66.6	84 5
Other Goods	333.9	341.1	333.1	355.1	350.9	367.8	378.5	391.8	395.3	403.7	332.8	340.8	372.3
Services	155.3	156.9	156.7	157.1	155.2	159.2	161.3	164.3	163.0	163.1	152.3	156 5	160.0
Imports of G&S	646.8	669.6	681.6	707.4	723.6	755.6	783.5	805.0	824.6	844.3	611.2	676.4	766 9
Goods	546.6	567.4	577.1	599.9	615.2	648.3	674 6	695.9	711.5	732.6	512.8	572.8	658.5
Oil	53.4	57.7	56.7	58.1	56.5	60.3	64 3	57.1	55.4	56.3	51.2	56.5	59.5
Computers	73.3	80.0	87.8	94.6	99.7	106.9	115.4	128 9	133 0	142.2	60.5	83.9	112.7
Other Goods	419.9	429.7	432.6	447.2	458.9	481.0	494.9	510.0	523.1	534 1	401.2	432.4	486.2
Services	100.1	102.2	104.5	107.6	108.5	107.4	108.9	109.1	113.2	111.7	98.4	103.6	108.5
Memo: (Percent change 1/)													
Exports of G&S	-1.0	7.7	-3.2	21.7	-3.5	16.6	14.8	20.2	4.8	6.6	5.0	5.8	11 6
Agricultural	-19.7	2.1	-22.3	26.1	-23.2	10 2	38.8	61.8	0.0	-22.3	9.5	-5.3	17 4
Computers	5.4	13.8	40.7	36.2	16 6	13 1	37 7	54.7	28.5	24.3	34 8	23.1	29 5
Other Goods	-6.8	8.9	-9.1	29.2	-4.6	20.7	12.2	14.8	3.6	8.8	3.8	4.5	10.3
Services	16.1	4.2	-0.5	1.0	-4.8	10.7	5.4	7.6	-3.1	0.2	-2.0	5.0	4 6
Imports of G&S	11.6	14.9	7.4	16.0	9.5	18.9	15 6	11.4	10.1	9.9	8.6	12 4	13 8
Oil	4.6	36.3	-6.8	10.2	-10.6	29.7	29 3	-37.8	-11.4	6.7	12.1	10 0	-1 7
Computers	31.9	41.9	45.1	34.8	23.4	32.2	35.8	55 7	13.3	30.7	48 7	38 3	36.3
Other Goods	11.1	9.7	2.7	14.2	10.9	20.7	12.1	12 8	10.7	8 7	5 2	9 3	14.0
Services	4.5	8.7	9.3	12.4	3.4	-4.0	5.7	0.7	15.9	-5 2	1 4	8.7	1.4
Current Account Balance	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-158.9	-173.1	-154 3	-173.6	-61.5	-99.9	151 2
Goods & Serv (BOP), net	-54.3	-75.2	-88.0	-82 0	-92.1	-107.7	-115.2	-109.9	-116.0	-132.5	-39.5	-74.8	-106 2
Goods (BOP), net	-115.8	-134.4	-146.4	-133.9	-146.0	-166.0	-178.5	-174.0	-178.4	-195.2	-96.1	-132.6	-166.1
Services (BOP), net	61.5	59.2	58.5	51.9	53.9	58.3	63.3	64.1	62.4	62.7	56.6	57.8	59 9
Investment Income, net	14.8	8.3	12 8	0.1	0.5	-9.1	-10.1	-18.3	-7.9	-11.5	10.1	9 0	-9 3
Direct, net	61.1	55 3	59.2	49.7	46.2	43.9	44.6	45.7	57 2	59.6	51.6	56.3	45 1
Portfolio, net	-46.2	-47.0	-46.5	-49.6	-45.7	-53.0	-54.7	-64.0	-65 1	-71.1	-41.5	-47.3	-54.4
Unilateral Transfers, net	-30.1	-30.4	-32.9	-42.9	-29.5	-35.1	-33.5	-45.0	-30.5	-29.5	-32.1	-34.1	-35.8

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

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

(Billions of dollars, seasonally adjusted annual rates)

	1995		1996 Projection				1997 Projection				Projection ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1995	1996	1997
NIPA Real Net Exports of Goods & Services (87$)	-123.9	-127.5	-131.7	-131.2	-137.8	-126.3	-126.4	-126.1	-131.5	-122.0	-124.1	-131.7	-126.5
Exports of G&S	738.3	761.5	777.1	801.0	812.2	840.7	858.8	886.6	900.0	929.3	730.9	807.8	893.7
Goods	576.4	599.4	614.5	636.6	646.0	671.9	687.8	713.2	724.7	751.6	568.4	642.2	719.3
Agricultural	44.2	44.1	44.7	45.3	45.8	46.4	47.0	47.6	48.2	48.8	44.3	45.6	47.9
Computers	127.8	139.3	149.0	159.4	170.6	182.5	195.2	208.9	223.5	239.1	119.2	165.4	216.7
Other Goods	404.4	416.0	420.8	431.9	429.6	443.0	445.6	456.7	453.0	463.7	404.9	431.3	454.7
Services	161.9	162.1	162.6	164.4	166.3	168.9	171.0	173.4	175.3	177.6	162.5	165.5	174.3
Imports of G&S	862.3	889.1	908.9	932.2	950.1	967.1	985.3	1012.8	1031.6	1051.3	855.1	939.6	1020.3
Goods	749.3	775.8	795.6	818.1	835.0	850.8	868.3	894.7	912.9	931.8	742.3	824.9	901.9
Oil	59.7	58.6	59.7	62.3	65.4	59.8	60.7	65.0	67.8	62.1	57.5	61.8	63.9
Computers	162.1	179.8	190.5	200.0	210.0	220.5	231.5	243.0	255.1	267.9	154.3	205.3	249.4
Other Goods	527.7	537.6	545.5	555.9	559.6	570.7	576.2	586.8	590.0	601.9	530.6	557.9	588.7
Services	112.9	113.1	113.2	114.0	115.0	116.1	116.9	117.9	118.6	119.4	112.7	114.6	118.2
Memo:(Percent change 1/)													
Exports of G&S	12.1	13.2	8.5	12.8	5.8	14.8	8.9	13.6	6.2	13.6	9.1	10.4	10.5
Agricultural	10.8	-1.4	5.6	5.6	5.0	5.1	5.3	5.2	5.1	5.1	-4.0	5.3	5.2
Computers	98.2	41.1	31.0	31.0	31.0	31.0	31.0	31.0	31.0	31.0	45.4	31.0	31.0
Other Goods	0.7	12.0	4.7	10.9	-2.1	13.1	2.4	10.3	-3.2	9.8	6.2	6.5	4.7
Services	-2.9	0.5	1.2	4.5	4.7	6.3	5.1	5.9	4.5	5.4	-1.3	4.1	5.2
Imports of G&S	8.8	13.0	9.2	10.7	7.9	7.3	7.8	11.6	7.6	7.9	10.4	8.8	8.7
Oil	26.3	-7.4	7.8	19.1	21.3	-30.1	6.3	31.5	18.0	-29.5	2.6	2.2	3.8
Computers	68.7	51.5	26.1	21.5	21.5	21.5	21.5	21.5	21.5	21.5	39.5	22.6	21.5
Other Goods	-4.7	7.7	6.0	7.8	2.7	8.1	4.0	7.5	2.2	8.3	5.4	6.2	5.5
Services	4.4	0.9	0.3	2.7	3.7	3.8	2.7	3.7	2.4	2.7	3.7	2.6	2.9
Current Account Balance	-159.1	-163.5	-152.9	-156.7	-161.7	-164.3	-152.3	-156.3	-159.8	-168.0	-162.6	-158.9	-159.1
Goods & Serv (BOP), net	-120.8	-108.1	-108.0	-107.2	-114.6	-102.6	-104.0	-103.8	-111.0	-102.3	-119.3	-108.1	-105.3
Goods (BOP), net	-181.1	-172.6	-169.4	-170.1	-179.1	-169.6	-173.2	-175.2	-184.5	-178.6	-181.8	-172.0	-177.9
Services (BOP), net	60.3	64.5	61.4	62.9	64.4	67.0	69.2	71.3	73.5	76.3	62.5	63.9	72.6
Investment Income, net	-7.3	-12.4	-11.9	-16.5	-14.0	-18.2	-15.2	-19.4	-15.8	-22.2	-9.8	-15.2	-18.1
Direct, net	63.2	63.9	62.9	63.1	64.6	67.3	68.9	70.5	72.5	73.3	61.0	64.5	71.3
Portfolio, net	-70.5	-76.3	-74.8	-79.7	-78.7	-85.5	-84.1	-90.0	-88.3	-95.5	-70.7	-79.6	-89.5
Unilateral Transfers, net	-31.0	-43.0	-33.0	-33.0	-33.0	-43.5	-33.0	-33.0	-33.0	-43.5	-33.5	-35.6	-35.6

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