STRICTLY CONFIDENTIAL (FR) CLASS I-FOMC

Material for

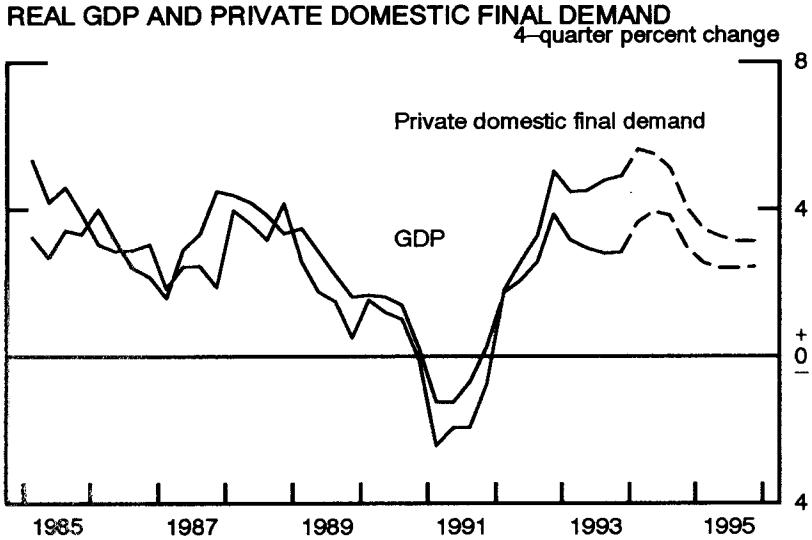
Staff Presentation to the Federal Open Market Committee

February 3, 1994

Chart 1

Summary of Staff Projection

REAL GDP AND PRIVATE DOMESTIC FINAL DEMAND



OUTPUT AND SPENDING

Percent change, Q4 to Q4

	GDP	PDFD
1990	.2	-.1
1991	.3	-.7
1992	3.9	5.0
1993	2.8	4.9
1994	3.0	4.0
1995	2.4	3.1

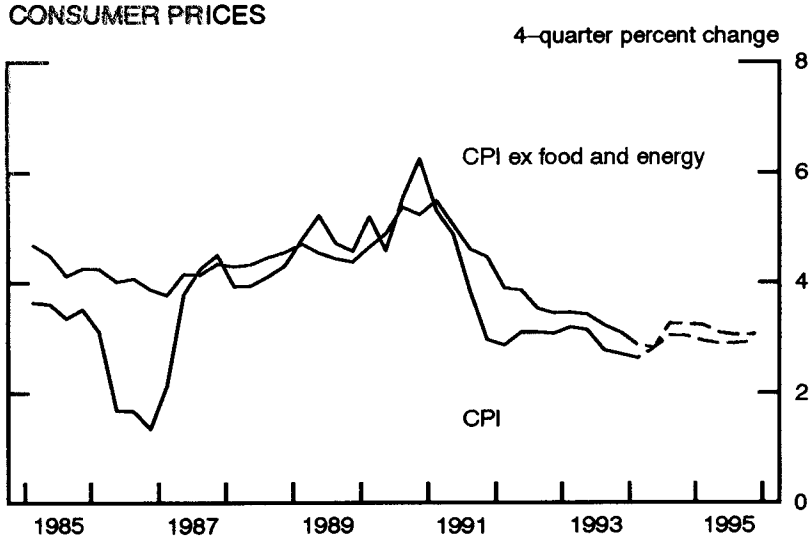
CIVILIAN UNEMPLOYMENT RATE

UNEMPLOYMENT

Level, Q4

	Old series	New series
1990	6.0	
1991	7.0	
1992	7.3	
1993	6.5	
1994	6.2	6.8
1995	6.2	6.8

CONSUMER PRICES



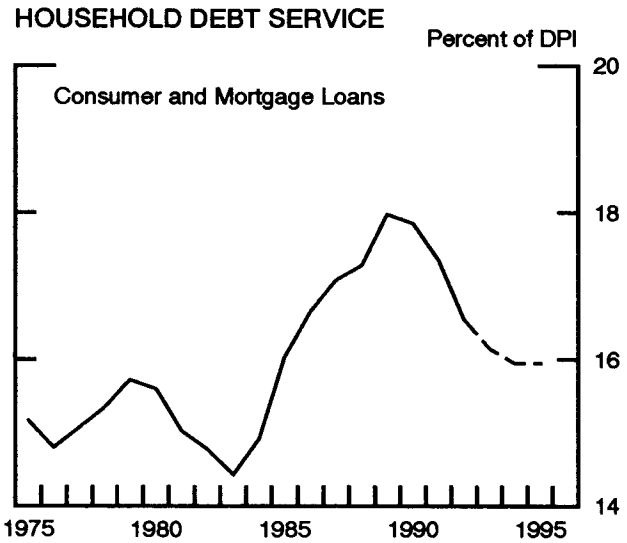
INFLATION

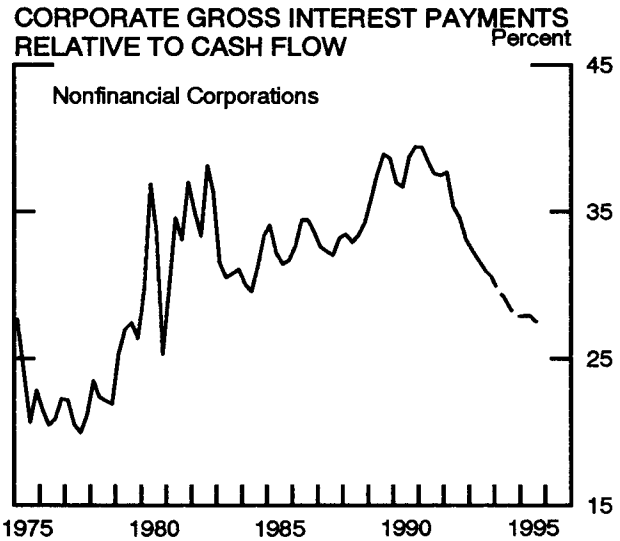
Percent change, Q4 to Q4

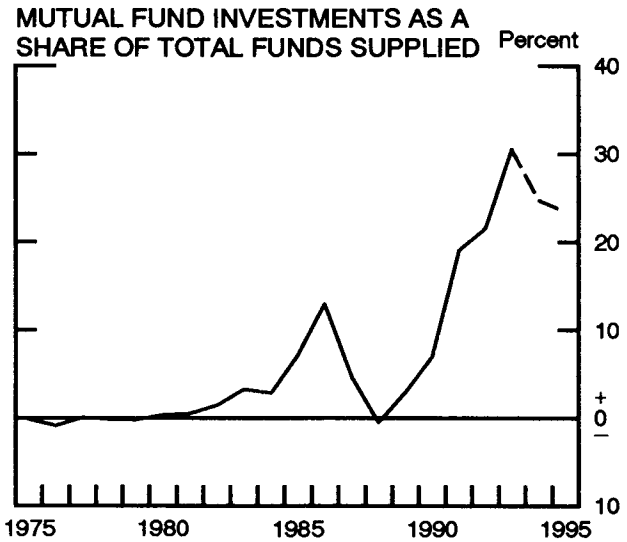
	CPI	Ex food & energy
1990	6.2	5.2
1991	3.0	4.5
1992	3.1	3.4
1993	2.7	3.1
1994	3.3	3.0
1995	3.1	2.9

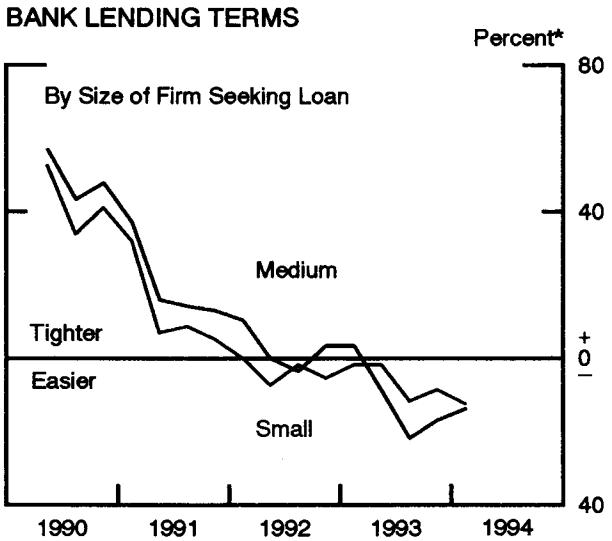
Chart 2

Financial Conditions









*Net percentage reporting tighter standards and terms.

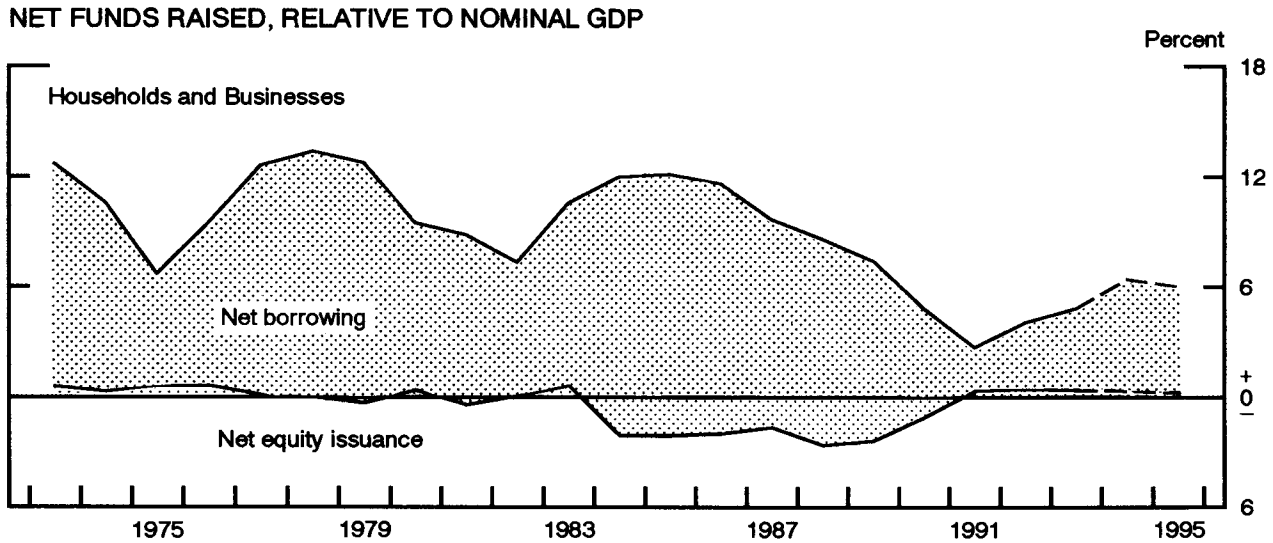
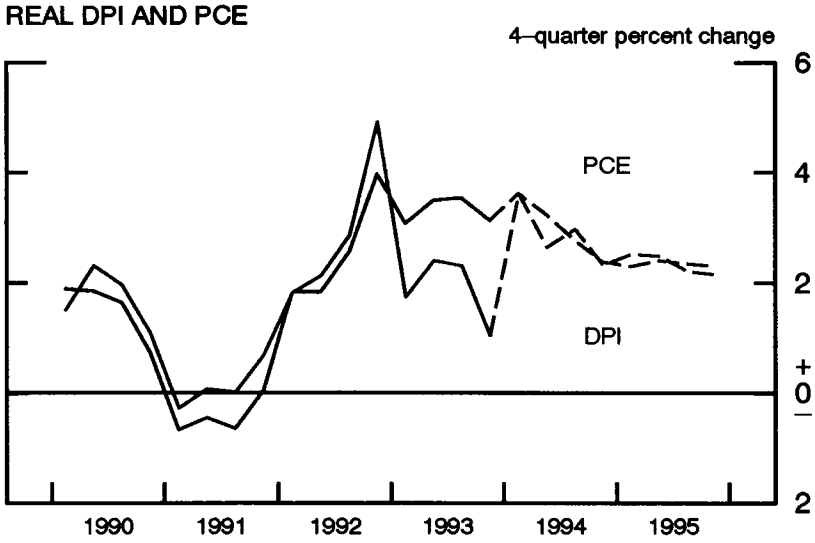


Chart 3

Consumption

REAL DPI AND PCE

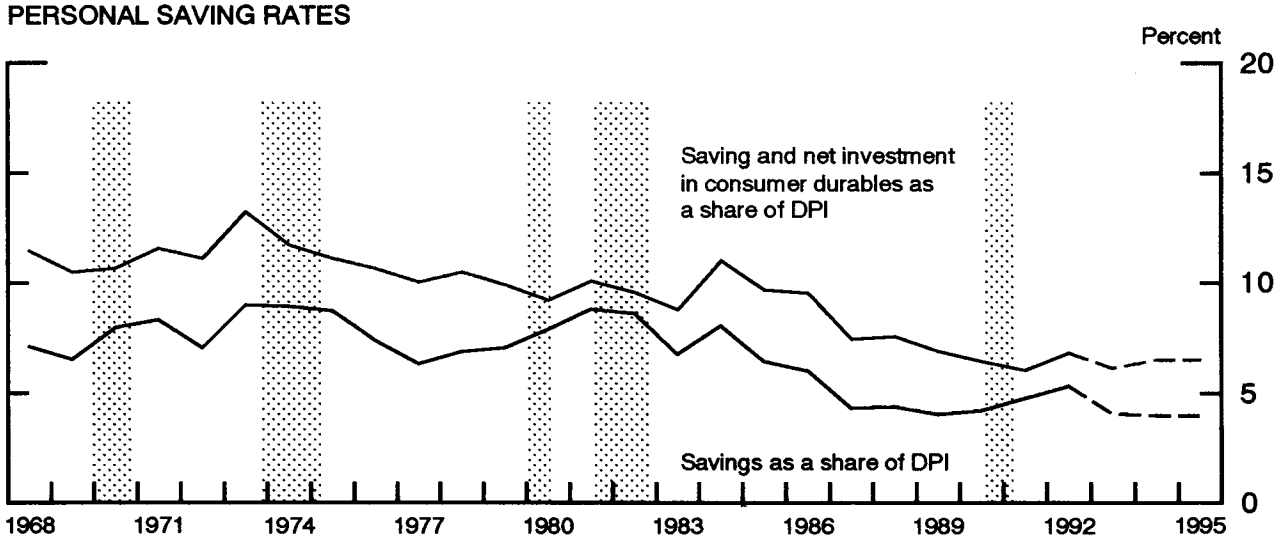


INCOME AND SPENDING

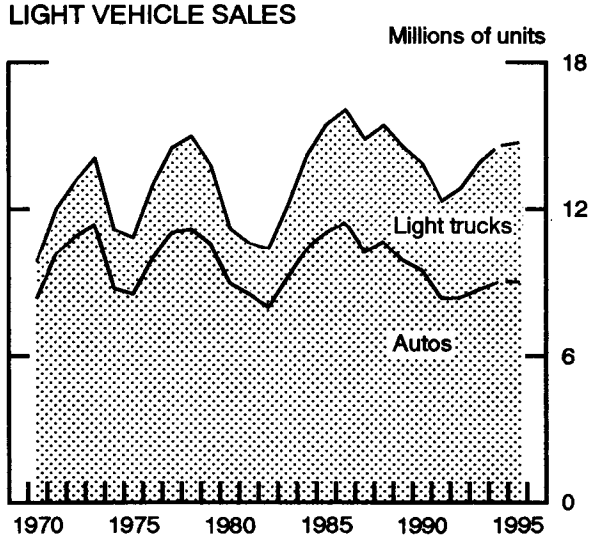
Percent change, Q4 to Q4

	DPI	PCE
1990	1.1	.7
1991	.7	0
1992	4.9	4.0
1993	1.0	3.1
1994	2.3	2.4
1995	2.2	2.3

PERSONAL SAVING RATES



LIGHT VEHICLE SALES



HOUSING ACTIVITY AND SPENDING

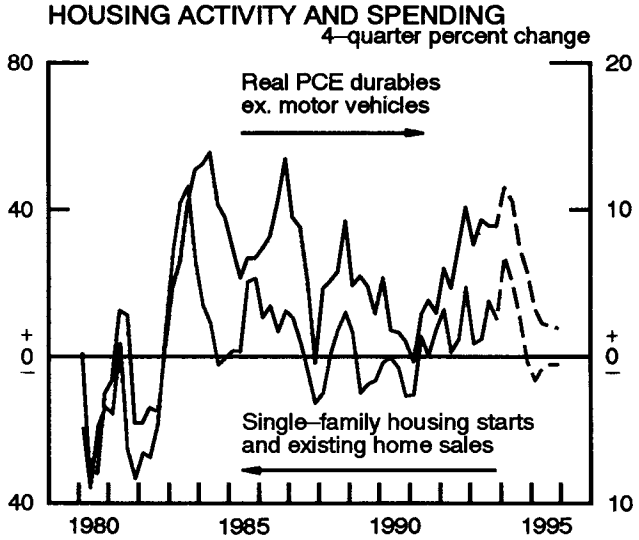
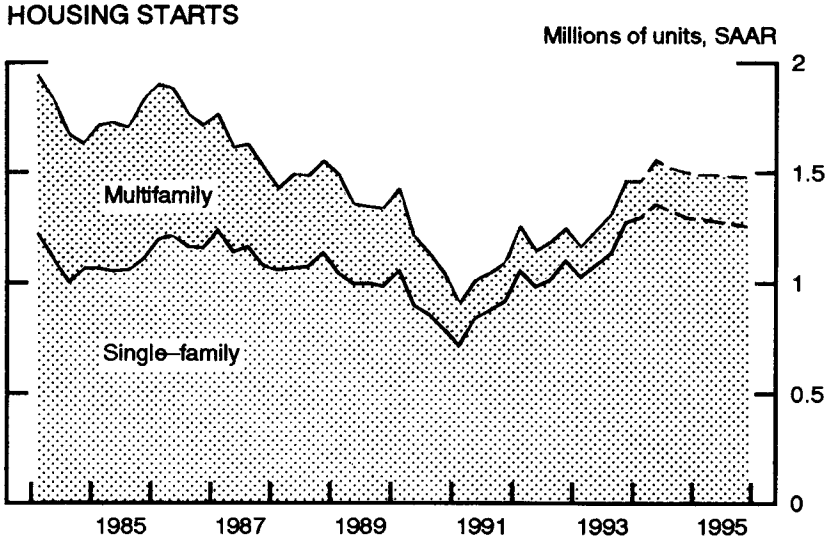


Chart 4

Housing Sector

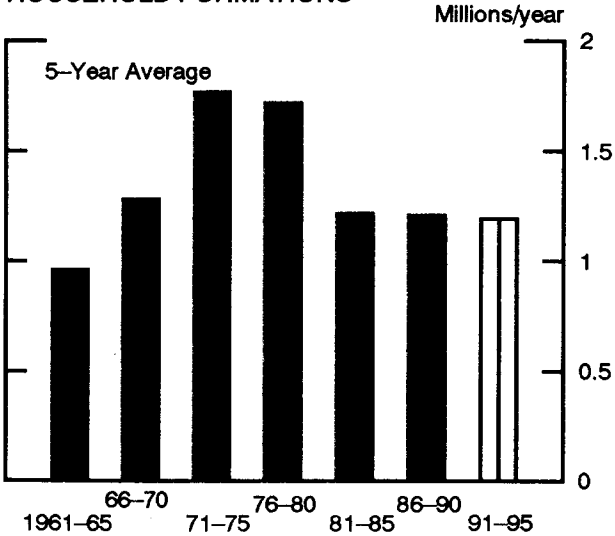
HOUSING STARTS



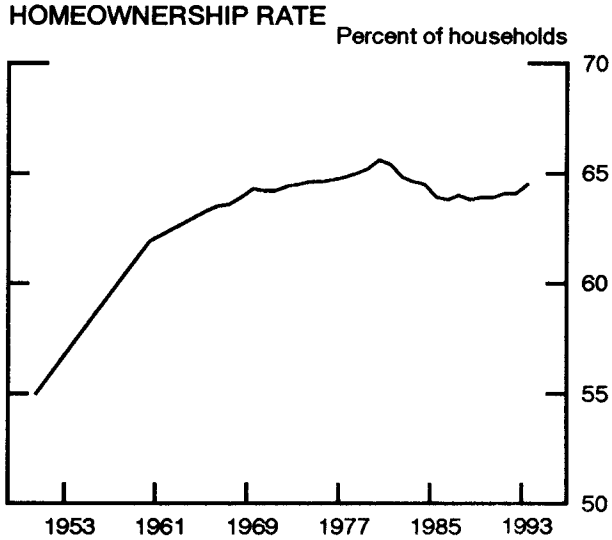
TOTAL STARTS

Millions of units	
1990	1.20
1991	1.01
1992	1.21
1993	1.29
1994	1.49
1995	1.48

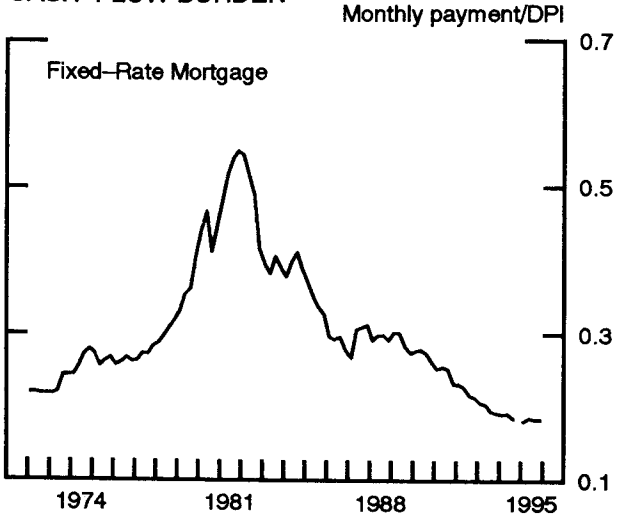
HOUSEHOLD FORMATIONS



HOMEOWNERSHIP RATE



CASH–FLOW BURDEN



MULTIFAMILY RENTAL VACANCY RATE

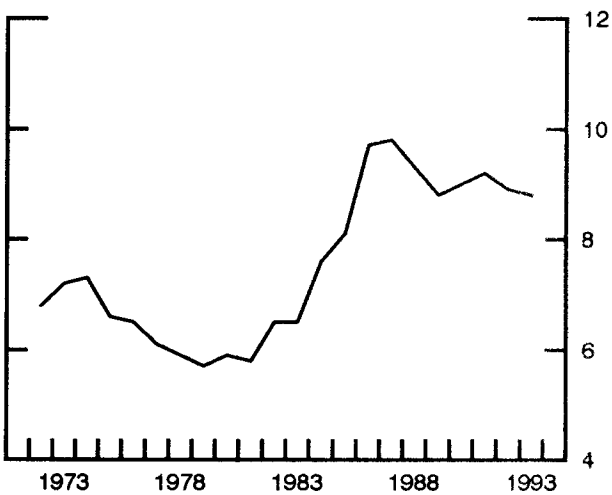
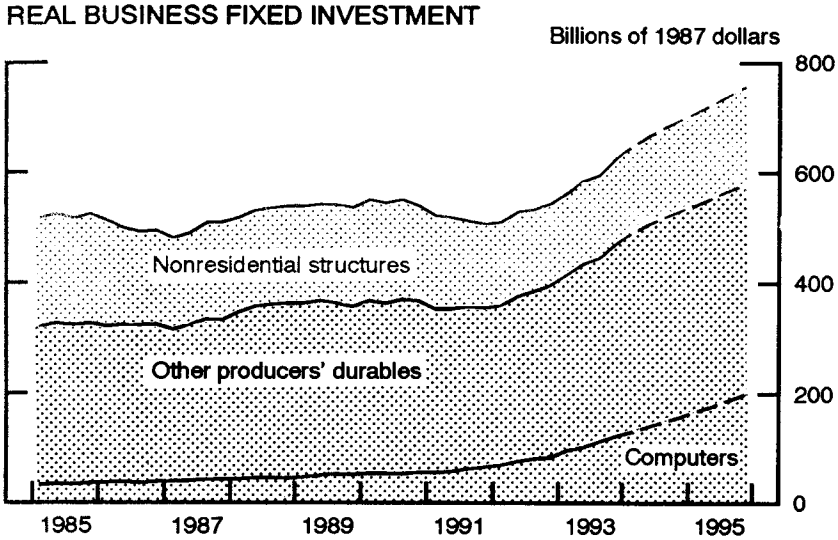


Chart 5

Business Investment

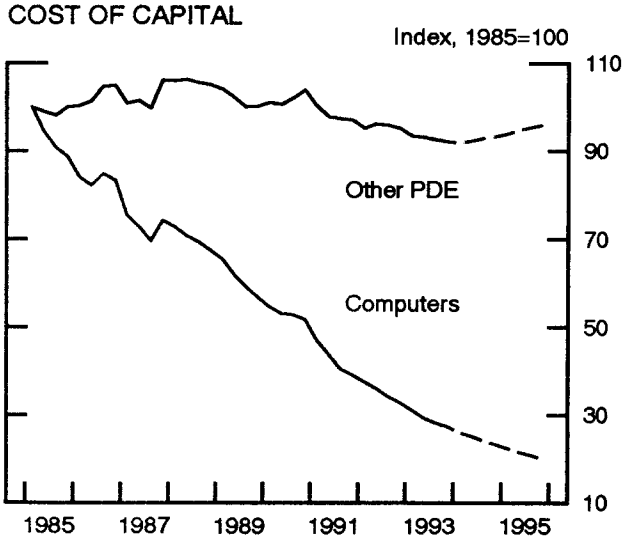
REAL BUSINESS FIXED INVESTMENT



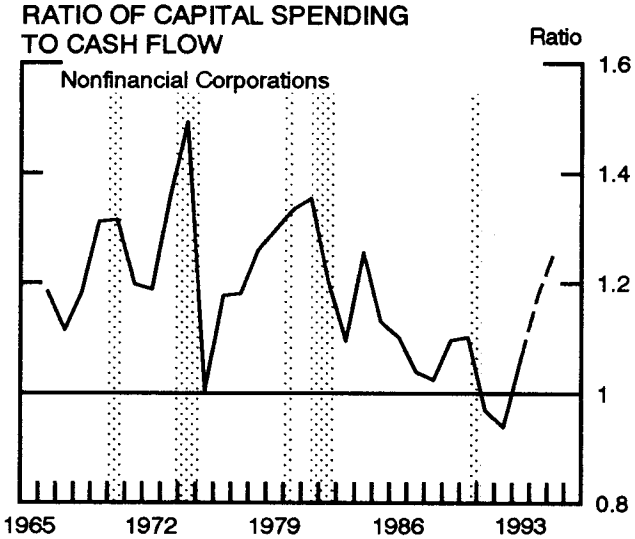
BFI GROWTH

Percent change, Q4 to Q4	
1990	.7
1991	-6.3
1992	7.4
1993	14.7
1994	11.5
1995	8.7

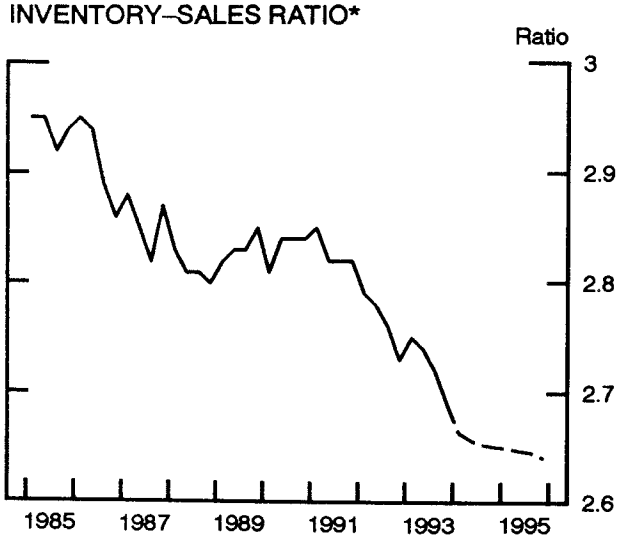
COST OF CAPITAL



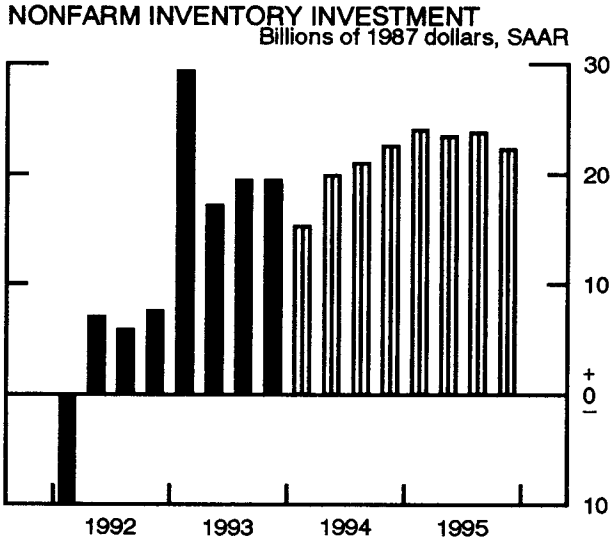
RATIO OF CAPITAL SPENDING TO CASH FLOW



INVENTORY–SALES RATIO*



NONFARM INVENTORY INVESTMENT



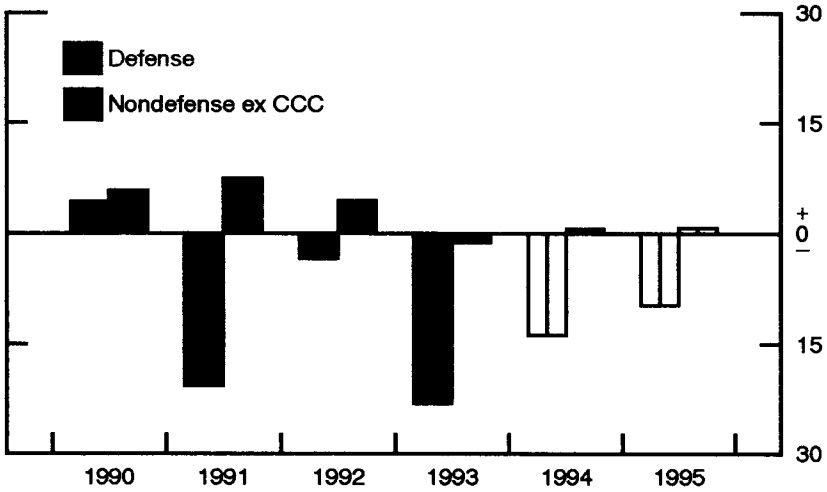
*Ratio of inventories to business final sales.

Chart 6

Government Sector

CHANGE IN REAL FEDERAL PURCHASES

Q4 to Q4, billions of 1987 dollars



TOTAL PURCHASES

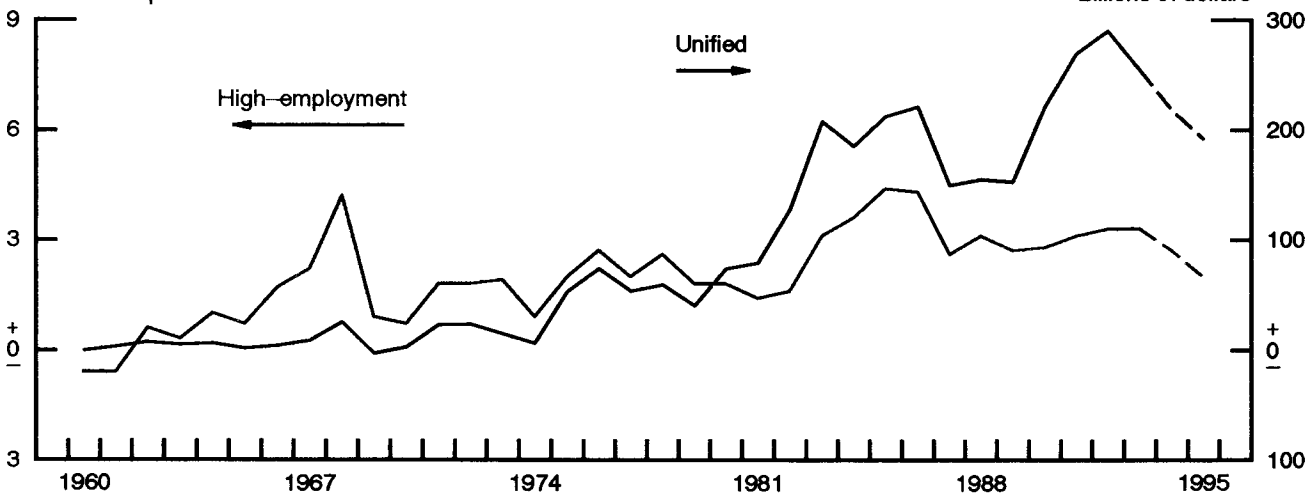
Percent change, Q4 to Q4

1990	2.8
1991	-3.7
1992	.4
1993	-6.4
1994	-4.0
1995	-2.7

FEDERAL BUDGET DEFICIT*

Percent of potential GDP

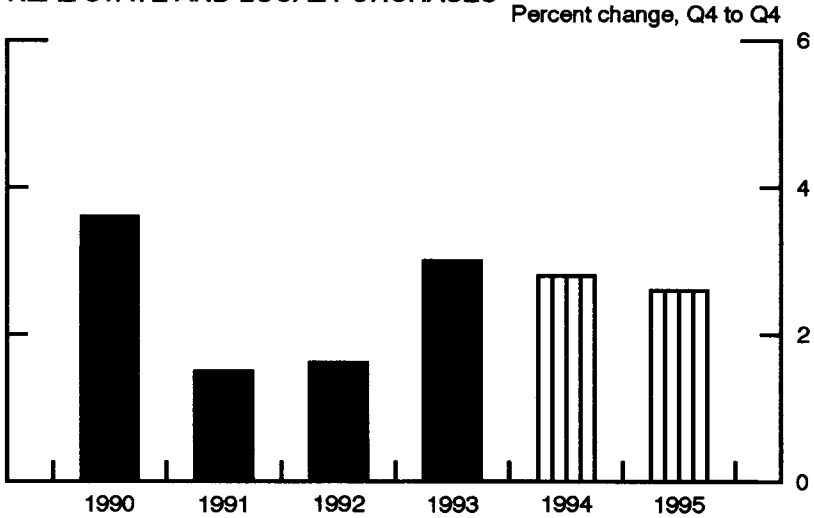
Billions of dollars



*Excluding deposit insurance and contributions for Operation Desert Storm.

REAL STATE AND LOCAL PURCHASES

Percent change, Q4 to Q4



OPERATING DEFICIT

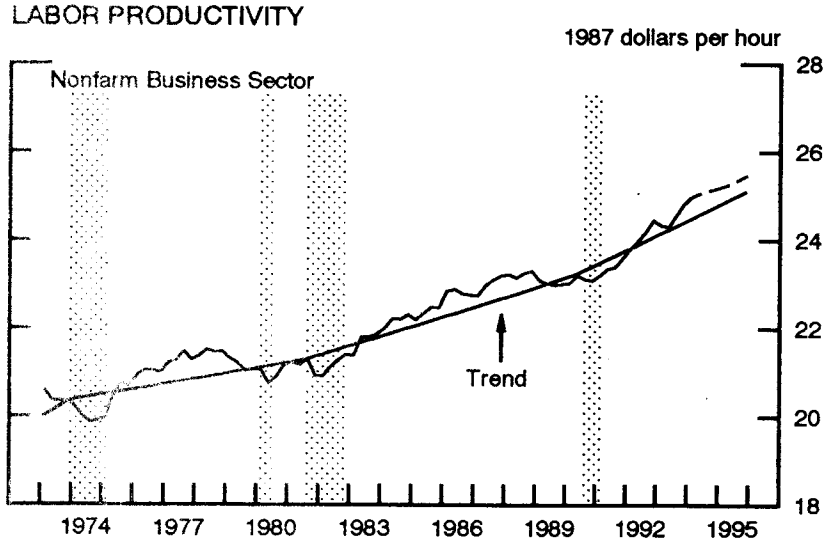
Billions of dollars

1990	35.7
1991	51.2
1992	52.2
1993	56.5
1994	53.1
1995	45.9

Chart 7

Labor Market

LABOR PRODUCTIVITY

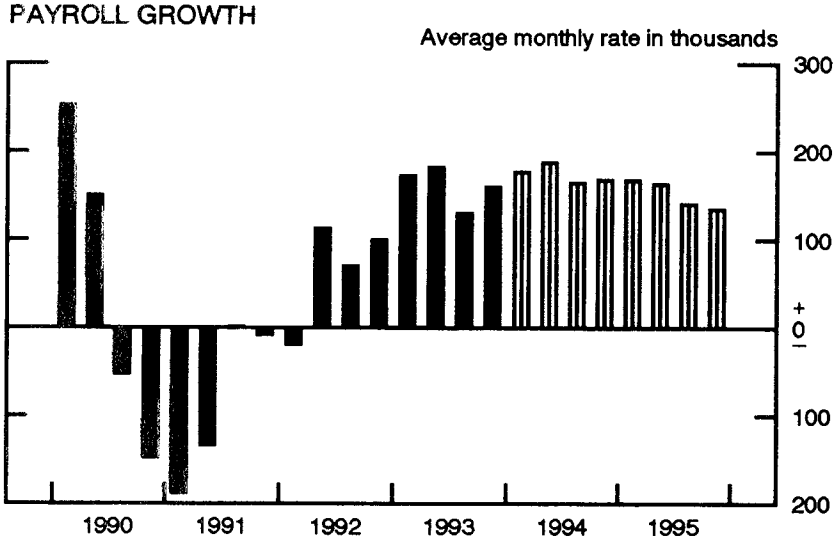


PRODUCTIVITY GROWTH

Percent change, Q4 to Q4

1990	.4
1991	2.2
1992	3.6
1993	1.6
1994	1.4
1995	1.2

PAYROLL GROWTH

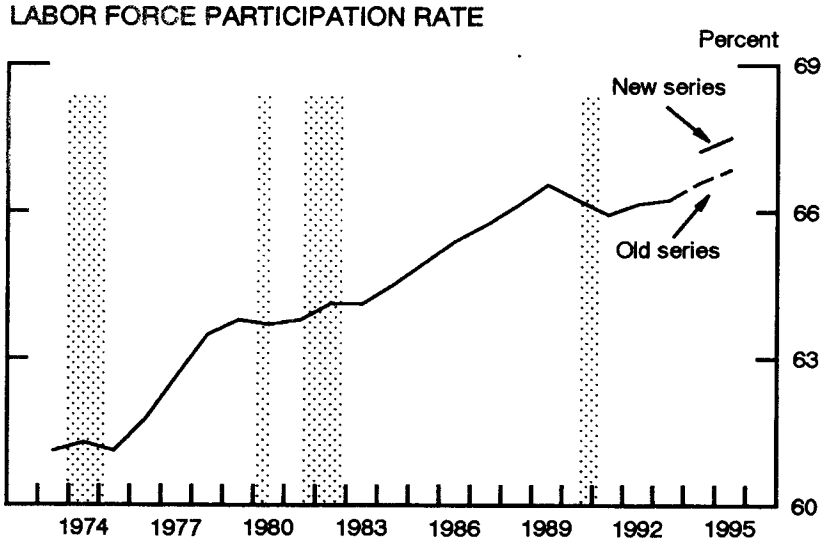


EMPLOYMENT

Percent change, Q4 to Q4

	Payroll	HH
1990	.6	-.2
1991	-.9	-.6
1992	.7	1.0
1993	1.8	2.0
1994	1.9	2.9
1995	1.6	1.5

LABOR FORCE PARTICIPATION RATE



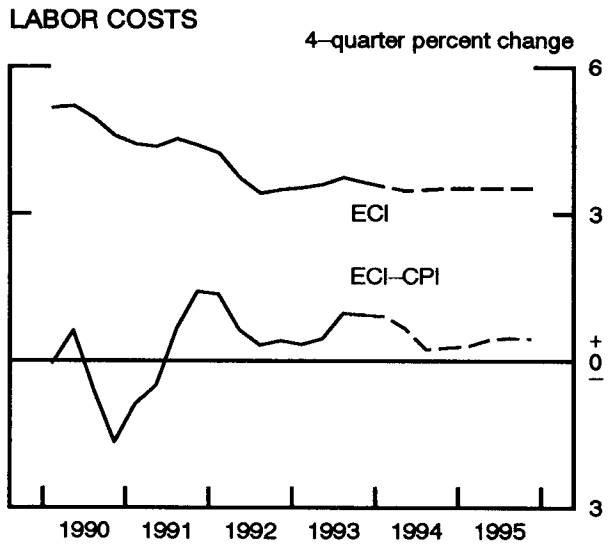
LABOR FORCE GROWTH

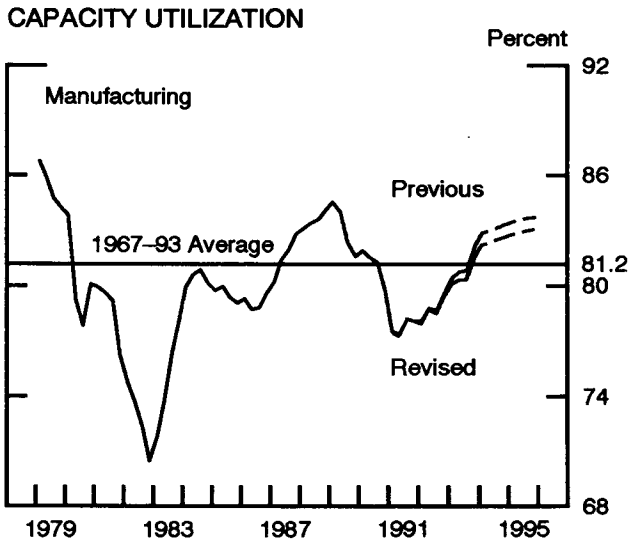
Percent change, Q4 to Q4

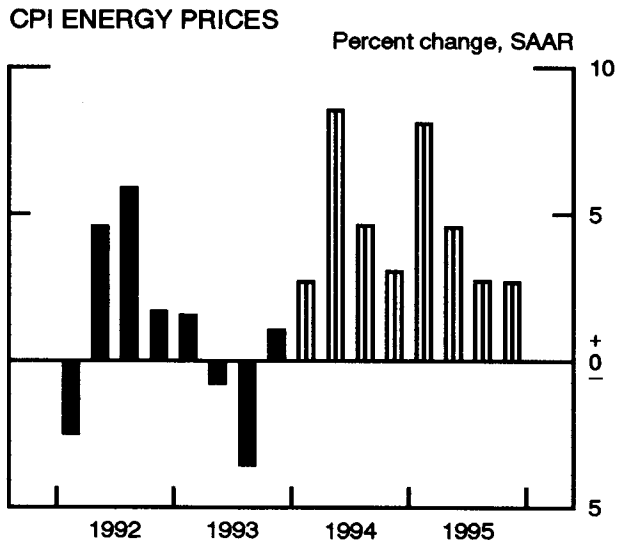
1990	.4
1991	.5
1992	1.3
1993	1.2
1994	3.2
1995	1.4

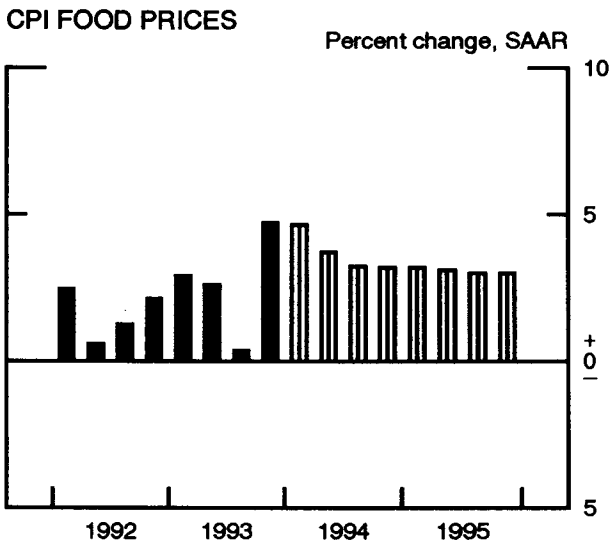
Chart 8

Inflation









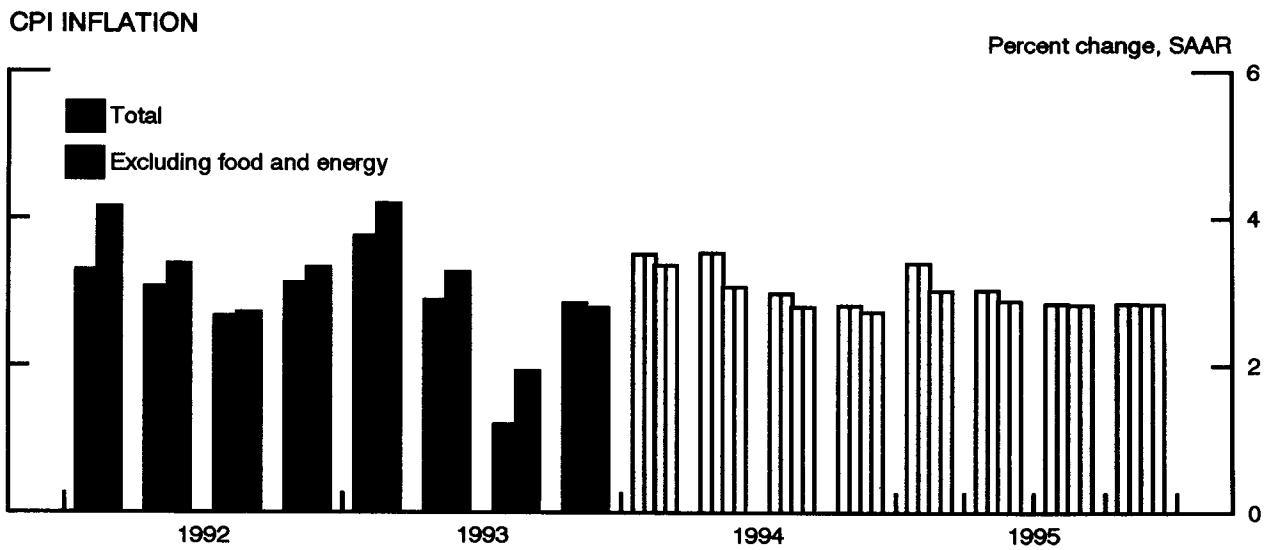
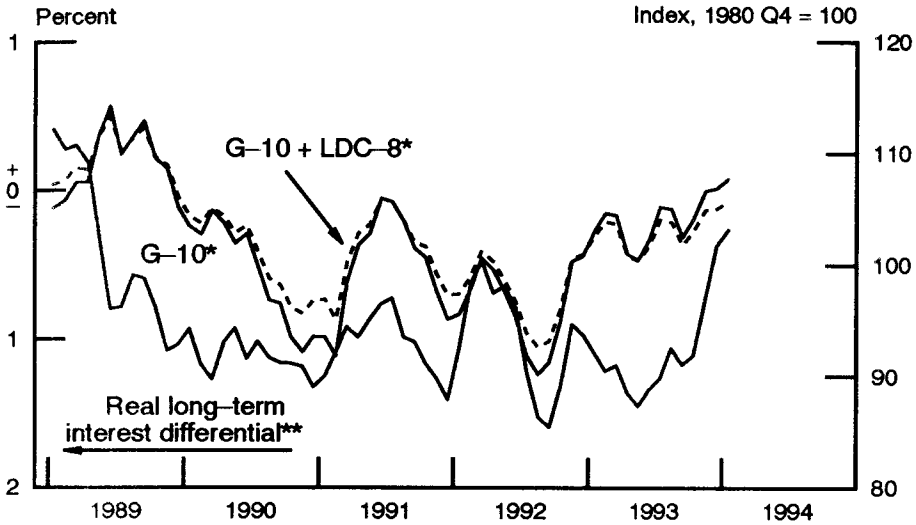


Chart 9

Exchange Rates and Interest Rates

THE DOLLAR AND THE INTEREST DIFFERENTIAL



* Weighted averages against foreign countries using world trade shares, adjusted by relative prices.
** Difference between rates on long-term U.S. government bonds and a weighted average of foreign G-10 long-term government or public authority bond rates, adjusted for expected inflation.

PRICE–ADJUSTED DOLLAR*

	Percent change 8/92 to 1/94
G–10	19
LDC–8	–3
G–10 + LDC–8	14

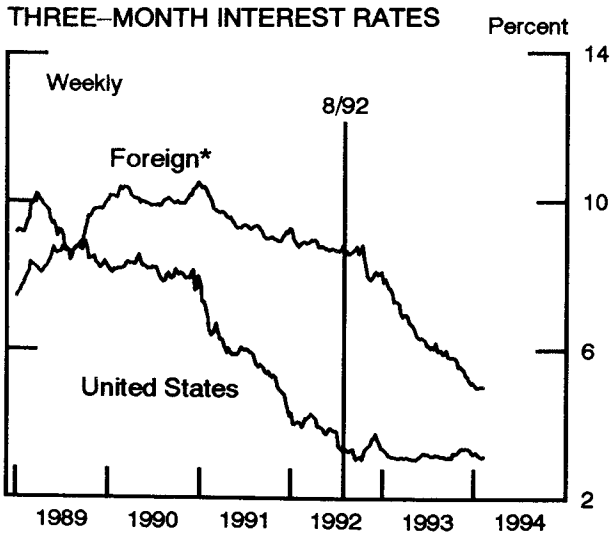
NOMINAL DOLLAR EXCHANGE RATES

	Percent change 8/92 to 2/2/94
Italian lira	54
Pound sterling	30
Deutschemark	20
Canadian dollar	12
Yen	-14
G-10 Average	**18**

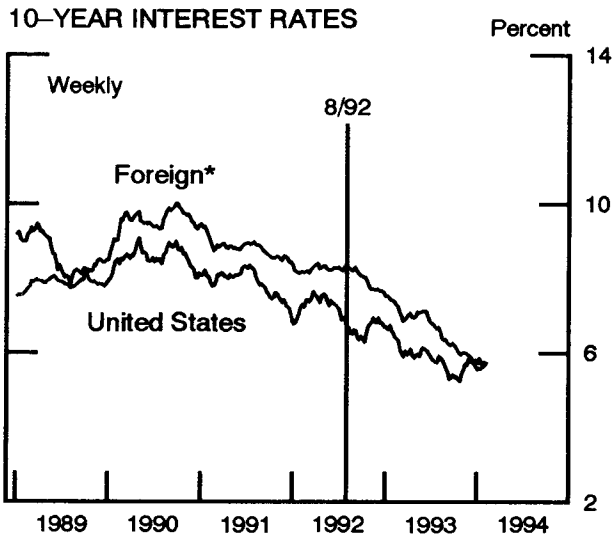
NOMINAL INTEREST RATES

	Level 2/2/94	Change 8/92 to 2/2/94
Three-month		
Germany	5.70	-4.09
Japan	2.20	-1.67
United States	3.18	-0.13
Ten-year		
Germany	5.71	-2.28
Japan	3.60	-1.42
United States	5.77	-0.82

THREE–MONTH INTEREST RATES



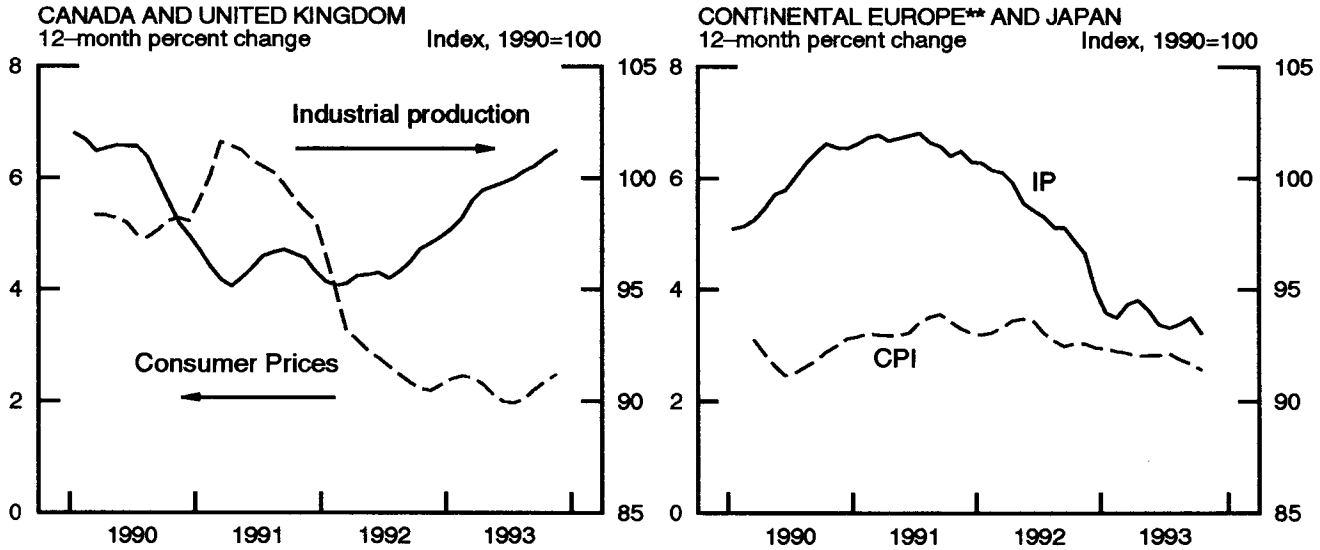
10–YEAR INTEREST RATES



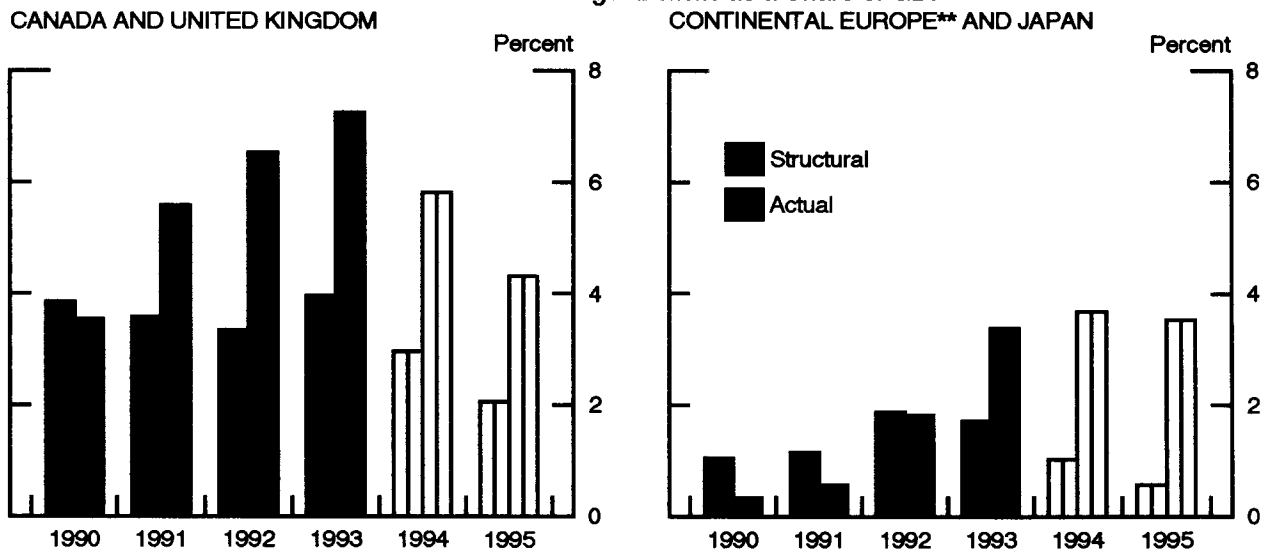
* Multilateral trade–weighted average for foreign G–10 countries

Chart 10

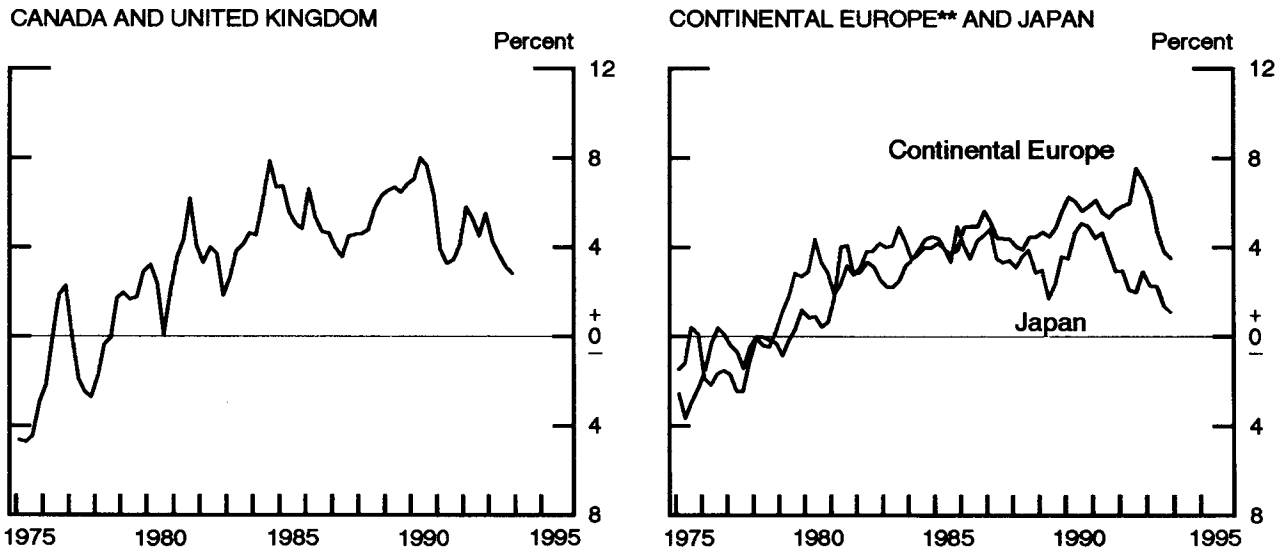
Industrial Production and Consumer Prices*



Structural and Actual Budget Deficits as a Share of GDP



Real Short–Term Interest Rates



Note: Aggregation across countries is based on U.S. nonagricultural export weights.

*CPI excludes food and energy prices; U.K. index also excludes mortgage interest rates. The IP and CPI series are both 3-month moving averages.

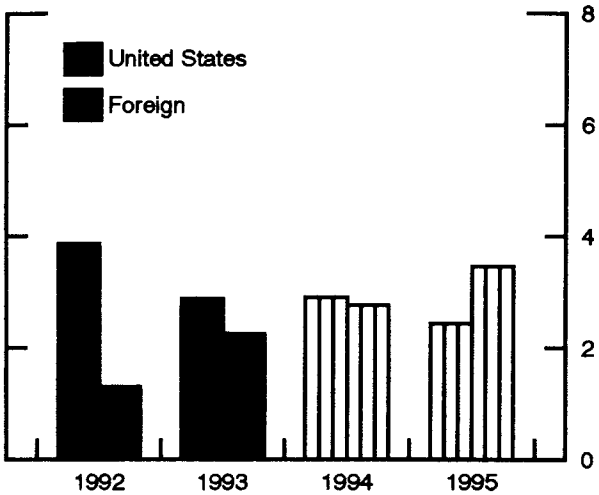
**Germany, France, and Italy.

Chart 11

Foreign Outlook

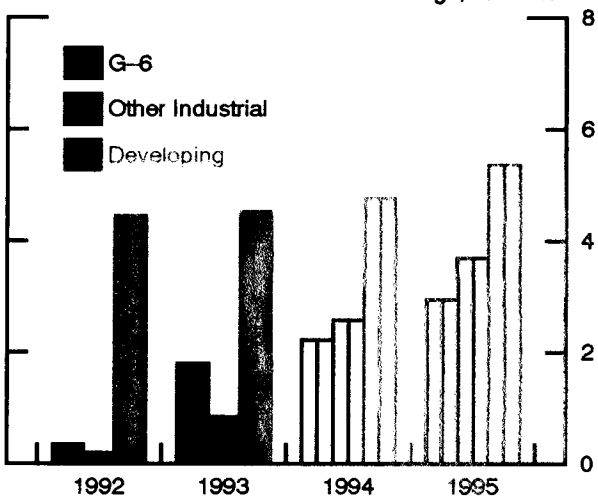
REAL GDP: U.S. AND FOREIGN*

Percent change, Q4 to Q4



FOREIGN REAL GDP*

Percent change, Q4 to Q4



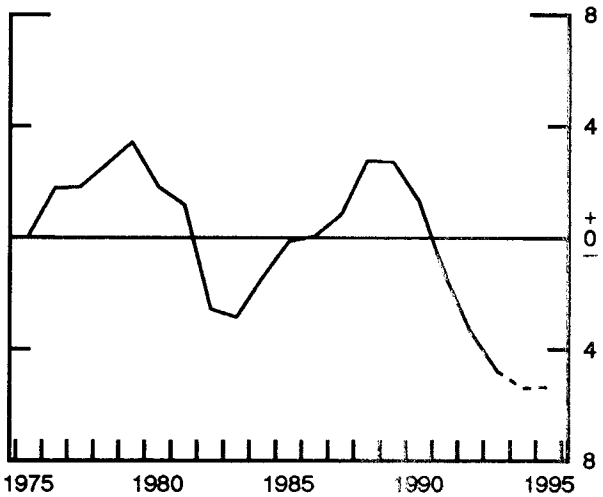
FOREIGN GROWTH

Percent change, Q4 to Q4

	1993	1994	1995
Canada + U.K.	2.9	3.0	3.3
Other G-6	0.2	1.1	2.5
Mexico	0.3	2.1	2.8
NIEs**	6.2	6.3	6.8
China	12.0	10.2	10.7

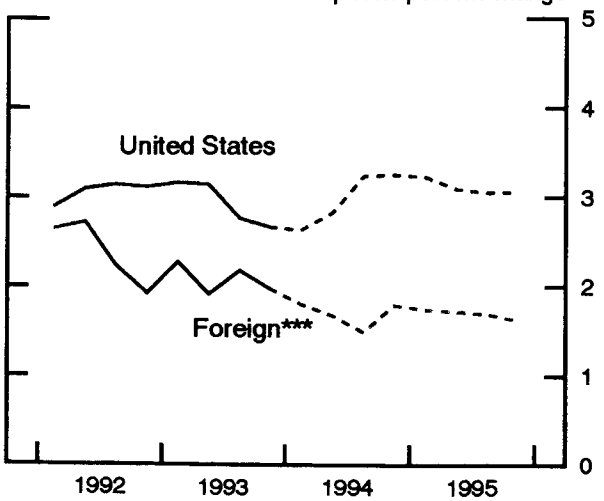
G–6 OUTPUT GAP: DEVIATION FROM POTENTIAL GROWTH

Percent



CONSUMER PRICES: G–7 COUNTRIES

4–quarter percent change



CONSUMER PRICES

Percent change, Q4 to Q4

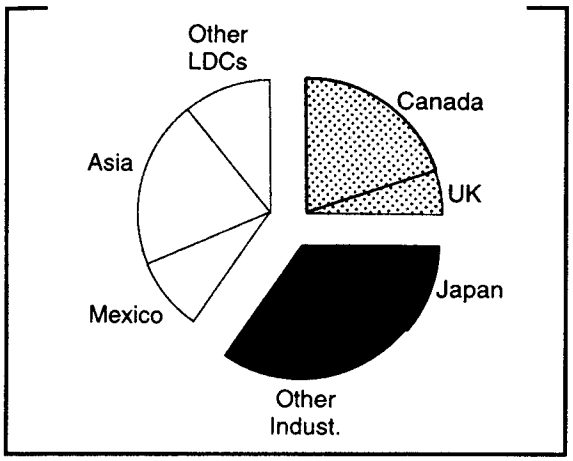
	1993	1994	1995
Canada	1.8	1.9	1.9
U.K.****	2.7	3.1	3.3
Japan	1.2	1.0	0.8
Germany	3.7	2.7	2.1
France	2.1	1.9	1.7
Italy	4.1	3.5	2.8
G-6	**2.0**	**1.8**	**1.6**

*G-6 countries, 16 other industrial and 9 developing countries, U.S. nonagricultural export weights.
**Hong-Kong, Singapore, South Korea, and Taiwan, U.S. nonagricultural export weights.
***G-6 countries, U.S. non-oil import weights.
****Excludes mortgage interest payments.

Chart 12

Exports

SHARES (1992)



SHARES (Percent)

	1972	1992	CHANGE (92-72)
1. Industrial	**69**	**59**	**-10**
2. Canada+UK	30	25	-5
3. Other	39	34	-5
4. LDCs	**31**	**41**	**10**
5. Mexico	4	9	5
6. Asia	13	21	8
7. Other	14	11	-3

GROWTH

Percent change, Q4 to Q4

	1992	1993*
1. Industrial	**0**	**4**
2. Canada+UK	5	18
3. Other	-3	-7
4. LDCs	**15**	**3**
5. Mexico	11	7
6. Asia	17	2
7. Other	14	2
8. Total	**6**	**4**

*Estimate, based on October–November

GROWTH IN REAL EXPORTS

Percent change, Q4 to Q4

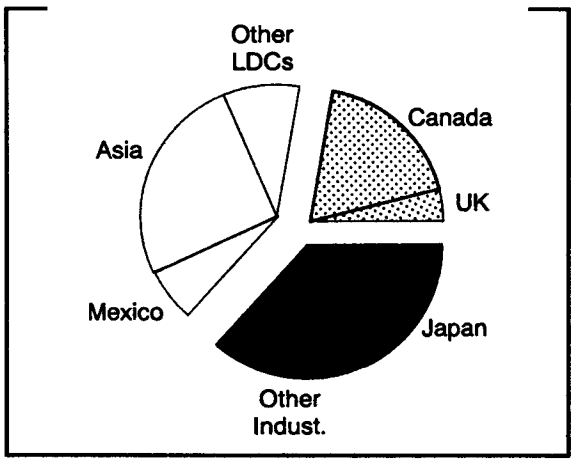
	1993	1994	1995
1. Goods	**4**	**6**	**9**
2. Agricultural	-8	1	4
3. Computers	17	27	35
4. Other	3	3	3
5. Services	**3**	**3**	**5**

REAL EXPORTS AND GDP

Chart 13

Imports

SHARES (1992)



GROWTH

Percent change, Q4 to Q4

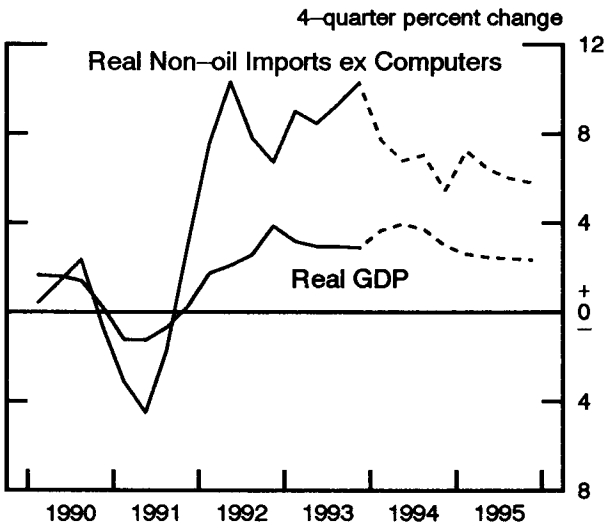
	1992	1993*
1. Industrial	**11**	**11**
2. Canada+UK	10	13
3. Other	11	9
4. LDCs	**10**	**10**
5. Mexico	11	28
6. Asia	11	11
7. Other	8	-1
8. Total	**11**	**11**

*Estimate, based on October–November

GROWTH IN REAL IMPORTS

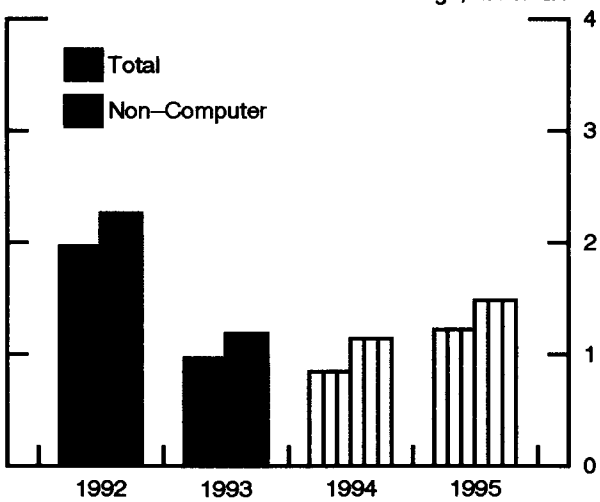
Percent change, Q4 to Q4

	1993	1994	1995
1. Goods	**14**	**10**	**10**
2. Oil	9	3	4
3. Computers	37	32	29
4. Other	10	7	6
5. Services	**5**	**3**	**3**



NON–OIL IMPORT PRICES

Percent change, Q4 to Q4



OIL PRICES

Dollars per barrel

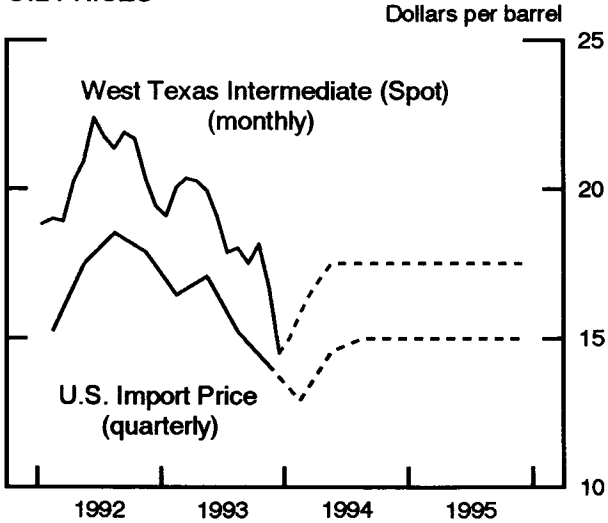
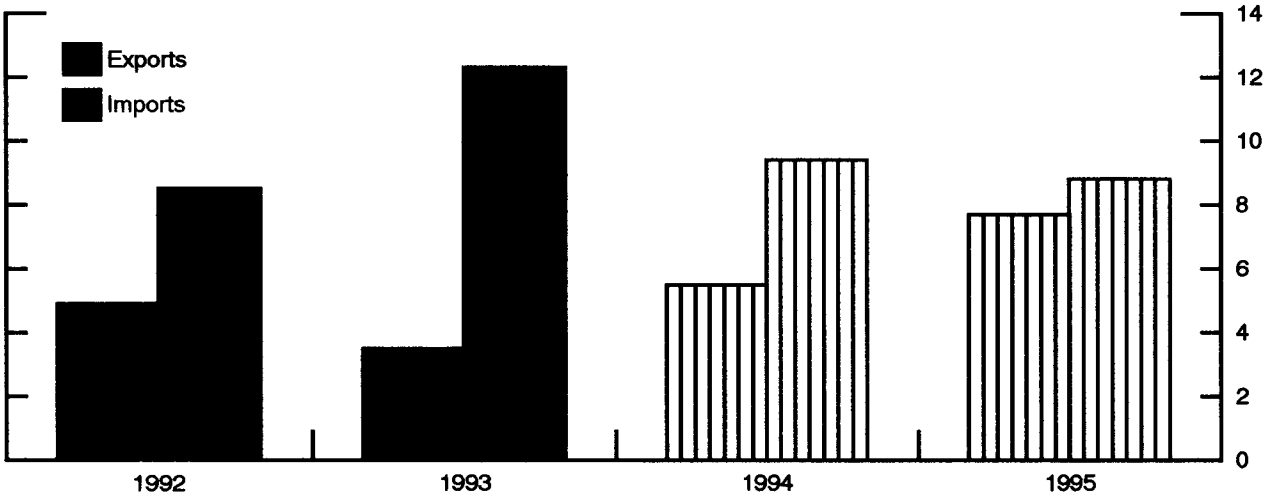


Chart 14

Summary of the External Sector

REAL EXPORTS AND IMPORTS OF GOODS AND SERVICES

Percent change, Q4 to Q4



EXTERNAL BALANCE

Billions of dollars, Q4 levels, SAAR

	1993	1994	1995
1. Current account balance	**-119**	**-149**	**-166**
2. Goods	-141	-172	-191
3. Services	58	63	72
4. Investment income	-1	-5	-10
5. Transfers	-35	-35	-36
6. Real net exports of goods and services	-96	-128	-147
7. Level change (1987$)	-57	-32	-19
8. Change as percent of GDP	-1	-2/3	-1/3

CONTRIBUTION OF EXTERNAL FACTORS TO U.S. CPI INFLATION

Percentage points, Q4 to Q4

	1993	1994	1995
1. Relative price of oil imports	-0.4	-0.2	0.0
2. Relative price of non-oil imports	-0.2	-0.2	-0.2
3. Real net exports of goods and services	-0.2	-0.3	-0.4
4. Total contribution	**-0.8**	**-0.7**	**-0.6**

Chart 15

Alternative Scenario

Baseline: Greenbook forecast.

Alternative: Foreign real GDP growth averages one percentage point above baseline.

Oil prices rise $3 per barrel above baseline in 1994, and remain at higher level thereafter.

Federal funds rate unchanged from baseline.

	Percent change, Q4 to Q4	
	1994	1995
U.S. Real GDP		
1. Baseline	3.0	2.4
2. Alternative	3.1	3.0
U.S. Consumer Prices		
3. Baseline	3.3	3.1
4. Alternative	3.7	3.8

ECONOMIC PROJECTIONS FOR 1994

	FOMC		
	Range	Central Tendency	**Staff**
	Percent change, Q4 to Q4		
Nominal GDP	$4^{3}/_{4}$ to $7^{1}/_{2}$	$5^{1}/_{4}$ to 7	5.4
Real GDP	$2^{1}/_{4}$ to $3^{3}/_{4}$	$2^{3}/_{4}$ to $3^{1}/_{2}$	3.0
CPI	$2^{1}/_{4}$ to 4	$2^{1}/_{2}$ to 3	3.3
	Average level, Q4, percent		
Unemployment rate	$6^{1}/_{2}$ to $6^{3}/_{4}$	$6^{1}/_{2}$ to $6^{3}/_{4}$	6.8

ECONOMIC PROJECTIONS FOR 1995

	FOMC		
	Range	Central Tendency	**Staff**
	Percent change, Q4 to Q4		
Nominal GDP	$4^{1}/_{4}$ to $6^{3}/_{4}$	$4^{3}/_{4}$ to $6^{1}/_{4}$	4.6
Real GDP	$2^{1}/_{4}$ to $3^{1}/_{2}$	$2^{1}/_{2}$ to 3	2.4
CPI	$1^{3}/_{4}$ to $4^{1}/_{2}$	$2^{1}/_{2}$ to $3^{1}/_{4}$	3.1
	Average level, Q4, percent		
Unemployment rate	$6^{1}/_{4}$ to $6^{3}/_{4}$	$6^{1}/_{4}$ to $6^{1}/_{2}$	6.8

NOTE: Central tendencies constructed by dropping top and bottom two from distribution, and rounding to nearest quarter percent.