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Strictly Confidential (FR) Class II FOMC

Part 1

January 26, 1996

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

Strictly Confidential (FR) Class II FOMC

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SUMMARY AND OUTLOOK

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Overview

Because of delays in government releases, we have received relatively few economic statistics since the December Greenbook. Based on those we do have, as well as on the available anecdotal information, the economy appears to have expanded slowly in the past few months. Disappointing sales and attendant inventory imbalances in a few sectors, and the disruptions of activity associated with the government shutdown and severe winter weather, seem to be cutting into the growth of employment and output.

Some of the recent negative impulses are by their nature transitory, but the denouement of the ongoing dispute over the federal budget is far from clear. The prospects for agreement on a multiyear balanced budget plan look very poor for now. But in just the past couple of days, the saga has taken a new turn, with the GOP leadership indicating that they will offer President Clinton a slimmed-down fiscal package in conjunction with a debt ceiling bill. We think there are many ways in which even this proposition could founder, so we are now anticipating simply that a series of continuing resolutions and appropriations bills will impose a modest degree of fiscal restraint over the projection period. We've also assumed that, one way or another, further government shutdowns and debt default will be avoided.

Looking at the other fundamentals shaping the intermediate trends in the economy, we think that, if the nominal federal funds rate is held at or near the present 5-1/2 percent level, real GDP growth will average somewhere in the vicinity of potential over the next two years--that is, a little less than 2 percent per annum, on the new chain-weighted basis. This is somewhat faster than the 1-1/2 percent GDP gain we now estimate for 1995. We anticipate that the favorable effects of last year's bond and stock market rallies will increasingly offset the residual effects of the 1994 run-up in interest rates, helping to keep domestic private demand on a moderate uptrend. In addition, output was damped last year by major crop losses, and we are assuming a return to normal harvests. This accounts for about half the acceleration in GDP from 1995 to 1996.

In these circumstances, unemployment and industrial capacity utilization rates are not expected to change materially. We interpret those rates as denoting relatively tight supply conditions, especially in labor markets, but we also perceive that inflation expectations are quiescent and that production bottlenecks are few. Thus, while we think it likely that compensation will accelerate a bit over 1996-97, we are projecting that core CPI inflation will remain in the vicinity of 3 percent. Overall CPI inflation may also move up to that pace for a time, owing to less favorable contributions from the food and energy components.

Recent developments

Because of the delays in the collection and processing of data caused by the government shutdown, we still have only fragmentary information on spending in the fourth quarter. Our most current readings on economic activity come from the labor market, where private payrolls increased modestly in December, apart from the return of Boeing strikers. Production worker hours increased at a 2 percent annual rate for the quarter, matching the gain of the third quarter. The unemployment rate held at 5.6 percent in December and was little changed, on average, in the fourth quarter. All told, these figures would suggest the likelihood of a real GDP gain in excess of 2 percent, even after allowing for the federal shutdown.

The recent news from the industrial sector is a bit less upbeat, however. Factory output was little changed in December and posted a gain of 1-3/4 percent at an annual rate for the fourth quarter. Moreover, looking into the early part of 1996, surveys of manufacturers have pointed to weak orders and production, reflecting inventory overhangs in at least some cases. Notably, significant cuts in motor vehicle assemblies are under way. Orders for steel appear to be holding up well for the moment; however, anecdotal reports indicate that the high-tech sector--the driver of IP growth in recent months--may be moving onto a less spectacular trajectory. On the plus side, though, Boeing has returned to its pre-strike level of production.

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

	1995		1996	
	Q3	Q4	Q1	Q2
Real GDP	3.2	1.9	0.8	2.0
Previous	3.0	1.3	2.2	2.0
Final sales	3.5	1.5	1.4	2.5
Previous	2.9	1.9	2.4	1.8
Civilian unemployment rate[1]	5.6	5.6	5.6	5.6
Previous	5.6	5.6	5.6	5.6
CPI inflation	2.1	2.3	3.3	3.0
Previous	2.1	2.3	3.1	3.2

Note: The previous projection lines for the NIPA series reflect BEA's advance estimate of the alternative chain quantity index for 1995:Q3 and the December staff projection expressed in 1994 dollars for all other periods.

1. Percent.

Consumer spending appears to have grown moderately in the fourth quarter, supported by further gains in real incomes and last year's big increase in household net worth. The latest data from BEA show real PCE gyrating in October and November--but the level of spending in November was still 2 percent (annual rate) above the average in the third quarter. Light vehicle sales strengthened in December, boosted in part by more generous incentive programs.[1] Spending on luxury goods such as jewelry reportedly was brisk during the holiday season, and sales of consumer electronics apparently also were robust. Outside of these areas, however, holiday sales were described as disappointing by many retailers, especially those selling apparel. In putting together our projection, we have tended to discount the stories of weak chain store sales. In the past, the chain store reports have not been closely correlated with the Census Bureau's estimates of retail sales. In addition, it is difficult at this time to sort out whether consumer demand really was sluggish or simply was spread across a broader range of retail establishments, given the rapid expansion of retail capacity in the past few years.

Undoubtedly, some retailers emerged from the holiday season with excess stocks that will have to be liquidated in the first quarter. Financial strains in the retail industry are likely to precipitate additional store closings and inventory liquidations. But thus far, there have been remarkably few reports of troubling overhangs. The recent Beige Book noted that many retailers had been cautious in stocking up for the holidays, so that sales disappointments did not lead to severe imbalances.

Signals from the housing market have been mixed in recent weeks, and the harsh winter weather in mid-January clearly disrupted activity. Housing starts moved up further in November, reflecting a rise in the construction of multifamily units, but sales of new and existing homes posted declines in November and December, respectively. In contrast, builders' ratings of sales remained in the favorable range in early January, and the MBA's index of

1. Sales of light vehicles were exaggerated in December by the incorporation of sales from the first few days in January. It is our understanding that BEA will not adjust the December figures for this overstatement when it computes fourth-quarter spending.

mortgage applications for home purchase rose to a record level before the January storms, suggesting a strengthening of activity.

The December PPI and CPI are not yet available, but anecdotal information and commodity market developments do not suggest much change in recent inflation trends. Prices of agricultural products have risen in the wake of 1995's disappointing harvest, but falling coffee prices are likely to have an offsetting effect on grocery prices in the near term. Colder-than-normal temperatures boosted crude oil and natural gas prices in the fourth quarter, and private survey data indicate a substantial rise in retail gasoline prices in December. In contrast, discounting reportedly has been widespread of late for other consumer goods--especially cars and apparel. On the labor cost front, average hourly earnings increased 3.2 percent over the twelve months of 1995--an acceleration of 0.4 percentage point from a year earlier; such a pickup would be consistent with the scattered anecdotal reports of wage pressures. Unfortunately, the broader Employment Cost Indexes for December will not now be published until mid-February.

Key assumptions

December's quarter-point cut in the federal funds rate ran counter to the baseline assumption of stability in the last Greenbook. The funds rate is now assumed to remain close to 5-1/2 percent over the projection period. The projected path of long-term interest rates has also been lowered very slightly, though we still expect that rates will move upward somewhat in coming months, as the economic expansion shows renewed signs of life and expectations of further Fed easing dissipate. With the backup in bond yields and some disappointment as well in corporate earnings, stock prices may well come under downward pressure; however, we have not anticipated a major setback and expect that stock prices will fluctuate only moderately over the next two years. Meanwhile, it seems likely that banks will become a shade more cautious in their lending in the period ahead; we do not foresee a substantial deterioration in credit availability for either households or businesses, but the financial stimulus experienced in the past few years as credit terms and standards have eased will no longer be present.

At the beginning of this week, we concluded that the chances of an agreement being reached on even a more back-loaded and gimmicky balanced budget deal had slipped far enough that we should alter our fiscal assumption. We decided to assume instead that there would be no significant changes to entitlement spending or taxes, and that the outcome of the dispute between the Administration and the Republicans in the Congress would be the passage of a stringent set of appropriations or continuing resolutions to cover the discretionary programs not already funded for fiscal 1996. This implies about a $20 billion deficit reduction relative to baseline for the fiscal year--only a little less than our previous package. Without a bipartisan, multiyear budget agreement, however, the outlook for fiscal 1997 and beyond became more uncertain--and more sensitive to the results of the elections this fall. It seemed reasonable to anticipate, though, that the restraints on discretionary spending would be maintained--holding the deficit again about $20 billion below the OBRA-93 baseline. This would be about $10 billion less deficit reduction in fiscal 1997 than in the last Greenbook.

The discussion of a "downpayment" package since the President's State of the Union message obviously calls our revised scenario into question. However, we have decided not to make a further, last-minute change to our assumption. First, the proposal described by the Republican leadership has not been fully developed, let alone spelled out publicly in concrete terms. Second, it is far from clear that agreement will be reached, given the complex politics involved. However, if an agreement were reached along the lines we understand are contemplated, it likely would involve little overall change in the fiscal 1996 budget balance, but it could largely eliminate much, if not all, of the fiscal 1997 deficit reduction.

Under our policy assumption, and our economic scenario, the unified budget deficit would be $163 billion in fiscal 1996--down from $169 billion in the December Greenbook--and $193 billion in fiscal 1997--the same as in the last forecast.

Foreign economic activity is expected to be about the same over the next two years as in the December Greenbook, as a weaker outlook for Canada and Western Europe is nearly matched by stronger prospects for Japan. On a U.S. export-weighted basis, foreign real GDP is projected to grow something more than 3-1/4 percent in 1996 and again in 1997. The trade-weighted foreign exchange value of the dollar has firmed over the intermeeting period, partly reflecting interest rate cuts abroad, and is projected to remain near its current level over the forecast period--an upward revision of a little more than 2 percent from the December Greenbook. We have made only minor adjustments in the near term to the outlook for crude oil prices: The spot price of WTI is projected to average around $18 per barrel in the first half of this year, depressed slightly by market concerns about Iraq's possible limited reentry to the world oil market. As these concerns recede, we expect crude oil prices to stabilize at $18.50 per barrel in the third quarter.

The Outlook for the Economy in 1996 and 1997

Real GDP is projected to increase at an annual rate of about 3/4 percent in the first quarter. Carmakers are cutting assemblies in response to unexpected weakness in sales in early January, and we think the desire to trim stocks is restraining output in other sectors as well. The severe winter weather is a small negative for the quarter, but it is more than offset in our forecast by the re-opening of the federal government and the resumption of production at Boeing. With the inventory adjustment well along and construction activity returning to normal, real GDP growth is projected to accelerate in the second quarter.

Other than the slightly weaker outlook for the current quarter, the staff projection is little changed from the December Greenbook. We have made several, largely offsetting, adjustments to the composition of real GDP growth, reflecting the stronger dollar and the slightly lower level of interest rates, but the overall contour of the forecast is the same as last time. We continue to believe that the economic fundamentals are consistent with a sustained uptrend in economic activity, averaging close to 2 percent over 1996-97. Growth in private domestic final purchases is projected to be moderate because of the already ample level of spending on consumer durables and negative accelerator effects on investment.

In addition to shifting to BEA's chain indexes, we have incorporated the definitional changes to the government accounts as well as the methodological changes (such as the new method for calculating economic depreciation). We also have done a preliminary review of a number of key macroeconomic relationships. Among other things, we have fine-tuned our estimates of potential output growth. Based on the new data as well as a reassessment of trends in labor force participation, the staff has made just a minor downward adjustment to the growth rate of potential GDP--from 2 percent (using BEA's previously published chain data) to 1.9 percent.

SUMMARY OF STAFF REAL GDP PROJECTION FOR 1996-1997
(Percent change, at annual rates)

	1995	1996 H1	1996 H2	1997
Real GDP	1.5	1.4	2.2	2.0
Previous	*2.2*	*2.1*	*2.0*	*1.9*
Personal consumption expenditures	2.2	2.5	2.4	2.4
Business fixed investment	7.7	1.3	3.3	3.4
Residential investment	-2.3	3.6	1.1	0.8
Federal gov't cons. & inv.	-7.3	-2.8	-1.5	-2.8
State & local cons. & inv.	2.7	2.2	2.2	2.5
Exports	6.5	7.3	6.3	6.2
Imports	6.5	7.1	6.7	6.0

Note: The previous projection line reflects the December staff projection expressed in 1994 dollars.

Consumer spending. Real consumer spending is projected to increase at a 2-1/2 percent annual pace over the forecast period. Although concerns about job security have grown and consumer debt burdens have risen further, credit remains readily available overall, and mortgage refinancing is improving the financial position of some households. In addition, we likely have yet to see the full effects of last year's gain in stock market wealth. Indeed, were we simply to apply standard rules of thumb regarding wealth effects, we would have a substantially higher path for consumption even with the muted asset appreciation anticipated in the period ahead.

In the near term, we expect the blizzard of 1996 to produce considerable volatility in the monthly consumption data. Many purchases delayed by bad weather are likely to be made up soon;

sales of some winter goods may well be stronger than otherwise would have been the case. Moreover, colder-than-normal temperatures in many parts of the country will boost utility bills. However, for some workers and businesses, the income and sales lost during the storm will never be made up, and we would expect this to have a small negative influence on consumer spending.

Durable goods are projected to remain the fastest growing component of real PCE, but the gains are likely to be moderate by recent standards. The normal cyclical catch-up in durable purchases is well behind us, and the level of spending on durables is already fairly high. Purchases of computers and innovative home electronic equipment may post further sizable growth, but sales of cars and light trucks are projected to settle in at around 14-1/2 million units--a little below the 1995 pace. We expect only slow growth in consumer purchases of nondurables and services.

Residential investment. Mortgage rates have fallen slightly since December, and cash-flow measures of affordability are very favorable. Mortgage credit is readily available to most borrowers, although there have been a few reports of a tightening of underwriting standards and of applicants running into qualifying problems because of their elevated debt-service commitments. With real income growth expected to be moderate over the next two years and only small increases anticipated in mortgage rates, we are projecting total housing starts to hold near the 1.4 million unit mark. Single-family starts are projected to run around 1.1 million units, on average--up from last year but still below the 1.2 million unit pace of 1994, when mortgage rates plunged even lower and there was greater pent-up demand. Multifamily starts are projected to trend gradually upward, reaching 290,000 units in 1997, as falling vacancy rates in some parts of the country stimulate the construction of new rental properties.

Business fixed investment. Business capital spending decelerated sharply last spring and is projected to grow 2-1/4 percent in 1996 and 3-1/2 percent in 1997. In the industrial sector, the utilization of existing capacity already has fallen, and with sales expected to grow only moderately, firms will not want to make major additions to their capital stocks. Capacity needs in the retail sector clearly are limited as well.

With respect to producers' durable equipment, our forecast has been marked down sharply from the December Greenbook, but this mainly reflects the shift to the chain measures of spending rather than a significantly more pessimistic outlook for equipment investment. The new chain numbers give a much smaller weight to computers and other high-tech equipment, which means that the fluctuations in this sector will have less of an effect on real GDP. We expect the boom in high-tech equipment to slow significantly, with spending on office and computing equipment posting below-trend increases over the next two years. Business spending on motor vehicles is projected to be sluggish, with outright weakness emerging in the purchases of heavy trucks. Spending on other types of capital equipment is projected to level off.

Outlays for nonresidential structures are projected to increase 3 percent in 1996 and only 0.5 percent in 1997. Conditions in the office sector have improved and industrial construction remains favorable as well; we expect building activity in both of these markets to increase for a while longer. However, the retail sector is overbuilt, and a correction in this market looks increasingly overdue.

Business inventories. Despite the reports of slow sales, we do not think that most businesses emerged from the holiday season seriously overburdened with inventories. But we are anticipating that a step-down in inventory investment will depress growth by about 0.6 percentage point in the first quarter and another 0.4 percentage point in the second quarter. Thereafter, given only moderate sales expectations, we expect firms to continue to attempt to economize on inventory holdings, resulting in a low rate of accumulation and a mild downtrend in the inventory-sales ratio over the projection period.

Government. The revised NIPA data paint a significantly different picture for federal spending in the third quarter than that in the December Greenbook. Real federal government consumption and investment is estimated to have declined 5-1/2 percent at an annual rate in the third quarter; the previous estimate of real federal purchases had shown an increase of almost 5 percent. The revised figure is in better accord with our assessment of the underlying trends in spending, and as a result, we have tempered the drop in spending previously built into the fourth quarter of 1995. On the negative side, the combined shutdowns of the government now are estimated to have shaved 4-1/2 percentage points off the growth in real federal spending in the fourth quarter.

Real federal spending is projected to fall at a 3-3/4 percent annual rate in the first quarter of 1996, held down by the closing of government offices and the tight limits on spending imposed by the continuing resolutions. Reflecting the downtrend in defense and our assumptions about cuts in discretionary spending, we are projecting real federal consumption and investment expenditures to fall 2 percent in 1996 and another 2-3/4 percent in 1997.

As regards the outlook for state and local governments, the revised NIPA data are now in accord with other information that has showed a strengthening in the fiscal position of this sector in recent years. With the better financial picture, we expect spending by states and localities to run a bit faster than in the December Greenbook: Real government consumption and investment expenditures are projected to increase 2-1/4 percent this year and 2-1/2 percent in 1997. Still, these growth rates remain low by historical standards and are held down by reduced support from the federal government and the aversion of most state and local governments to raising taxes to pay for new spending initiatives.

Net exports. Developments in the external sector are expected to exert a restraining influence on real activity compared with the neutral path in the December Greenbook. This weaker outlook reflects the upward revision to the level of the dollar in this forecast. (See the International Developments section for a more complete discussion.)

Labor markets. In an environment of slower growth, businesses are expected to remain cautious about hiring and focused on improving efficiency. As a result, payroll employment is projected to slow substantially over the forecast period: After increasing about 150,000 per month in 1995, payrolls are expected to rise an average of a little more than 100,000 per month in 1996-97. On the productivity side of the equation, we are projecting that nonfarm business output per hour will rise, on average, at close to the estimated trend of 1.1 percent per year.

We also have reassessed the outlook for labor force growth. Despite the continued expansion in job opportunities, the participation rate has been essentially flat for the past six years. Given our projection of only modest employment gains, we see no reason for this situation to change over the forecast period, and as a result, we no longer expect the labor force participation rate to move up slightly from the low fourth-quarter level. All told, we are projecting that the unemployment rate will remain close to its recent level, at just over 5-1/2 percent.

Wages and prices. With continued tightness in labor markets, we are anticipating somewhat faster growth in compensation per hour. After a projected increase of 2.6 percent in 1995, the ECI for private industry workers is forecast to rise 2.8 percent in 1996 and 3.1 percent in 1997. Reports of labor shortages have grown over the past six months, and we expect wages to accelerate gradually over the projection period. We also are guessing that benefits costs will start to increase more rapidly. In this regard, the behavior of health insurance costs will be key. In particular, we think that savings on health insurance costs will be harder to come by now that many firms already have shifted to managed care programs.

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

	1995	1996	1997
Consumer price index	2.7	3.0	2.9
Previous	2.7	3.1	2.9
Excluding food and energy	3.1	2.8	3.0
Previous	3.1	2.9	3.0
ECI for compensation of private industry workers[1]	2.6	2.8	3.1
Previous	2.6	2.8	3.0

1. December to December.

We also are anticipating some deterioration in recent price trends. After a projected increase of 2.7 percent in 1995, the CPI is expected to rise 3 percent in 1996 and 2.9 percent in 1997. Part of this pickup reflects developments in food and energy markets. Food prices are forecast to accelerate slightly in 1996 in response to tight grain supplies, and energy prices are projected to be boosted by the rise in crude oil prices. Excluding food and energy, the CPI is projected to rise 2.8 percent in 1996 and 3 percent in 1997. Prices are held down this year by marginally lower non-oil import prices, but with labor and product markets remaining tight, we expect core inflation to rise in 1997.

Alternative simulations

We have generated two alternative simulations this month with the Board staff's quarterly econometric model in which the federal funds rate is lowered (or raised) relative to the path in the Greenbook. In these alternative interest rate scenarios, the funds rate is lowered (raised) by 25 basis points per quarter during 1996. In the lower rate simulation, real GDP growth is 1/4 percentage point higher this year and 3/4 percentage point higher in 1997. The unemployment rate is reduced by 0.3 percentage point by the end of next year, while CPI inflation is 0.3 percentage point higher than in the baseline forecast. The effects of a tightening of policy are symmetric.

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

	1996	1997
Real GDP		
Baseline	1.8	2.0
Lower funds rate	2.0	2.7
Higher funds rate	1.6	1.3
Civilian unemployment rate[1]		
Baseline	5.6	5.6
Lower funds rate	5.5	5.3
Higher funds rate	5.7	5.9
CPI excluding food and energy		
Baseline	2.8	3.0
Lower funds rate	2.8	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)

January 26, 1996

Interval	Nominal GDP 12/14/95	Nominal GDP 01/26/96	Real GDP 12/14/95 [1]	Real GDP 01/26/96 [2]	Consumer price index 12/14/95	Consumer price index 01/26/96	Unemployment rate (level) 12/14/95	Unemployment rate (level) 01/26/96
ANNUAL								
1993	5.4	4.9	3.1	2.2	3.0	3.0	6.8	6.8
1994	6.2	5.8	4.1	3.5	2.6	2.6	6.1	6.1
1995	5.1	4.7	3.4	2.1	2.8	2.8	5.6	5.6
1996	4.6	4.5	2.6	1.8	2.8	2.8	5.6	5.6
1997	4.5	4.6	2.5	2.1	2.9	2.9	5.6	5.6
QUARTERLY								
1994 Q1	6.1	5.4	3.3	2.5	2.2	2.2	6.6	6.6
Q2	7.2	6.8	4.1	4.8	2.5	2.5	6.2	6.2
Q3	6.2	6.1	4.0	3.6	3.6	3.6	6.0	6.0
Q4	6.4	5.4	5.1	3.2	2.2	2.2	5.6	5.6
1995 Q1	4.7	3.9	2.7	0.6	3.2	3.2	5.5	5.5
Q2	3.0	2.8	1.3	0.5	3.2	3.2	5.7	5.7
Q3	5.9	5.7	5.4	3.2	2.1	2.1	5.6	5.6
Q4	3.9	4.6	1.9	1.9	2.3	2.3	5.6	5.6
1996 Q1	5.1	4.3	2.5	0.8	3.1	3.3	5.6	5.6
Q2	4.7	4.5	2.4	2.0	3.2	3.0	5.6	5.6
Q3	4.0	4.6	2.0	2.0	3.0	3.0	5.6	5.6
Q4	4.8	4.9	2.9	2.5	2.9	2.9	5.6	5.6
1997 Q1	4.7	4.6	2.5	1.9	2.9	2.9	5.6	5.6
Q2	4.7	4.6	2.7	2.1	2.9	2.9	5.6	5.6
Q3	4.1	4.2	2.1	1.6	2.9	2.9	5.6	5.6
Q4	4.2	4.9	2.4	2.3	2.9	2.9	5.6	5.6
TWO-QUARTER								
1994 Q2	6.6	6.1	3.7	3.7	2.3	2.3	-0.3	-0.3
Q4	6.3	5.7	4.6	3.4	2.9	2.9	-0.6	-0.6
1995 Q2	3.9	3.3	2.0	0.5	3.2	3.2	0.1	0.1
Q4	4.9	5.1	3.6	2.6	2.1	2.2	-0.1	-0.1
1996 Q2	4.9	4.4	2.5	1.4	3.2	3.1	0.0	0.0
Q4	4.4	4.8	2.5	2.2	3.0	2.9	0.0	0.0
1997 Q2	4.7	4.6	2.6	2.0	2.9	2.9	0.0	0.0
Q4	4.1	4.6	2.3	2.0	2.9	2.9	0.0	0.0
FOUR-QUARTER								
1993 Q4	5.0	4.6	3.1	2.2	2.7	2.7	-0.8	-0.8
1994 Q4	6.5	5.7	4.1	3.5	2.6	2.6	-0.9	-0.9
1995 Q4	4.4	4.2	2.8	1.5	2.7	2.7	0.0	0.0
1996 Q4	4.7	4.6	2.5	1.8	3.1	3.0	0.0	0.0
1997 Q4	4.4	4.6	2.5	2.0	2.9	2.9	0.0	0.0

1 Fixed weights
2 Chain type

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

January 26, 1996

Item	Units	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4	1995 Q1	1995 Q2
		History									
EXPENDITURES											
Nominal GDP	Bill. $	6442.8	6503.2	6571.3	6683.7	6772.8	6885.0	6987.6	7080.0	7147.8	7196.5
Real GDP	Bill. Ch. $	6327.0	6353.7	6390.4	6463.9	6504.6	6581.5	6639.5	6691.3	6701.6	6709.4
Real GDP	% change	0.0	1.7	2.3	4.7	2.5	4.8	3.6	3.2	0.6	0.5
Gross domestic purchases		0.9	2.4	3.7	4.4	3.4	5.4	3.6	2.7	1.4	0.9
Final sales		-0.8	1.5	2.3	4.8	1.2	2.8	4.2	3.6	0.7	1.8
Private dom. final purch.		1.4	2.8	4.4	5.4	3.7	4.5	3.6	4.1	2.1	2.6
Personal cons. expend.		0.7	2.7	3.8	2.8	2.6	3.6	2.5	3.3	0.8	3.4
Durables		0.8	11.2	7.3	10.2	5.8	4.3	5.6	12.6	-8.7	7.0
Nondurables		-0.9	2.3	2.9	1.7	3.8	3.3	4.0	3.2	2.4	1.9
Services		1.6	1.3	3.6	1.9	1.4	3.6	1.2	1.4	2.1	3.4
Business fixed invest.		6.0	6.3	4.7	17.5	7.3	7.1	13.7	12.2	15.3	3.6
Producers' dur. equip.		7.1	11.4	6.3	21.7	15.6	4.1	19.3	11.9	17.4	3.7
Nonres. structures		3.5	-5.3	0.8	7.5	-11.8	15.7	0.2	13.0	9.9	3.4
Res. structures		2.1	-5.1	13.2	24.3	12.8	12.7	-1.8	-0.1	-6.3	-13.3
Exports		0.4	7.9	-7.9	21.5	-0.6	14.8	12.2	15.3	2.6	4.6
Imports		9.6	14.5	4.9	17.0	7.5	19.1	11.0	9.3	8.7	7.7
Government purchases		-4.7	0.2	1.0	1.5	-4.2	-0.8	7.0	-1.4	-1.1	0.9
Federal		-13.1	-4.9	-2.9	-0.7	-11.1	-5.3	11.5	-5.9	-6.3	-1.1
Defense		-15.6	-5.2	-5.8	-0.5	-17.0	0.7	13.3	-16.1	-7.0	0.9
State and local		1.7	3.9	3.8	3.0	0.7	2.2	4.2	1.6	2.3	2.1
Change in bus. invent.	Bill. Ch. $	19.4	21.6	20.1	18.0	40.8	75.1	64.9	57.9	54.5	30.6
Nonfarm		26.0	26.7	30.9	22.1	29.8	54.1	50.1	53.3	58.1	33.8
Net exports		-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126.8
Nominal GDP	% change	3.8	3.8	4.3	7.0	5.4	6.8	6.1	5.4	3.9	2.8
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	%	7.0	7.0	6.7	6.5	6.6	6.2	6.0	5.6	5.5	5.7
Industrial prod. index	% change	3.7	0.5	3.2	5.5	8.4	7.0	4.6	6.4	3.9	-1.4
Capacity util. rate-mfg	%	80.6	80.3	80.4	81.1	82.2	83.2	83.4	84.3	82.9	82.6
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
INCOME AND SAVING											
Nominal GNP	Bill. $	6458.4	6512.3	6584.8	6684.5	6773.6	6876.3	6977.6	7062.2	7140.5	7187.0
Nominal GNP	% change	4.3	3.4	4.5	6.2	5.4	6.2	6.0	4.9	4.5	2.6
Nominal personal income		-5.7	8.8	2.9	8.3	-3.3	13.6	4.2	6.5	7.1	4.5
Real disposable income		-8.1	5.2	1.1	5.0	-5.3	10.1	2.1	4.0	3.6	0.0
Personal saving rate	%	4.2	4.8	4.2	4.7	2.8	4.2	4.1	4.2	4.8	4.0
Corp. profits, IVA & CCAdj	% change	-1.2	22.9	19.7	42.2	-37.5	84.7	14.5	14.6	-6.4	1.1
Profit share of GNP	%	6.6	6.9	7.1	7.7	6.7	7.7	7.9	8.1	7.8	7.8
Federal govt. surpl./def.	Bill. $	-283.7	-249.2	-253.5	-232.4	-212.9	-169.9	-186.3	-190.4	-173.3	-160.5
State/local surpl./def.		80.5	89.1	94.9	115.0	94.8	105.2	99.6	99.3	99.0	99.0
Ex. social ins. funds		13.3	22.0	28.1	48.5	29.0	41.1	37.9	39.4	40.2	40.9
PRICES AND COSTS											
GDP implicit deflator	% change	3.8	2.1	1.9	2.2	2.8	1.9	2.4	2.2	3.2	2.3
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		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 *		-3.5	-1.7	2.0	1.9	-3.2	2.6	2.5	0.6	-1.1	3.0
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	0.0	-0.4	1.6	-1.2

* Staff estimate, chain-weighted basis.

STRICTLY CONFIDENTIAL <FR>
CLASS II FOMC

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

January 26, 1996

Item	Units	1995 Q3*	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4
			Projected								
EXPENDITURES											
Nominal GDP	Bill. $	7297.2	7379.2	7456.8	7539.5	7624.6	7717.2	7805.1	7893.8	7976.0	8071.4
Real GDP	Bill. Ch. $	6763.2	6795.0	6808.6	6842.9	6876.1	6918.4	6951.5	6987.8	7015.7	7056.4
Real GDP	% change	3.2	1.9	0.8	2.0	2.0	2.5	1.9	2.1	1.6	2.3
Gross domestic purchases		2.5	1.8	1.0	2.0	2.5	2.2	1.8	2.1	2.1	2.2
Final sales		3.5	1.5	1.4	2.5	1.5	2.6	2.1	2.1	1.6	2.4
Private dom. final purch.		2.7	1.4	1.6	2.4	2.0	2.3	2.0	2.1	2.1	2.2
Personal cons. expend.		2.9	1.8	2.3	2.6	2.4	2.4	2.4	2.4	2.4	2.4
Durables		9.5	5.7	1.4	5.6	3.2	3.0	3.1	3.1	3.3	3.1
Nondurables		0.5	-0.1	2.8	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Services		2.7	2.0	2.3	2.2	2.3	2.3	2.3	2.3	2.3	2.3
Business fixed invest.		5.3	7.1	-1.0	3.6	3.2	3.3	3.4	3.4	3.2	3.6
Producers' dur. equip.		5.2	7.2	-1.5	3.1	3.1	3.3	4.0	4.5	4.2	4.8
Nonres. structures		5.6	6.8	0.3	5.2	3.5	3.3	1.4	0.3	0.3	-0.1
Res. structures		8.4	3.5	3.3	3.9	0.9	1.3	0.8	0.9	0.8	0.8
Exports		8.3	10.6	4.8	9.8	2.2	10.5	6.7	8.8	0.7	8.7
Imports		1.2	8.5	5.6	8.6	6.2	7.2	5.0	8.1	4.4	6.8
Government purchases		-0.4	-4.0	0.0	0.7	0.2	1.5	-0.2	0.8	0.8	1.2
Federal		-5.5	-15.9	-3.7	-1.9	-3.3	0.3	-4.8	-2.4	-2.5	-1.7
Defense		-7.5	-4.2	-5.6	-5.1	-3.6	1.3	-6.2	-2.7	-2.8	-1.7
State and local		2.8	3.7	2.2	2.2	2.2	2.1	2.5	2.5	2.5	2.7
Change in bus. invent.	Bill. Ch. $	27.1	34.2	23.5	16.3	24.4	23.4	20.4	20.1	20.3	19.8
Nonfarm		31.9	36.5	24.8	15.1	20.7	20.7	17.7	17.4	17.6	17.1
Net exports		-114.1	-112.7	-115.6	-115.8	-125.6	-121.4	-119.4	-120.2	-129.5	-127.6
Nominal GDP	% change	5.7	4.6	4.3	4.5	4.6	4.9	4.6	4.6	4.2	4.9
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	116.8	117.2	117.5	117.9	118.1	118.5	118.7	119.0	119.2	119.5
Unemployment rate	%	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
Industrial prod. index	% change	3.2	0.8	0.1	2.9	3.0	3.4	3.7	3.3	2.5	3.0
Capacity util. rate-mfg	%	82.6	82.0	81.4	81.4	81.3	81.4	81.6	81.8	81.7	81.8
Housing starts	Millions	1.41	1.39	1.39	1.39	1.39	1.39	1.39	1.39	1.38	1.38
Light motor vehicle sales		14.74	15.05	14.46	14.61	14.50	14.52	14.53	14.55	14.57	14.62
INCOME AND SAVING											
Nominal GNP	Bill. $	7281.3	7360.5	7446.2	7525.0	7611.6	7699.8	7788.8	7873.7	7958.1	8046.5
Nominal GNP	% change	5.4	4.4	4.7	4.3	4.7	4.7	4.7	4.4	4.4	4.5
Nominal personal income		4.7	5.1	6.5	4.4	4.9	5.1	5.7	4.8	4.8	5.2
Real disposable income		3.6	3.3	3.4	0.4	3.5	2.3	3.0	2.0	2.2	2.3
Personal saving rate	%	4.1	4.5	4.7	4.2	4.5	4.5	4.6	4.5	4.5	4.5
Corp. profits, IVA & CCAdj	% change	43.8	-2.0	-2.6	4.0	4.6	3.5	2.2	2.3	2.8	0.3
Profit share of GNP	%	8.4	8.3	8.2	8.1	8.1	8.1	8.1	8.0	8.0	7.9
Federal govt. surpl./def.	Bill. $	-158.4	-142.6	-158.7	-140.7	-163.7	-173.2	-177.2	-184.5	-195.2	-203.3
State/local surpl./def.		92.8	79.4	80.8	83.0	82.8	84.9	86.8	88.7	86.3	89.0
Ex. social ins. funds		34.7	21.7	23.5	26.1	26.2	28.6	30.8	32.9	30.7	33.6
PRICES AND COSTS											
GDP implicit deflator	% change	2.4	2.6	3.4	2.4	2.6	2.4	2.7	2.5	2.6	2.5
CPI		2.1	2.3	3.3	3.0	3.0	2.9	2.9	2.9	2.9	2.9
Ex. food and energy		2.5	2.7	2.6	2.8	2.9	2.9	3.0	3.0	3.0	3.0
ECI, hourly compensation		2.3	2.7	2.7	2.8	2.8	2.9	3.1	3.1	3.1	3.1
Nonfarm business sector											
Output per hour **		1.6	0.9	0.4	-0.2	1.0	2.0	1.3	1.5	1.0	1.5
Compensation per hour		3.1	3.4	3.8	3.5	3.6	3.5	3.7	3.5	3.5	3.6
Unit labor cost		1.1	2.5	3.4	3.7	2.6	1.5	2.4	2.0	2.5	2.1

* Published
** Staff estimate, chain-weighted basis.

STRICTLY CONFIDENTIAL <FR>
CLASS II FOMC

CONTRIBUTIONS TO GROWTH IN REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS

January 26, 1996

Item	Projected										Projected		
	1995 Q3*	1995 Q4	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1997 Q1	1997 Q2	1997 Q3	1997 Q4	95Q4/ 94Q4	96Q4/ 95Q4	97Q4/ 96Q4
Real GDP	3.2	1.9	0.8	2.0	2.0	2.5	1.9	2.1	1.6	2.3	1.5	1.8	2.0
Gross domestic purchases	2.5	1.8	1.0	2.0	2.5	2.2	1.8	2.1	2.1	2.2	1.7	1.9	2.1
Final sales	3.5	1.5	1.4	2.5	1.5	2.5	2.1	2.1	1.6	2.4	1.9	2.0	2.0
Private dom. final purch.	2.7	1.4	1.6	2.5	2.0	2.3	2.0	2.2	2.1	2.3	2.0	2.1	2.1
Personal cons. expend.	1.9	1.2	1.6	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.7	1.6
Durables	0.8	0.5	0.1	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Nondurables	0.1	-0.0	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.2	0.5	0.5
Services	1.1	0.8	0.9	0.8	0.9	0.9	0.9	0.9	0.9	0.9	1.0	0.9	0.9
Business fixed invest.	0.5	0.7	-0.1	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.8	0.2	0.4
Producers' dur. equip.	0.4	0.6	-0.1	0.2	0.3	0.3	0.3	0.4	0.3	0.4	0.6	0.2	0.4
Nonres. structures	0.1	0.2	0.0	0.1	0.1	0.1	0.0	0.0	0.0	-0.0	0.2	0.1	0.0
Res. structures	0.3	0.1	0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.0	-0.1	0.1	0.0
Change in bus. invent.	-0.2	0.4	-0.6	-0.4	0.5	-0.1	-0.2	-0.0	0.0	-0.0	-0.4	-0.2	-0.1
Nonfarm	-0.1	0.3	-0.7	-0.6	0.3	0.0	-0.2	-0.0	0.0	-0.0	-0.3	-0.2	-0.1
Farm	-0.1	0.1	0.1	0.1	0.1	-0.1	0.0	0.0	0.0	0.0	-0.1	0.1	0.0
Net exports	0.7	0.1	-0.2	-0.0	-0.6	0.2	0.1	-0.0	-0.5	0.1	-0.1	-0.1	-0.1
Exports	0.9	1.2	0.6	1.1	0.3	1.2	0.8	1.1	0.1	1.1	0.7	0.8	0.8
Imports	0.2	1.1	0.7	1.1	0.8	1.0	0.7	1.1	0.6	1.0	0.8	0.9	0.9
Goverment purchases	-0.1	-0.8	0.0	0.1	0.0	0.3	-0.0	0.1	0.1	0.2	-0.2	0.1	0.1
Federal	-0.4	-1.2	-0.3	-0.1	-0.2	0.0	-0.3	-0.2	-0.2	-0.1	-0.5	-0.1	-0.2
Defense	-0.4	-0.2	-0.3	-0.2	-0.2	0.1	-0.3	-0.1	-0.1	-0.1	-0.2	-0.2	-0.1
Nondefense	-0.0	-1.0	0.0	0.1	-0.1	-0.0	-0.0	-0.0	-0.0	-0.0	-0.3	0.0	-0.0
State and local	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
GDP Residual	-0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

* Published
Components may not sum to total due to rounding.

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

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	1409	1466	307	404	333	326	302	428	354	337	319	443	367	347
Outlays[1]	1461	1514	1572	1659	380	381	373	379	395	397	401	418	419	409	413	436
Surplus/deficit[1]	-203	-164	-163	-193	-73	23	-40	-53	-93	31	-47	-81	-100	34	-46	-89
On-budget	-259	-226	-223	-247	-85	-11	-43	-59	-104	-9	-50	-84	-111	-3	-49	-90
Off-budget	56	62	60	55	12	34	2	6	11	40	3	4	10	37	3	1
Surplus excluding deposit insurance[2]	-210	-181	-170	-196	-79	18	-42	-56	-96	31	-50	-80	-102	35	-49	-88
Means of financing																
Borrowing	185	171	171	193	66	26	20	21	84	14	52	59	71	12	51	67
Cash decrease	17	-2	-22	0	8	-42	23	17	2	-42	0	25	20	-45	0	25
Other[3]	1	-5	14	0	0	-7	-2	15	7	-3	-5	-3	9	-1	-5	-3
Cash operating balance, end of period	36	38	60	60	18	61	38	20	18	60	60	35	15	60	60	35
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1354	1460	1530	1593	1449	1483	1490	1501	1519	1550	1549	1566	1586	1602	1617	1633
Expenditures	1554	1630	1680	1762	1623	1644	1648	1639	1689	1688	1703	1734	1755	1771	1788	1819
Consumption expend.	450	455	439	441	455	456	454	438	443	438	437	440	441	441	441	442
Defense	307	304	300	301	303	305	302	302	301	299	298	302	301	301	301	302
Nondefense	143	151	139	140	152	151	152	135	142	139	139	138	140	140	140	139
Other expenditures	1037	1110	1178	1260	1103	1121	1131	1138	1183	1188	1204	1232	1252	1270	1287	1317
Current account surplus	-200	-171	-150	-169	-173	-161	-158	-138	-170	-138	-153	-168	-168	-170	-171	-186
Gross investment	67	65	62	61	65	67	63	63	62	62	62	61	61	61	61	61
Current and capital account surplus	-267	-236	-212	-230	-238	-227	-222	-201	-232	-200	-215	-230	-230	-231	-232	-247
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-264	-261	-238	-262	-265	-247	-248	-229	-257	-227	-241	-260	-261	-264	-265	-283
Change in HEB, percent of potential GDP	-.6	0	-.3	.3	-.3	-.2	0	-.3	.4	-.4	.2	2	0	0	0	.2
Fiscal impetus (FI), percent, cal year	-6.4	-6	-9	-2.3	-1.9	- 8	-1.3	-6 3	-2.5	-1.4	- 1	.2	-1.2	-.6	-.6	-.3

1 OMB's July 1995 deficit estimates are $160 billion in FY95, $163 billion in FY96 and $179 billion in FY97. CBO's December 1995 baseline deficit estimates (including the fiscal dividend from assumed enactment of congressional budget program) are $161 billion in FY95, $172 billion in FY96 and $182 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 December 1995 baseline deficit estimates (including the fiscal dividend from assumed enactment of congressional budget program), excluding deposit insurance spending, are $177 billion in FY95, $180 billion in FY96 and $186 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 current and capital account surplus in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 1.8 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 chained 1992 dollars), scaled by real federal consumption plus investment. For change in HEB and FI, negative values indicate restraint.

a--Actual
b--Preliminary.

Recent Developments

In response to the System's quarter-point easing in mid-December, major commercial banks lowered their prime rate a quarter point, and most market interest rates declined 5 to 10 basis points. The bond market rallied further through year-end, spurred by various reports of tepid sales and growing anticipation of a budget compromise that would produce meaningful deficit reduction. At year-end, most long-term rates stood at two-year lows and the thirty-year Treasury rate had dipped below the 6 percent barrier A week later long-term rates reversed course on news that the budget talks had reached a stalemate. However as market participants coalesced around the view that considerable spending restraint would occur even in the absence of a balanced budget deal and became more confident about the prospect of further System easing, long-term rates moved back down. On net yields on short- and intermediate-term Treasuries fell as much as 30 basis points over the intermeeting period, while yields at longer maturities declined about 10 basis points.

Since the December FOMC meeting, prices of equities have fluctuated in sympathy with the bond market and major stock indexes are up 2 percent to 3-1/2 percent on balance. The boost from lower rates was initially offset by a somewhat less bullish view about prospects for corporate earnings growth, especially in the technology sector where a slew of companies moved to soften the impact of potentially disappointing fourth-quarter earnings by warning that expectations would be difficult to meet. In the event, fourth-quarter reports to date have, on average, come in somewhat above revised forecasts. Moreover the results reported by several technology sector mainstays, including IBM, Intel, and Microsoft, handily exceeded consensus forecasts.

With long-term interest rates remaining attractive, corporate bond issuance has moved back up to the robust pace observed before the holiday lull. Nonfinancial issuers apparently have continued to use many of the proceeds to pay off more expensive bonds or shorter-term debt. Despite a gradual widening over recent months, quality spreads on corporate bonds remain generally modest relative to historical averages. Even after accounting for the normal seasonal slowing, gross equity issuance over the intermeeting period moderated from its very strong pace in the autumn. However, the sizable number of issues in registration points to a resumption of robust issuance in the near term, absent a significant decline in equity prices. Nonetheless, gross issuance continues to be overwhelmed by the value of shares retired through stock repurchase programs and mergers.

The favorable rates also helped to boost gross offerings of municipal bonds in November and December to the highest two-month rate since 1993. In early January, issuance slowed some, but it has since picked up. Even with the heavier gross offerings of late, outstanding long-term tax-exempt debt has continued to fall. We estimate that the stock of bonds declined more than $50 billion last year owing to continued heavy retirements of advance-refunded debt.

In the household sector, available data point to a pickup in home mortgage refinancing. In addition, the Mortgage Bankers Association index of applications to purchase homes fluctuated around new highs over much of the intermeeting period, though dropping back in January, probably reflecting the effects of unusually severe weather in many areas. The fixed-rate share of conventional mortgage originations was reported at 81 percent for

November and likely has risen further Consumer credit expanded in October and November at about its third-quarter pace, and consumer lending at banks (adjusted for securitization) remained strong in December Delinquency rates have turned upward, and the January Senior Loan Officer Survey indicated some tightening of standards for consumer loans, particularly for new credit card accounts. Nonetheless, continued tight rate spreads on credit-card-backed securities suggest that the market does not believe that debt-servicing strains in the household sector will become severe.

Growth in the broad monetary aggregates picked up in December from a very sluggish pace in November M2 expanded at a pace of 5-3/4 percent and M3 grew at a rate of 4-1/4 percent, leaving the former in the upper range of its growth cone and the latter a tad above its cone. Data for January point to an acceleration in both aggregates, accompanying a sharp advance in bank credit Both loans and securities at banks expanded sluggishly in December Growth in business loans likely was held down in part by some substitution toward longer-term capital market financing, but preliminary data for the first half of January point to a rebound. The January Senior Loan Officer Survey found that, for the first time in three years, banks on net had tightened lending standards for business loans; nonetheless, respondents continue to report easier lending terms, including reduced spreads. Real estate lending was quite weak in December, but it appears to be rising markedly this month, partly owing to acquisitions of thrifts by banks.

The staff expects the federal deficit to expand to almost $100 billion in the first quarter Under current staff projections, in late February the Treasury will deplete its cash balances and exhaust the room under the current debt ceiling noted by the

Treasury Secretary. The staff forecast assumes that a default will be averted.

Outlook

The staff has assumed that the federal funds rate will remain at 5-1/2 percent over the forecast period. Because financial markets are expecting easing of at least 50 basis points over the next few quarters, intermediate- and long-term yields could well back up from their current levels under the assumed path for policy. However any such backup likely would be limited in size, especially at first, as market participants will continue to expect later easing until they see that the economic expansion is well sustained without it

M2 is expected to expand a bit faster this year than in 1995 owing to a slight pickup in nominal GDP growth and the smaller spread of market interest rates over deposit rates occasioned by rate declines late last year As these effects subside, the growth of M2 should edge down in 1997 With bond financing continuing to substitute for some bank loans to businesses and with a larger share of new mortgages and consumer loans being securitized, bank lending is expected to grow at a slower rate over the next two years than in 1995. As a consequence, the financing of bank credit with M3 liabilities should slow as well

Domestic nonfinancial debt is expected to grow around 4-1/2 percent this year and next a bit slower than last year and near the pace projected for nominal GDP Federal borrowing is expected to rise in early 1996--owing primarily to the seasonal payout of tax refunds and payments for the earned income tax credit--before beginning to decline.

After a merger-related bulge in borrowing by nonfinancial firms in the current quarter the growth of business debt is projected to slow over the forecast period. The slower debt growth is attributable to a slowing of inventory accumulation and some tapering down of merger activity. With prices in capital markets expected to give back some of their gains, gross bond and equity offerings should ease from their recent strong pace. Nonetheless, bond issuance by nonfinancial corporations is likely to remain fairly robust while borrowing at banks and in the commercial paper market slows, as firms continue to respond to relatively low bond yields by substituting away from shorter-term debt With businesses experiencing little difficulty in servicing debt and banks continuing to compete for loans, the availability of bank financing is not expected to become a significant constraint over the forecast period. Net equity issuance will remain negative, but repurchases and merger-related share retirements are expected to moderate as excess corporate liquidity ebbs and the realignment of targeted industries plays out

Despite an expected small backup in mortgage interest rates, borrowing for home mortgages should continue apace Although mortgage refinancing has picked up recently, we do not expect a heavy cashing out of accumulated equity that would add significantly to net mortgage debt formation. But lower monthly mortgage interest expense could make room for some additional household borrowing. With reduced growth in durables purchases, we expect consumer credit to decelerate over the next two years. Although delinquency and charge-off rates on installment debt are now rising, they generally remain below levels associated with substantial financial stress in the past and seem unlikely to place much restraint on overall household credit demand in the near future. As signs of weaker household financial positions become more evident banks will probably tighten up a bit more on loan supply, but not enough to put much of a dent in debt expansion.

The decline in outstanding tax-exempt securities that began in 1994 is expected to continue over the next two years, but at a slower pace than in 1995. With a smaller volume of municipal securities either maturing or becoming subject to calls for early redemption, retirements that have been refunded in advance as well as retirements out of concurrent refundings should decline. Issuance other than for refundings is expected to increase gradually over the period, reflecting a rise in construction expenditures by state and local governments.

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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										
1986	12.2	13.6	11.8	11.5	13.8	9.6	12.2	10.8	8.1	5.0
1987	9.2	8.0	9.6	12.1	16.3	5.0	6.7	12.1	8.2	7.4
1988	8.8	8.0	9.1	9.3	10.9	7.2	9.7	6.5	8.5	7.6
1989	7.6	7.0	7.8	8.8	10.1	6.2	7.5	5.7	5.6	6.4
1990	6.6	11.0	5.3	7.9	10.1	2.0	3.1	4.9	4.8	4.4
1991	4.4	11.1	2.4	5.0	6.6	-1.8	-1.7	8.2	1.7	3.8
1992	4.8	10.9	2.8	5.3	6.1	0.9	0.5	2.0	1.6	6.3
1993	5.3	8.3	4.2	6.1	5.4	7.3	1.6	5.7	1.0	4.7
1994	4.9	4.7	5.0	8.4	6.6	14.0	3.8	-3.7	4.6	5.9
1995	5.0	3.8	5.5	7.6	6.5	11.7	6.2	-5.4	2.5	4.2
1996	4.9	5.8	4.6	6.2	6.4	7.2	4.9	-3.9	0.9	4.6
1997	4.5	5.2	4.2	5.9	6.2	5.7	4.1	-3.8	0.9	4.6
Quarter (seasonally adjusted annual rates)										
1994:1	5.2	6.2	4.8	6.8	6.3	7.5	4.1	-0.0	4.3	5.4
2	4.6	3.9	4.8	8.1	6.0	14.8	3.7	-3.4	5.3	6.8
3	4.5	4.0	4.7	8.6	6.7	13.7	3.4	-5.7	2.7	6.1
4	5.0	4.3	5.3	9.3	6.9	17.5	4.0	-6.0	6.0	5.4
1995:1	6.3	7.6	5.8	6.5	5.8	9.5	8.0	-4.7	3.1	3.9
2	6.6	5.7	6.9	8.3	6.3	15.7	7.6	-1.5	4.8	2.8
3	3.8	1.8	4.5	7.9	6.6	10.5	4.6	-10.9	1.2	5.7
4	3.2	-0.2	4.4	6.7	6.5	9.3	4.0	-4.7	0.9	4.6
1996:1	6.2	8.4	5.3	6.2	6.3	8.0	6.1	-1.8	0.9	4.3
2	5.0	5.2	4.9	6.2	6.2	7.1	4.6	-0.0	0.9	4.5
3	4.2	5.1	3.8	6.0	6.2	6.8	4.4	-9.3	0.9	4.6
4	4.1	3.8	4.2	5.9	6.2	6.2	4.2	-4.7	0.9	4.9

1. Data after 1995:q3 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 5.3 percent in 1995, 4.6 percent in 1996, and 4.5 percent in 1997. Federal debt rises 4.3 percent in 1995, 4.8 percent in 1996, and 5.2 percent in 1997. Nonfederal debt is projected to increase 5.6 percent in 1995, 4.6 percent in 1996, and 4.2 percent in 1997.

2.6.3 FOF

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

	Calendar year				1995		1996				1997	
	1994	1995	1996	1997	Q3	Q4	Q1	Q2	Q3	Q4	H1	H2
					Seasonally Adjusted Annual Rates							
Net funds raised by domestic nonfinancial sectors												
1 Total	572.1	591.7	610.6	614.0	428.3	358.0	754.3	632.4	520.7	535.0	619.5	608.6
2 Net equity issuance	-44.9	-72.5	-71.5	-40.0	-84.8	-77.2	-96.0	-70.0	-70.0	-50.0	-44.0	-36.0
3 Net debt issuance	617.0	664.2	682.1	654.0	513.1	435.2	850.3	702.4	590.7	585.0	663.5	644.6
Borrowing sectors												
Nonfinancial business												
4 Net equity issuance	-44.9	-72.5	-71.5	-40.0	-84.8	-77.2	-96.0	-70.0	-70.0	-50.0	-44.0	-36.0
5 Credit market borrowing	144.3	241.8	205.6	178.4	187.0	162.9	254.9	194.4	189.9	182.9	176.1	180.7
Households												
6 Net borrowing, of which:	360.3	350.0	309.2	313.2	380.3	329.1	310.0	313.8	306.6	306.4	310.2	316.2
7 Home mortgages	196.7	204.4	214.2	220.7	216.7	214.2	211.2	212.2	215.2	218.2	215.2	226.2
8 Consumer credit	121.2	115.4	79.5	67.5	109.6	100.2	88.2	80.2	77.2	72.2	70.0	65.0
9 Debt/DPI (percent)[2]	88.7	90.6	92.0	92.7	91.0	91.4	91.4	92.1	92.1	92.3	92.5	92.9
State and local governments												
10 Net borrowing	-43.4	-59.7	-41.4	-38.8	-119.9	-49.8	-19.2	-0.0	-98.0	-48.4	-42.9	-34.6
11 Current surplus[3]	107.4	104.9	99.0	109.1	105.8	90.9	95.6	98.2	99.4	102.9	107.8	110.5
U.S.government												
12 Net borrowing	155.9	132.1	208.8	201.2	65.8	-7.0	304.6	194.3	192.2	144.1	220.1	182.3
13 Net borrowing;quarterly, nsa	155.9	132.1	208.8	201.2	19.9	21.0	84.4	13.7	51.8	58.8	82.9	118.3
14 Unified deficit;quarterly, nsa	185.2	143.9	190.2	200.6	40.2	53.4	93.1	-30.7	47.0	80.7	65.5	135.1
Funds supplied by												
15 depository institutions	198.3	275.3	205.2	209.7	284.7	120.5	203.7	203.7	204.7	208.7	213.7	205.7
MEMO: (percent of GDP)												
16 Dom. nonfinancial debt[2]	185.4	186.0	186.8	186.9	187.1	186.6	186.8	187.3	187.4	187.0	186.9	186.9
17 Dom. nonfinancial borrowing	8.9	9.2	9.0	8.2	7.0	5.9	11.4	9.3	7.7	7.6	8.5	8.0
18 U.S. government[4]	2.2	1.8	2.8	2.5	0.9	-0.1	4.1	2.6	2.5	1.9	2.8	2.3
19 Private	6.7	7.3	6.2	5.7	6.1	6.0	7.3	6.7	5.2	5.7	5.6	5.8

1. Data after 1995:q3 are staff projections.
2. Average debt levels in the period (computed as the average of period-end debt positions) divided by nominal GDP.
3. NIPA surplus less retirement funds plus consumption of fixed capital.
4. Excludes government-insured mortgage pool securities.

Recent Developments

Since just before the December FOMC meeting, the weighted-average value of the dollar has risen about 3 percent. The dollar has appreciated 4 percent or so against the mark and the yen but has been unchanged on balance against the Canadian dollar.

Stagnating economic activity and recent and prospective monetary easing in Europe contributed to the dollar's rise against the mark and other European currencies. The Bundesbank reduced its discount and Lombard rates 50 basis points on December 14, and other European central banks reduced their money market intervention rates 25 to 50 basis points subsequently. German short-term rates have declined about 45 basis points over the period, somewhat more than U.S. rates. French short-term rates have fallen 60 basis points in the aftermath of the resolution of the public-sector strikes, and Italian short-term rates have declined 70 basis points as Prime Minister Dini's political prospects improved somewhat with the passage of the 1996 budget in late December. Long-term rates in Germany have declined about 10 basis points on balance, roughly the same as U.S rates while rates in some other European countries have declined somewhat more.

Market commentary has cited the narrowing of Japan's trade and current account surpluses as the main factor behind the dollar's rise against the yen. Partly as a result of the weaker yen, prospects for Japanese growth have improved recently and Japanese long-term interest rates have risen 30 basis points; short-term rates have edged up.

The Bank of Canada eased its overnight lending rate 25 basis points on January 25, and three-month market rates have fallen 60 basis points since the December FOMC, while long-term rates have declined about 10 basis points.

Pressures on Mexican financial markets have eased during the intermeeting period as the economy has shown signs of stabilizing. The peso has appreciated about 4 percent against the dollar, short-term interest rates have declined about 10 percentage points to 37 percent, and Mexican stock prices have risen more than 10 percent.

. The Desk did not intervene.

Recent data point to continued sluggish output growth in Europe and Canada, but to a modest pickup in Japan. German GDP appears to have fallen in the fourth quarter, as industrial production in October-November was below the third-quarter level. A cyclical decline in tax revenues and rise in transfer payments pushed the 1995 German budget deficit above 3-1/2 percent of GDP. In France, data on industrial production and consumer spending, as well as survey evidence, suggest that output remained weak in the fourth quarter; the weakness owed only in part to the public sector strike in December. Industrial output in the United Kingdom stagnated in October-November, although the preliminary estimate of GDP for the fourth quarter showed growth remaining at about 1-1/2 percent at an annual rate. Italian GDP grew 8 percent (annual rate) in the third quarter, but much of that expansion was accounted for by a surge in inventories that probably was reversed in the fourth quarter. Activity in Canada appears to have been sluggish in the fourth quarter. Japan's long-stalled economy showed signs of improvement as industrial production, housing starts, and machinery orders advanced strongly in October and November.

Inflation in the major foreign industrial countries generally has continued to be subdued. Twelve-month CPI inflation has remained slightly negative in Japan, in the range of 1-1/2 to 2 percent in Germany, France, and Canada, and below 3 percent (excluding mortgage interest payments) in the United Kingdom. Italian inflation has receded a bit from its November peak of 6 percent.

The U.S. nominal trade deficit in goods and services narrowed to $8 billion in October, compared with a monthly average of a little more than $9 billion in the third quarter. Exports were up somewhat relative to the third quarter, while imports declined a bit. (Release of November data has been delayed by the government shutdown.) Non-oil import prices declined moderately in October-November after having risen significantly earlier in the year.

Oil prices rose more than $2 per barrel in December and early January, with the spot WTI price peaking at nearly $20.50 per barrel on January 8. Political uncertainties in Saudi Arabia and colder-than-normal weather in the northern hemisphere contributed to the rise. However, the spot price has fallen below $18 per barrel recently as temperatures returned to normal and as Iraq suggested a greater willingness to negotiate a reentry into the world oil market on a restricted basis.

Outlook

We project that total foreign real GDP growth (weighted by shares in U.S. nonagricultural exports) will strengthen from about 2-1/2 percent at an annual rate in the second half of 1995 to 3-1/2 percent during 1996 and 1997. Although the outlook for average growth is about the same as in the December Greenbook, prospects for some countries, particularly in Europe, have weakened, while those elsewhere, especially Japan, have strengthened. A higher projected path for the dollar has led us to mark down the trajectory for U.S. real net exports, which are now expected to decline, compared with a flat forecast in December.

The dollar. We anticipate that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain little changed on balance from its recent levels throughout the forecast period. This path is more than 2 percent above the level in the previous Greenbook, reflecting the appreciation of the dollar since then. An upside risk to this outlook is that the dollar could appreciate if market expectations of a declining trajectory for U.S. interest rates are not realized, as the staff assumes. On the other hand, a downside risk is that the yen could appreciate if the market's relatively optimistic outlook for additional narrowing of Japan's current account surplus moves closer to the staff's less sanguine view.

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 this year and next--a bit faster than over the past two years. In particular, from current levels the peso is expected to appreciate in real terms over the forecast period, as its nominal exchange value against the dollar depreciates at a slower pace than the extent to which Mexican inflation exceeds U.S. inflation.

Foreign G-7 countries. Growth of real GDP in the major foreign industrial countries is projected to strengthen from about 3/4 percent, annual rate, during the fourth quarter to a little more than 2-1/4 percent during 1996 and 1997. Downward revisions to the outlook for Europe and Canada have been largely offset by a stronger outlook for recovery in Japan.

We now estimate that real output in Germany, France, and Italy declined in the fourth quarter, but we expect that the recent and likely further near-term easing of monetary conditions, among other factors, will stimulate expansions in the neighborhood of 2 to

2-1/2 percent this year and next (Q4/Q4).[1] German growth should be boosted in the near term by tax cuts that took effect this month. Activity in France is expected to recover fairly quickly from strike-depressed levels in the fourth quarter, and Italian GDP should rebound following a fourth-quarter inventory correction. Beyond the current quarter, we expect domestic demand in Europe to be spurred by lower interest rates while being restrained by additional fiscal consolidation. Our outlook for Germany in particular has been marked down somewhat because we now anticipate a contractionary supplemental budget package in response to recent shortfalls in revenue, notwithstanding that those revenue shortfalls are largely attributable to a weaker economy.

Japanese real GDP appears to have expanded in the fourth quarter, and we expect that the growth rate will increase to 3 percent during 1996 before easing somewhat in 1997. This outlook is stronger than that in the December Greenbook, largely because of a more robust projection for net exports, based on their recent strength and the yen's decline.

We expect Canadian GDP growth to pick up from a sluggish pace in the fourth quarter and to average a little less than 2-1/2 percent over the forecast period. Although fiscal consolidation will restrain growth, private demand should be stimulated by the recent monetary easing.

The weaker outlook for Europe has led us to mark down inflation a bit; we expect German and French CPI inflation to remain

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1. These figures for projected GDP growth rates in 1996, for France and Germany in particular, are noticeably higher than numbers that have been cited in the press. The reason is that the staff forecasts are on a Q4/Q4 basis while the figures in the press have been on a year/year basis. The staff forecasts for France and Germany in 1996 on a year/year basis are on the order of 1-1/2 percent.

at or below 2 percent, U.K. (targeted) inflation to remain around 3 percent, and Italian inflation to recede to 4 percent by 1997. Stronger prospective activity in Japan along with a weaker yen leads us to project an end to Japanese deflation, with the consumer price level roughly stable over the next two years.

This forecast incorporates the assumption that both short-term and long-term market interest rates in Europe and Canada will decline further during the next several months. The projected path of European interest rates this year has been revised down roughly 75 basis points on average. Japanese rates are assumed to remain little changed in the near term. By the end of 1997, short-term rates should back up somewhat with the strengthening in the pace of foreign economic activity; long-term rates abroad should rise only marginally over that period.

Other countries. Real GDP in the major developing-country trading partners of the United States is projected to increase on average about 5-1/2 percent per year during 1996-97, compared with an estimate of 3 percent growth during 1995 (on a Q4/Q4 basis) The pickup in growth in 1996-97 largely reflects an anticipated recovery in Mexico.

Real GDP in Mexico appears to have fallen almost 10 percent during 1995: recent monthly indicators suggest that after having declined sharply in the first half of the year, output expanded slightly in the third and fourth quarters. We project real GDP to grow by 4-5 percent per year during 1996-97, recovering to its pre-recession level by early 1998.

The key developing economies in Asia are expected to continue to grow rapidly, though somewhat more slowly than in 1995, when their output was stimulated by the appreciation of the yen and some temporary monetary expansion that had occurred during 1994. Recent monthly data point to a deceleration of output in several of these countries.

U.S. exports and imports of goods and services. Our outlook for the U.S. external sector has been affected both by changes in economic fundamentals and by the shift to chain-weighted prices. We now project real net exports, measured in chained (1992) dollars, to decline by about 0.1 percent of GDP per year during 1996 and 1997. This is a slightly weaker outlook than that in the December Greenbook, mostly because of the higher projected level of the dollar. The shift to chain-weighted price and volume measures did not affect the projected contribution of real net exports to U.S. GDP growth appreciably, but has substantially altered the projected paths of both exports and imports in real terms.

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

	1995			------Projection-----	
	Year	Q3	Q4	1996	1997
Exports of G&S	6.5	8.3	10.6	6.8	6.2
Services	1.3	4.3	1.7	3.3	3.5
Computers	43.3	88.9	40.4	29.9	31.1
Other goods[1]	5.8	1.4	12.2	5.1	2.8
Imports of G&S	6.5	1.2	8.5	6.9	6.0
Services	3.6	2.0	4.9	2.6	2.6
Oil	-3.2	25.1	-25.8	7.4	3.7
Computers	45.0	76.9	60.3	22.7	21.5
Other goods[2]	3.6	-7.9	6.8	5.3	4.1

Note: NIPA basis, chained (1992) dollars.
1. Nonagricultural exports of goods excluding computers.
2. Non-oil imports of goods excluding computers.

The shift to chain-weighted measures, by itself, has raised the projected annual rates of growth of prices and reduced the projected growth of volumes of exports and imports of goods and services by roughly 2-3 percentage points. Most of these revisions reflect the much lower implicit weight commanded by computers on a chain-weighted basis than on a 1987-dollar basis; computer prices fall just about as rapidly now as they did previously.

We expect the growth of real exports of goods and services to be stimulated by the projected pickup in foreign GDP growth, especially during 1996, and to be depressed through 1997 by the recent appreciation of the dollar. On balance, this means export growth should increase a bit from the 1995 pace during 1996 and then fall back to or below that pace in 1997.

Import growth will be stimulated a bit during 1996 by slightly faster U.S. GDP growth, a recovery of oil imports from somewhat depressed levels in 1995, and the recent appreciation of the dollar.The expansion of imports should slow in 1997 as the effects of the appreciation recede.[2]

Trade prices. Given movements in spot oil prices over the intermeeting period, we have revised up the price of imported oil for the first quarter slightly, to just under $16 per barrel. Our longer-run projections for the WTI spot and the oil import prices remain at $18.50 per barrel and $16.00 per barrel, respectively. These projections assume that Iraq will not reenter the market until 1997.

Non-oil import prices (chain-weighted) are projected to edge down in 1996 as a result of declining computer prices, the recent appreciation of the dollar, and flat commodity prices. In 1997 they should rise slightly as the effects of the appreciation cease. Prices of nonagricultural exports are projected to rise slowly, in line with comparable U.S. producer prices.

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2. The effect of the dollar's appreciation on imports is estimated to be felt with somewhat shorter lags than is its effect on exports.

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

	1995			------Projection------	
	Year	Q3	Q4	1996	1997
Nonag. exports[1]	2.0	-1.2	-1.9	0.8	0.8
Non-oil imports[1]	0.4	0.8	-5.6	-0.4	0.6
Oil imports (Q4 level, $bl)	15.73	16.00	15.73	16.00	16.00

1. NIPA chain-weighted basis, including computers.

Nominal trade and current account balances. The nominal U.S. trade deficit on goods and services is expected to average a bit over $90 billion during 1996 and 1997, not far from its rate in recent months. Net investment income is projected to deteriorate over the forecast period, contributing to a slight worsening of the current account next year. The current account deficit is expected to be about $145 billion in 1996 and more than $150 billion in 1997, just under 2 percent of GDP in both cases.

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

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REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1994-97
(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	0.9	2.4	2.3	-0.6	2.1	0.9	2.4	2.5	2.4	2.5
France	4.3	0.8	2.4	2.6	0.7	0.8	-1.0	2.4	2.2	2.4	2.5
Germany	3.7	1.0	2.2	2.4	4.3	-0.1	-1.1	1.9	2.1	2.4	2.4
W. Germany	3.1	1.0	1.7	2.0	3.8	0.2	-0.8	1.4	1.6	1.9	1.9
Italy	2.9	2.9	2.8	2.2	-0.4	8.0	-2.0	3.5	3.3	2.4	2.2
Japan	0.4	1.4	3.1	2.3	2.6	0.6	2.0	3.3	3.5	3.0	2.6
United Kingdom	4.2	1.8	2.1	2.5	2.0	1.6	1.6	1.8	2.0	2.3	2.3
Average, weighted by 1987-89 GDP	2.8	1.5	2.6	2.4	1.8	1.8	0.4	2.7	2.8	2.6	2.4
Average, weighted by share of U.S. nonagricultural exports											
Total foreign	4.5	1.9	3.4	3.3	NA	NA	NA	NA	NA	NA	NA
Foreign G-7	3.9	1.2	2.5	2.3	0.9	1.7	0.8	2.5	2.6	2.5	2.5
Developing countries	6.0	2.7	5.2	5.6	NA	NA	NA	NA	NA	NA	NA
CONSUMER PRICES(1)											
Canada	0.0	2.1	1.6	2.0	3.1	0.9	0.1	1.1	1.6	1.8	1.8
France	1.6	1.9	1.8	1.8	2.1	1.2	2.3	2.0	1.8	1.8	1.6
Western Germany	2.5	1.5	1.9	2.0	2.2	1.5	-0.6	3.2	2.3	1.9	0.3
Italy	3.8	5.9	4.4	4.0	8.0	3.9	5.2	4.2	6.7	3.5	3.2
Japan	0.8	-0.8	-0.0	0.0	0.7	-1.0	-0.5	-1.6	2.0	-0.2	-0.1
United Kingdom(2)	2.2	2.9	2.8	3.0	6.4	0.8	1.4	2.7	6.2	0.9	1.4
Average, weighted by 1987-89 GDP	1.7	1.7	1.7	1.7	3.1	0.8	1.0	1.3	3.2	1.3	1.0
Average, weighted by share of U.S. non-oil imports	1.0	1.1	1.2	1.4	2.4	0.4	0.2	0.6	2.4	1.1	0.9

Note. Annual values are measured from Q4 to Q4.
1. Not seasonally adjusted.
2. CPI excluding mortgage interest payments; the targeted inflation rate. Previously the CPI including mortgage interest payments was shown.

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 (Chained 1992 dollars)	-55.2	-67.0	-89.1	-86.2	-101.3	-112.2	-113.3	-105.8	-119.0	-126 8	-29.5	-74.4	-108.1
Exports of G&S	649.8	662.3	648.9	681.4	680.4	704.3	724.8	751.0	755.8	764.3	639.4	660.6	715.1
Goods	454.3	465.8	453.3	484.5	481.5	501.8	518.3	543.9	548.9	557.8	448.7	464.5	511.4
Agricultural	43.8	43.9	41.0	43.4	40.7	41.0	44.8	51.2	51.3	48.2	44.1	43.0	44.4
Computers	32.3	33.1	35.9	38.6	40.7	41.8	44.9	49.6	52.9	55.7	28.7	35.0	44.2
Other Goods	378.2	388.8	376.4	402.6	400.3	419.3	428.8	443.1	444.7	454.1	375.9	386.5	422.9
Services	195.5	196.5	195.6	197.0	199.0	202.7	206.8	207.7	207.6	207.4	190.8	196.2	204.1
Imports of G&S	705.1	729.4	738.1	767.6	781.7	816.5	838.1	856.8	874.9	891.2	668.9	735.0	823.3
Goods	577.3	598.6	605.1	629.1	643.0	676.4	698.1	718.6	732.8	750.5	544 8	602.5	684.0
Oil	53.7	57.9	56.9	58.3	57.0	60.6	64.6	58 2	56.5	57.4	51.4	56.7	60.1
Computers	38.9	42.3	46.5	49.9	53.9	57.3	61.8	68.3	71.7	76.3	31.7	44.4	60.3
Other Goods	484.7	498.5	501.7	520.8	531.7	558.2	571.7	590.8	602.8	614.8	461.6	501.4	563.1
Services	127.8	130.8	133.0	138.5	138.8	140.2	140.2	138.5	142.4	141.1	124.1	132.5	139.4
Memo: (Percent change 1/)													
Exports of G&S	0.4	7.9	-7.9	21.6	-0.6	14.8	12.2	15.3	2.6	4.6	4.1	5.0	10.2
Agricultural	-17.8	0.9	-23.9	25.6	-22.7	3.0	42.6	70.6	0.8	-22.1	10.6	-5.7	18.0
Computers	12.0	10.3	38.4	33.7	23.6	11.3	33.1	48.9	29.4	22.9	25.1	22.9	28.5
Other Goods	-5.5	11.7	-12.2	30.9	-2.3	20.4	9.4	14.0	1.5	8.7	4.5	5.0	10.1
Services	16.4	2.1	-1.8	2.9	4.1	7.6	8.3	1.8	-0.2	-0.4	-0.8	4.7	5.4
Imports of G&S	9.6	14.5	4.9	17.0	7.6	19.0	11.0	9.2	8.7	7.7	7.4	11.4	11.6
Oil	5.4	35.2	-6.7	10.2	-8.6	27.8	29.1	-34.1	-11.2	6.5	12.1	10.0	-0.2
Computers	41.0	39.8	46.0	32.6	36.1	27.7	35.3	49.2	21.4	28.2	45.1	39.8	36.9
Other Goods	10.4	11.9	2.6	16.1	8.6	21.5	10.0	14.0	8.4	8.2	6.5	10.1	13.4
Services	1.3	9.7	6.9	17.6	0.9	4.1	0.0	-4.8	11.7	-3.6	1.4	8.7	-0.0
Current Account Balance	-69.5	-97.4	-108.1	-124.7	-121.1	-151.9	-158.9	-173.1	-154.3	-173.1	-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	-133.7	-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	61.5	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	-7.8	-10.5	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	58.9	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	-69.4	-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	-28.9	-32.1	-34.1	-35.8

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

Strictly Confidential (FR) Class II-FOMC

OUTLOOK FOR U.S. INTERNATIONAL TRANSACTIONS IN GOODS, SERVICES, AND THE CURRENT ACCOUNT
(Billions of dollars, seasonally adjusted annual rates)

	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 (Chained 1992 dollars)	-114.1	-112.6	-115.5	-115.7	-125.5	-121.3	-119.3	-120.1	-129.4	-127.5	-118.1	-119.5	-124.1
Exports of G&S	779.7	799.6	809.0	828.1	832.7	853.8	867.8	886.3	887.8	906.5	774.8	830.9	887.1
Goods	571.1	590.1	599.2	615.9	618.4	637.4	649.3	665.7	665.5	682.6	567.0	617.7	665.8
Agricultural	50.3	50.2	50.2	50.2	51.2	52.4	53.1	53.8	54.5	55.2	50.0	51.0	54.1
Computers	65.3	71.1	75.7	80.6	86.3	92.3	98.8	105.7	113.1	121.0	61.2	83.7	109.6
Other Goods	455.7	469.0	473.5	485.2	481.1	492.9	497.6	506.4	498.1	506.6	455.9	483.2	502.2
Services	209.6	210.5	210.8	213.2	215.3	217.3	219.5	221.6	223.2	224.9	208.8	214.2	222.3
Imports of G&S	893.9	912.2	924.7	943.9	958.2	975.1	987.2	1006.5	1017.3	1034.1	893.1	950.5	1011.2
Goods	752.4	769.0	780.7	799.1	812.6	828.2	839.2	857.7	867.7	883.3	751.2	805.1	862.0
Oil	60.7	56.3	60.3	62.7	66.1	60.5	61.4	65.6	68.4	62.8	57.7	62.4	64.5
Computers	88.0	99.0	105.0	110.2	115.7	121.5	127.6	133.9	140.6	147.7	83.8	113.1	137.5
Other Goods	602.2	612.2	613.9	624.6	629.2	644.6	648.8	656.6	657.2	671.3	608.0	628.1	658.5
Services	141.8	143.5	144.3	145.1	146.0	147.3	148.2	149.1	149.9	151.1	142.2	145.7	149.6
Memo: (Percent change 1/)													
Exports of G&S	8.3	10.6	4.8	9.8	2.2	10.5	6.7	8.8	0.7	8.7	6.5	6.8	6.2
Agricultural	18.6	-0.6	0.0	0.0	8.2	9.9	5.3	5.3	5.3	4.9	-1.9	4.4	5.2
Computers	88.9	40.4	28.7	28.7	31.1	31.1	31.1	31.1	31.1	31.1	43.3	29.9	31.1
Other Goods	1.4	12.2	3.9	10.3	-3.4	10.1	3.9	7.3	-6.4	7.0	5.8	5.1	2.8
Services	4.3	1.7	0.6	4.7	3.9	3.9	4.1	3.8	3.1	3.0	1.3	3.3	3.5
Imports of G&S	1.2	8.5	5.6	8.6	6.2	7.2	5.0	8.1	4.4	6.8	6.5	6.9	6.0
Oil	25.1	-25.8	31.3	17.2	23.4	-29.9	5.8	30.7	17.8	-28.9	-3.2	7.4	3.7
Computers	76.9	60.3	26.2	21.5	21.5	21.5	21.5	21.5	21.5	21.5	45.0	22.7	21.5
Other Goods	-7.9	6.8	1.1	7.2	2.9	10.2	2.6	4.9	0.4	8.9	3.6	5.3	4.1
Services	2.0	4.9	2.3	2.2	2.5	3.6	2.7	2.3	2.2	3.3	3.6	2.6	2.6
Current Account Balance	-157.9	-149.7	-146.2	-135.7	-143.0	-153.5	-144.3	-147.6	-152.7	-164.1	-158.8	-144.6	-152.2
Goods & Serv (BOP), net	-110.1	-96.6	-92.5	-87.4	-96.3	-91.9	-94.3	-93.9	-101.1	-95.0	-114.1	-92.0	-96.1
Goods (BOP), net	-173.7	-161.2	-158.0	-155.5	-166.5	-163.5	-167.9	-169.5	-178.6	-173.9	-177.1	-160.9	-172.5
Services (BOP), net	63.7	64.6	65.5	68.1	70.1	71.7	73.6	75.6	77.4	78.9	63.0	68.8	76.4
Investment Income, net	-16.6	-19.4	-11.3	-15.3	-13.7	-18.1	-17.0	-20.8	-18.6	-25.6	-13.6	-14.6	-20.5
Direct, net	55.0	56.9	63.2	63.1	62.7	64.5	65.1	66.7	66.9	66.8	57.0	63.4	66.4
Portfolio, net	-71.6	-76.4	-74.5	-78.3	-76.4	-82.5	-82.1	-87.4	-85.5	-92.4	-70.6	-78.0	-86.9
Unilateral Transfers, net	-31.2	-33.6	-42.4	-33.0	-33.0	-43.5	-33.0	-33.0	-33.0	-43.5	-31.1	-38.0	-35.6

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