

APPENDIX

FOMC Notes -- Peter Fisher

August 16, 1994

Mr. Chairman:

I will be referring to 3 pages of charts distributed this morning.

There are four issues which continue to be pivotal in the market's assessment of the dollar's prospects.

First, the **Administration's exchange-rate policy** and whether the recent expressions of support for a "stronger dollar" will continue;

Second, **short-term interest rate differentials with the German mark** and whether the direction of change will continue to be in the dollar's favor or whether and when it might reverse;

Third, the **U.S. trade deficit with Japan** and whether and when it might begin to improve;

And fourth, **investment flows into dollar assets** and whether and when dollar-denominated securities could become MORE attractive to investors on an unhedged basis.

Over the period since your last meeting, market perceptions of the likely answers to each of these questions have, on occasion, given support to the dollar as it moved up from its lows. On other occasions, market perceptions of the same issues have weighed on the dollar. Thus, despite the relative stability of the dollar during the period, market perceptions of the issues of most importance to the dollar's prospects have not been particularly stable.

Following the G-7 summit in Naples, on Monday July 11th the dollar dropped to intra-day lows below 1.52 marks and 97 yen, as market participants perceived the Clinton Administration to be sending mixed signals and the G-7 to be indifferent to the fate of the dollar. The rush of dollar-mark selling which brought the dollar to these lows represented the final working off of long dollar-mark positions, established earlier in the year, as well as the creation of significant short positions.

Although it was recognized that the dollar was oversold at these levels, particularly against the mark, the dollar bounced back sharply only after stronger official statements in support of the dollar, as you can see on Chart 1. On July 20th, the Chairman articulated the implications of the dollar's weakness with more force than the market had expected and, on July 21st, Under Secretary Summers strongly reiterated the Administration's commitment to a stronger dollar.

On the same day as Summers' testimony, the Bundesbank Council announced that weekly repurchase operations would be held at a fixed-rate of 4.85 percent until their meeting on August 18th. The Bundesbank's action -- combined with the Chairman's Humphrey-Hawkins statement that the need for further monetary tightening remained an "open question" -- effectively established a 30-day period in which the short-term, dollar-mark differential was only at risk of moving in the dollar's direction. As a

result, despite increasing signs of improvements in the German economy, over the following weeks dollar-mark traded in a range.

The dollar traded cautiously up against the yen in July and early August. Signs of improvement in the Japanese economy renewed the hope that imports would pick up and reduce the trade surplus. At the same time, the yen appeared to weaken against the mark and the Swiss franc, raising the question of whether the three-year trend of an appreciating yen might be coming to an end. In this setting, dollar-yen quickly shook off the impact of the Administration's July 31st announcement of the 60-day waiting period prior to the imposition of sanctions on Japan for procurement practices.

The dollar was also supported against the yen by indications that foreign investors were modestly pulling back from the Japanese equity market as well as by the relative stability of the U.S. government bond market -- relative both to the previous two quarters and to the sell-off in Japanese government bonds. As you can see on Chart 2, on a total return basis, G-5 bond markets (with the notable exception of Japan) were up from the start of the quarter. On a number of days during the period, the dollar traded with the U.S. long-bond, on the perception that the bond's performance is a proxy leading indicator of foreign appetite for dollar assets.

Last week, however, the dollar (and European bonds) dropped sharply on the perceived risk that European interest rates would be rising sooner rather than later.

Although German and other European bond yields had been gently backing up from late July on the stronger economic data, the impression remained that the Bundesbank would continue to ease money market rates and might even reduce official rates again after the October Federal election. Then last Thursday, the central banks of Sweden and Italy raised rates each in response to domestic circumstances. But instead of focusing on these countries' particularly weak political and fiscal conditions, market participants viewed the rate actions as anticipating that the stronger economic data would prevent the Bundesbank from any further easing and that, therefore, European rates had already bottomed. In this view, the relative weakness of Sweden and Italy forced them to get ahead of the Bundesbank.

Thus, the rate hikes caused European bond yields to jump and immediate mark strength particularly against the dollar but also within Europe. Looking forward, I don't think anyone expects the Bundesbank to lower official rates on Thursday. The harder question -- both for the market and the Bundesbank -- is whether they will revert from a fixed-rate to a variable-rate RP tender and, if they do, whether rates would move down or up.

Also, at the end of last week, dollar-yen came off with dollar-mark, and then subsequently showed little immediate reaction to the news that Japan's bilateral trade surplus with the U.S. had continued to rise in July in dollar terms, both on a month-on-month and on a year-on-year basis. [\$5.63 vs. \$4.69y & \$4.74m]

In sum,

The overall market perception of U.S. exchange rate policy improved over the period, but this is likely to be tested in the run-up to the September 30th trade-talks deadline;

Expectations that changes in the differential with the mark would support the dollar came unglued at the end of the period;

Hopes that the trade account with Japan would improve with the pickup in the Japanese economy were disappointed in the short run but remain a modestly, dollar-supportive factor; and finally,

The prospect for dollar-assets to become more attractive continues only to tantalize foreign exchange market participants.

Mr. Chairman, since the Committee's last meeting, the Mexican peso has strengthened slightly off of the limit of its crawling peg to the dollar, as you can see on the third page of charts. The relative stability of major bond markets in July, better-than-expected earnings by Mexican companies, and the improved standing of P.R.I.-candidate Zedillo in the polls, led to a rally in the Mexican stock market and caused some investors to reconsider whether the markets had not underestimated the

prospects for a P.R.I. victory in this Sunday's presidential election. This reduced the pressure on the peso and permitted the Bank of Mexico to bring down interest rates somewhat.

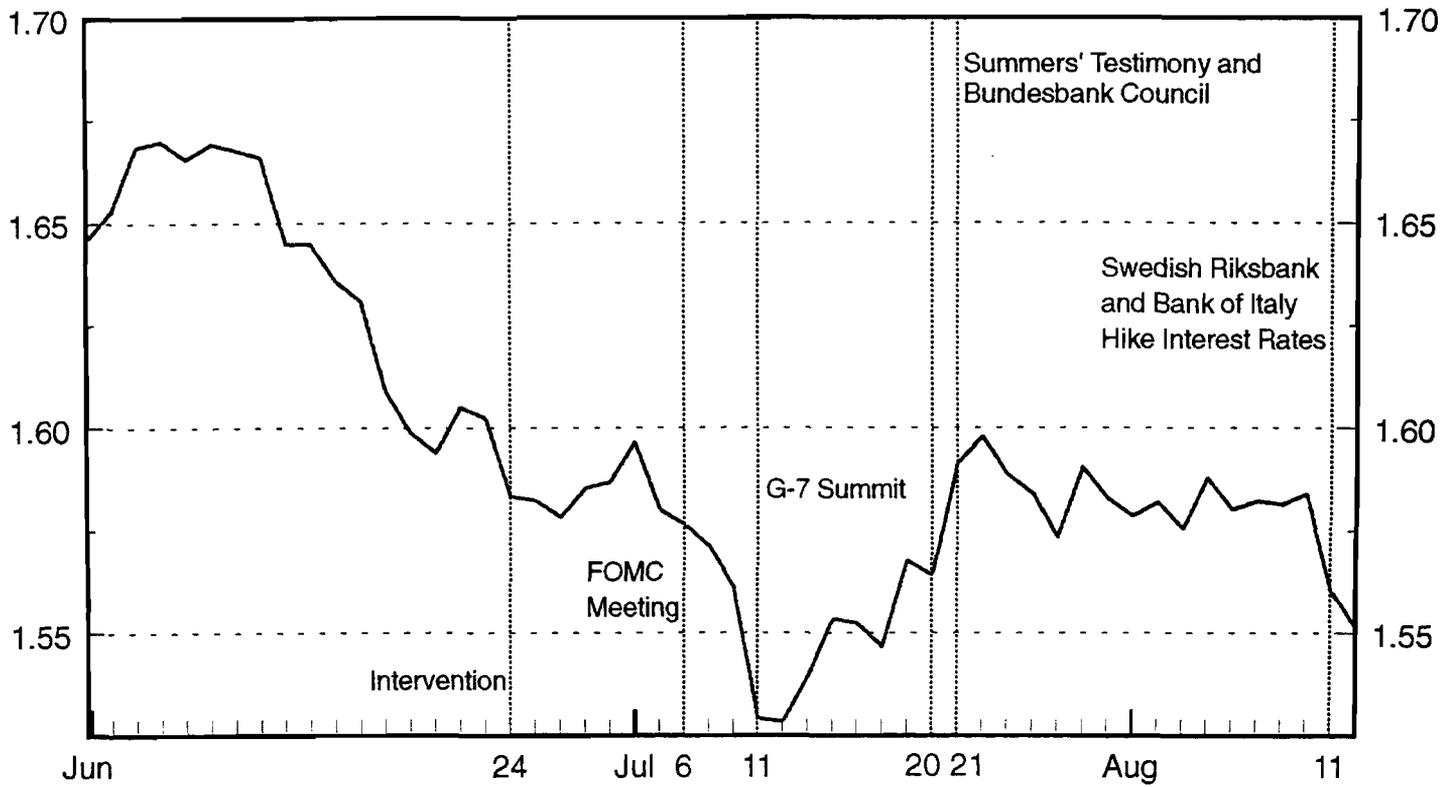
I think the markets are discounting an election outcome which includes (i) a Zedillo presidency, (ii) some risk of a coalition-cabinet of the P.R.I. with the other main centrist party, the P.A.N., and (iii) the likelihood that, no matter what happens, the results will be contested by the main leftist party, the P.R.D. Such a result would imply a substantial continuity of economic policies, still leaving open the possibility of an adjustment in the exchange rate as part of the renegotiation of the PACTO, among the government, business and labor in the autumn. An outright P.R.I. defeat, however, or a P.R.I. presidential victory seriously contested by parties or institutions other than the P.R.D., would be likely to surprise and disturb the markets.

Mr. Chairman we had no operations during the period.

I would be happy to answer questions about my report.

CHART 1

\$/Mark



\$/Yen

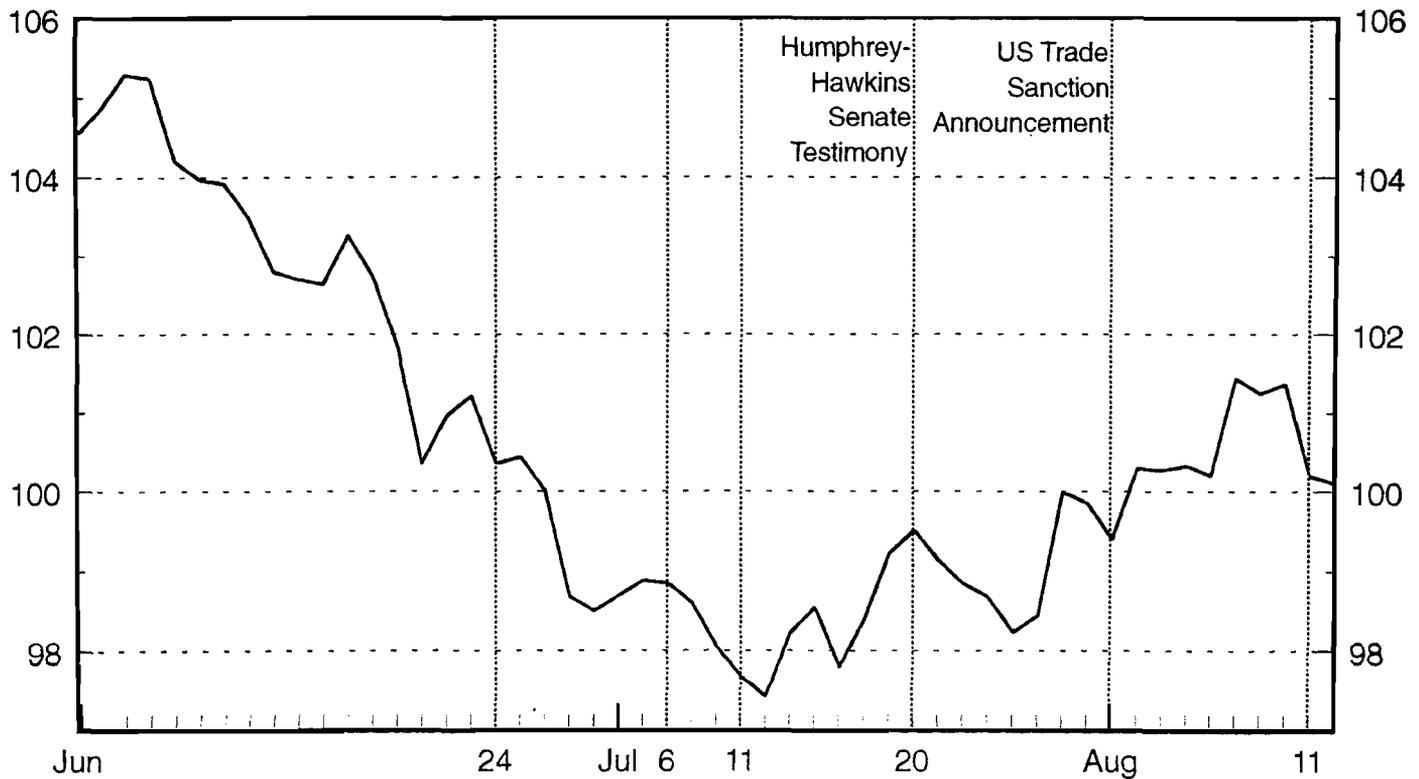


CHART 2

Quarterly Percent Change in Total Bond Return Indices

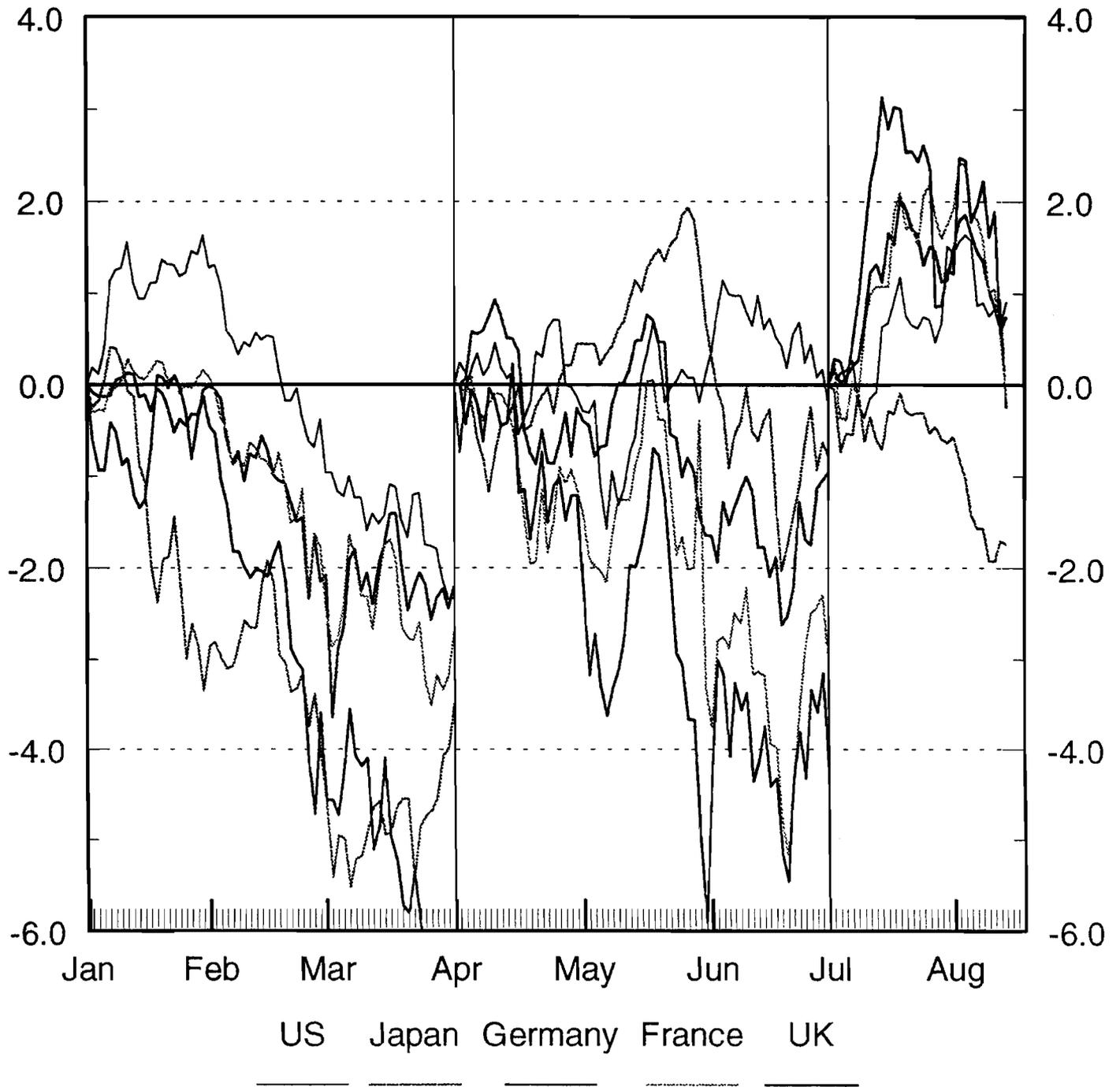
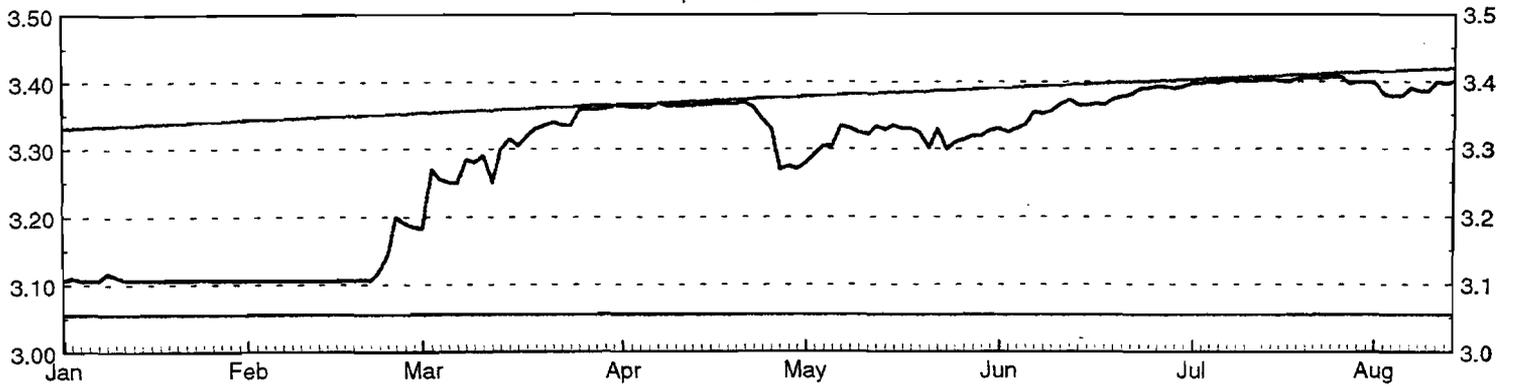
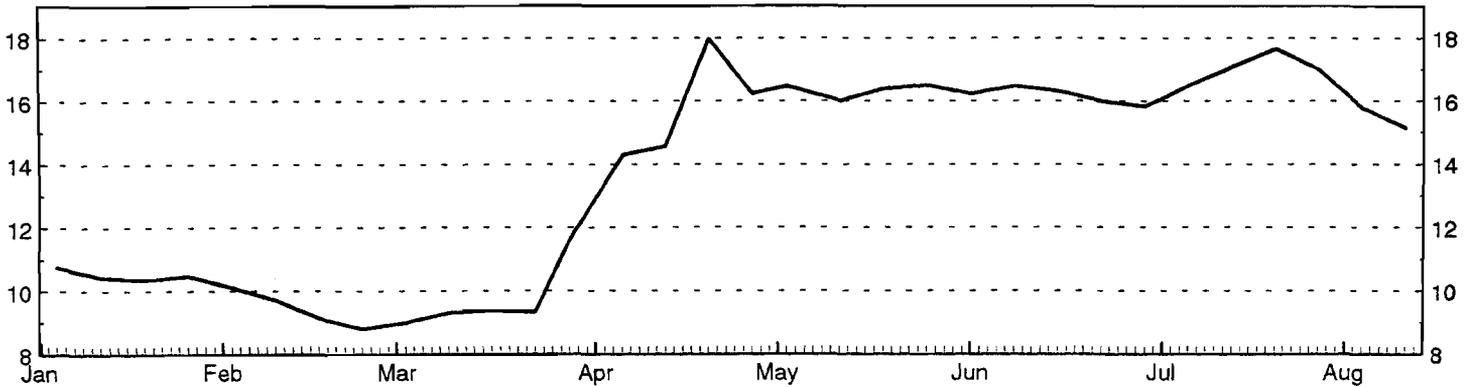


CHART 3

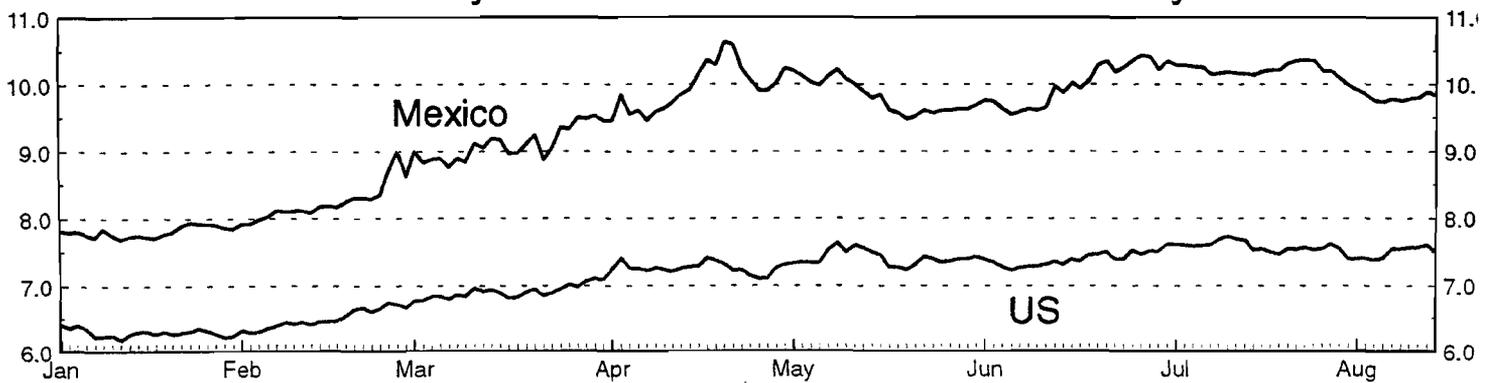
\$/Peso



28-Day Cete (Weekly Auction Rate)

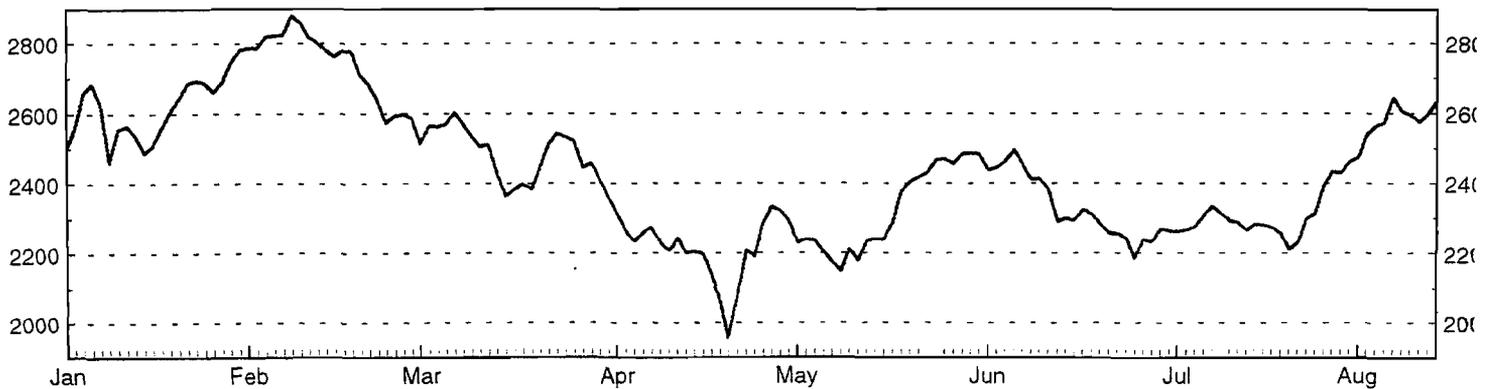


Mexican Brady Bond* and US 30-Year Treasury Bond



* Mexican par bond due 12/31/19, coupon 6.25%.

Bolsa Index



Notes for FOMC Meeting
August 16, 1994
Joan E. Lovett

Our operations during the intermeeting period were designed to maintain the degree of reserve pressure put in place last May, consistent with Federal funds continuing to trade around 4 1/4 percent. Three upward adjustments were made to the borrowing allowance to account for the growth in its seasonal component that is typical this time of year. Altogether, the allowance was raised by \$125 million, bringing it to \$450 million. Actual borrowing for the period averaged \$435 million, and it rarely strayed far from the allowance in place at any time.

At the outset of the interval, we anticipated large reserve shortages in the first maintenance period and again in the final period which ends tomorrow, but with much smaller deficiencies expected in the intervening period when currency and required reserves were expected to briefly unwind from their seasonally high levels. While this reserve profile held in general, a number of adjustments were made along the way. The required reserve estimates underwent substantial revision, first moving higher and deepening the reserve shortages as demand deposit growth surged over July, but more recently moving in the opposite direction. There were also large swings in the apparent demand for excess reserves from one period to the next, partly the result of opportunistic reserve management strategies by banks taking advantage of their reserve carry-over flexibility.

With the need so uneven from period to period, we made frequent use of temporary operations of varying size and maturity, altogether arranging RPs on 21 occasions. Multiday System transactions were heavily used to address the substantial reserve shortages faced early and again late in the interval, while overnight operations, mostly customer RPs, dominated in the middle period. With an eye toward large sustained reserve needs ahead, we also began to purchase securities on an outright basis from foreign accounts in the current maintenance period, buying about \$635 million altogether from this source.

The effective funds rate averaged 4.28 percent for the period as a whole. Funds often traded with a slightly firm cast owing to the frequency of deep reserve deficiencies, but also at times when the market felt that a firming in policy could be close at hand.

On July 25, we implemented the first phase of automated open market operations using the Trading Room Automated Processing System, which we call TRAPS. This system allows us to electronically announce operations, receive and process propositions, and notify dealers of the results. We have now used TRAPS for a number of temporary operations, and they have all gone smoothly. We expect our first outright market operation with TRAPS to be more challenging and plan to undertake one soon in light of reserve needs ahead.

In securities markets, interest rates continued to be buffeted by speculation about the immediacy of further policy adjustments that ran both hot and cold. These market mood swings were driven largely by economic numbers that sent conflicting signals about the strength of the expansion and the likelihood that intransigent inflationary forces could take hold down the road. Net movements in rates over the period were relatively modest and occurred within the roughly 50 basis point trading range in place since mid-May. But with convictions in flux, the market often moved from one end of the range to another in relatively short order. Yields on Treasury coupon securities ended little changed on longer dated paper to about 10 basis points higher on shorter dated issues and about 15 to 20 basis points higher on bills. The rate volatility was greatest at these shorter maturities. Reflective of this tendency, volume figures from the futures exchanges show quite a surge for the year to date, particularly for short-term Eurodollar futures.

The two nonfarm payroll employment reports released during the period seemed to indicate that economic activity retains substantial forward momentum, and both reports sparked a sharp back-up in rates. In between these releases, however, there was a body of data presenting a contrasting picture, which contributed to a period of declining yields. Indications of softening activity in autos and housing, perhaps reflecting the

effects of past interest rate increases, were taken in stride, but data on June retail sales released in mid-July suggested a broader-based consumer retrenchment. Moreover, the signs of slowing final demand and inventory buildup in the second quarter GDP report were seen by some as possibly foreshadowing a significant pause in the expansion. Recent upward revisions to past retail sales data, however, have partly alleviated the view that production will have to decelerate markedly in upcoming months to work off unwanted inventory excesses.

While most of the price data released during the period was seen as acceptable, participants continue to worry about future price prospects. The Chairman's Humphrey-Hawkins testimony in mid-July was seen by the markets as a "heads up" on the need for vigilance on this front and was taken as cautionary. As for the dollar, it has pretty much receded into the background as an influence on domestic markets. But the abrupt move up in European rates that touched off a slide in the currency last week served as a reminder of the vulnerability to events from this quarter.

The past period was also marked by fairly heavy supplies of new Treasury issues, which the market sometimes digested with difficulty. While investors are said to be sitting on a fair amount of cash, it seemed to be committed only during the periodic market rallies and in the short end of the market. All told, the Treasury raised a net \$44 billion in new cash. Apart from \$13 billion of short-dated cash management bills,

almost all came in coupons. These were capped off by last week's midquarter refunding auctions, which fared variously in the uncertain rate climate of the time. The sale of the 30 1/4 year bonds was the least robust of the three coming as it did amid a market back-up occasioned by the latest data on retail sales. The unusual maturity on this issue is designed to preserve liquidity in the strips markets for coupons with May and November payment dates that could otherwise have been eroded by the Treasury's decision to hold bond auctions only semiannually.

As for the outlook, most analysts seem confident at this juncture that the economy is advancing with enough momentum to warrant immediate action to move policy further away from accommodation. The perception of those who see the economy operating uncomfortably close to capacity is that a more aggressive 50 basis point hike in the funds rate is needed to rein in inflationary expectations. Recent market surveys place these views close to--if not in--a majority position. Others seem less certain that the economy will advance at an unsustainable pace and see a smaller move as a justifiable compromise for right now. The market is currently priced about midway in between these views. Expectations going forward are diverse but have as a common theme the continued embodying of a rise in the funds rate, lifting it to a "central tendency" centered in a range of 5 - 5 1/4 percent by year-end. Against this backdrop, a third, decidedly minority opinion is that the Committee may decide to postpone any policy action at this time.

Such a decision would probably catch a large number of participants by surprise and could raise uncertainty about the Committee's longer run intentions.

Michael J. Prell
August 16, 1994

FOMC BRIEFING

Our forecast for the economy has scarcely budged from that presented last month. I'll try this morning to summarize briefly how we ended up about where we started, despite the usual supply of surprises along the way.

I should begin with a few words about the past. Since the last meeting, the Commerce Department has raised its estimate of GDP growth in the first quarter of this year a little, and reported an increase in the second quarter a tad larger than our prediction in the last Greenbook. Moreover, the incoming economic data since the publication of the initial estimate have been stronger, on net, than Commerce assumed--suggesting the possibility of an upward revision to second-quarter GDP. We'll know more about that on Thursday, when the June trade balance is reported. But it appears at this point that the economy was a bit more robust than we thought in the first half at the prevailing interest rates.

Based on that simple observation, one might ask why we have raised neither our interest rate assumption nor our GDP forecast. The main reason is, of course, that the extra output thus far this year has gone into inventory rather than final sales. Indeed, the surge in stock-building this spring was large enough to raise the issue of whether a significant production adjustment could be at hand. As we see it, there surely were at least some firms that found themselves at mid-year with extra merchandise on their shelves, owing to disappointing sales. But we think it likely that, in the majority of cases, the buildup reflected efforts to replenish stocks depleted

during the earlier sales surge--or to ensure adequate supplies for expected future production or sales, especially where goods have become harder to get on short notice or price increases are foreseen.

That said, the pace of real nonfarm inventory accumulation in the second quarter--more than 5 percent, at an annual rate--is unlikely to be sustained for long, and we have projected a considerable deceleration over the second half of this year. The drag on GDP growth averages almost a percentage point at an annual rate this quarter and next--much more than in our last forecast.

So why, then, you might ask, reversing the earlier question I posed, has our near-term GDP forecast been lowered only imperceptibly? One reason is that a portion of the downswing in inventory investment probably will be offset by weaker imports; this is likely to play a particularly notable role in the wholesale and retail trade sectors where the downshift in accumulation almost certainly will be centered.

But other factors loom larger in explaining the modest adjustment of the GDP forecast in the face of the expected downshift in inventory investment. High on the list is the surprisingly robust growth of payroll employment in June and July--and the signs of continued brisk job growth into August. Assuming these folks are being employed productively, output growth shouldn't have slackened dramatically from the first-half pace.

And the added jobs presumably are also generating personal income, thereby providing support for consumption. We do believe that consumer demand has begun to moderate, but we're inclined to discount the weak July retail sales data in judging the extent of the underlying slackening to date. In particular, we put some credence in the reports that sales of motor vehicles have been limited by the shortage of some popular models. This availability problem should be

considerably alleviated in the near term. Thus, we expect to see moderate gains in real PCE this quarter and next, averaging something like 2-1/2 percent--the same as in the last Greenbook.

This morning's data on July housing starts suggest that, if anything, building may be holding up better than we anticipated in our latest forecast. Single-family starts were up 2-1/2 percent, to 1.19 million units, at an annual rate--well above our projection for the third quarter. The fact that single-family permits were down 2 percent casts some doubt on the reality of the gain in starts, but, on balance, the numbers still constitute a positive surprise. Multifamily starts were up 19 percent, to 222,000--a little weaker than we expected, but the difference is of negligible GDP significance.

The two most important offsets to the sharper downshift in inventory investment in the latest Greenbook forecast are to be found in equipment outlays and exports. With regard to the former, all of the information we have--both statistical and anecdotal--suggests that investment in business equipment is growing rapidly, not just in the high-tech computer and communications lines, but over a wider range. And, as regards the prospects for exports, economic recovery now seems more definitively under way across the major foreign industrial countries.

Indeed, it is because of the likelihood of a flattening out of net exports from here on that we believe a sustained slowing of GDP growth will require a slackening in the expansion of domestic final demand. We recognize that the effects of the rise in interest rates since last October have yet to be manifest fully, but it is our judgment that--partly because of the ongoing easing of credit availability at banks--more monetary tightening will be necessary if

the deceleration of activity that we've projected is to be achieved. Given the uncertainty surrounding even that judgment, we don't want to claim that we can precisely quantify the needed adjustment. But, again, our judgment is that it is nontrivial, and we've offered the very rough quantification of one percentage point, happening by the beginning of next year. Of course, if the bond markets were to magnify the effects of a smaller tightening the way they did in February, less action by the System would suffice to produce the same restraint.

Obviously, this unpleasant medicine is being prescribed with the understanding that the desire is to avoid an increase in inflation. Stated simply, we perceive the trend rates of increase in wages and prices as having essentially leveled out over the past few quarters. Manufacturers are experiencing rising materials prices, and more seem to sense the opportunity to pass those costs along. Crude oil prices have backed up and are working their way through the system, not only directly into energy prices but also into the prices of other products. The recent depreciation of the dollar seems likely to bring less favorable import price behavior. And all of this is happening with capacity utilization above the long-term average and the unemployment rate having recently entered the zone that history suggests is consistent with stable inflation. Under the circumstances, we think it likely that output growth fast enough to intensify pressures on resources would be associated with a rise in the trend of inflation.

Of course, there are great uncertainties attending this analysis. And, even taking our forecast as a reasonable baseline, the increment to aggregate demand one might expect over the next few quarters by not implementing a percentage point increase in the funds

rate is probably not huge--and would have only a modest short-run effect on inflation. But the implication of our forecast is that the maintenance of the current policy stance carries a significant risk of falling behind the proverbial curve and allowing inflation to begin gathering some upward momentum within the coming year.

August 16, 1994

FOMC BRIEFING
DONALD L. KOHN

With the economy probably operating close to--if not at--its estimated long-run potential, and growth slowing to an uncertain extent from a pace above that of potential, the key issues for the Committee at this meeting would seem again to be whether to tighten, and if so by how much.

As Mike discussed, the Greenbook projection does assume an appreciable upward tilt to short-term interest rates over the coming months. On the staff's analysis, such a rise is needed to restrain domestic demand, and thereby make room for a firming of net exports. In part, higher short-term rates would be an offset to the effects on spending of greater credit availability. Our August senior loan officer survey, consistent with numerous anecdotal reports of aggressive lending, again showed a significant number of banks easing credit standards and various loan terms. Survey responses and the volume of junk mail at the Kohn household suggest an aggressive posture in seeking consumer loans as well. In effect, financial headwinds may have turned into mild tailwinds, especially after factoring in the apparent willingness of businesses and households to take on new debt.

In this regard, however, we are not interpreting the surprising strength of money and bank credit in July as foreshadowing a sustained pickup in financial flows, such as might

be associated with a policy that was far too accommodative. Rapid growth in July follows considerable weakness in the first six months of the year, especially in the monetary aggregates. Both broad aggregates remain near the lower ends of their ranges, reflecting the effects of System tightening on market interest rates and opportunity costs. With bond and stock mutual funds experiencing weak inflows and capital losses, M2+ has increased at only a one percent rate this year. And, through July, M1 had expanded at a 4-1/4 percent rate, down from double-digit growth the previous two years. Moreover, some of the recent surge in bank credit represents a flight from higher rates and greater volatility in long-term markets, including from fixed-term mortgages as well as from corporate bonds and equity. Data on aggregate credit in recent weeks and months are sketchy, but do not suggest a significant acceleration in the growth of private or total debt.

Looking forward, we project a return to more modest growth of money and bank credit, and data for early August tend to confirm that notion. However, our projection is predicated on a moderation in the expansion of nominal GDP; in this regard, continued appreciable overshoots of money and credit from projections might suggest that real interest rates had not yet been raised sufficiently to curb nominal spending and borrowing to a sustainable pace, though such overshoots

could also result from shifts in asset or liability preferences.

The slow growth of money and moderate expansion of credit so far this year, along with indications that final demand was already decelerating, might be seen by the Committee as arguing for keeping policy unchanged again at this meeting, as in alternative B in the bluebook. The Committee might choose this alternative if it wished to delay action at least until it received additional information about the course of the economy, enabling it to judge better whether the policy tightenings already undertaken had been sufficient to forestall pressures on resources. Very recent favorable readings on broad indexes of prices of final goods and services also might be interpreted as supportive of the choice of alternative B. Although such readings provide no assurance that inflation won't pick up in the future, they do provide evidence that pressures have not already manifest themselves, and could indicate that there is greater slack in the economy than the staff has gauged. The latter circumstance would give the Committee some scope to keep policy unchanged while avoiding higher inflation even if underlying demands on the economy turn out to be on the stronger side.

Financial markets have incorporated expectations of some tightening at this meeting, and a lack of action could provoke some speculation on the strength of the Committee's anti-inflation resolve. But the choice of alternative B would

imply that the Committee views the inflation risks over coming quarters as smaller than the staff or the market does, and subsequent data confirming the Committee's assessment would calm such concerns.

If, on the other hand, the Committee saw the economy as having already reached its long-run potential or as in danger of doing so, or going through potential, owing to continued strength in the expansion of GDP, it might wish to firm reserve conditions further to contain inflation now and set the stage for making more progress toward price stability over time. Since last May when the Federal Reserve announced that policy accommodation had been substantially removed, labor markets have been stronger, unemployment lower, the dollar weaker, and the revival of foreign economies faster than many had expected--suggesting higher odds at present on an intensification of pressures on resources and prices. Moreover, short-term real rates still are not high relative to historical experience in economic expansions.

Alternative C of the bluebook calls for a 25 basis point rise in the federal funds rate. The Committee might favor such an action if it saw the outlook as indicating the need for some firming, but had questions whether the recent data suggest that a more significant move was required. Alternative C could be conceived of as buying a little insurance against inflation, while the Committee awaits further evidence before deciding whether to purchase a larger policy.

Although many financial market participants are predicting a 50 basis point firming at this meeting, a little more than 25 basis points is about what is built into the near-term structure of market interest rates. That structure seems to incorporate an appreciable further firming of policy over the next several quarters. Consequently, the most likely effect on intermediate- and longer-term rates of a modest tightening at this meeting would seem to be no appreciable change or perhaps a small upward movement, as frequently occurs in such circumstances. Changes of 25 basis points in the funds rate, when they are expected, should not be disruptive or produce greater volatility. For example, after its meeting last March, when the Committee firmed policy by this amount, rates across the yield curve actually fell a little. Still, there is some risk of market unsettlement as the Federal Reserve takes its first action since the May announcement, especially if that action raises questions about the System's probable intentions going forward.

The possibility of a major market reaction presumably would be larger with the 50 basis point tightening of alternative D. Such an action at this time would surprise markets to some extent, and a pronounced steepening of the forward yield curve for some period ahead could not be ruled out. Because the Committee would be departing from the "on-hold" posture implied by the May announcement, market participants might

react as if this were the first in a new string of tightenings, rather than another routine mid-course correction.

Some increase in intermediate- and long-term real rates would not be an undesirable outcome of a tightening that presumably was undertaken because the FOMC saw significant risks of inflation pressures. But the Committee might be concerned about market over-reaction and misinterpretation. The Committee might view alternative D not as the first in a series of steps, but rather as, in effect, an adjustment within the neutral zone that might well be sufficient to accomplish its objectives over time. In this circumstance, a statement explaining the Committee's reasoning could be helpful in avoiding unwarranted market reactions. An explanation would be natural and expected if the increase were accomplished through a hike in the discount rate.

A statement that the System was likely to be on hold at least for a while would have some credibility in the context of an increase in the funds rate as large as 50 basis points. But it would be the second such statement in three months. And, unlike the situation in May, it comes under circumstances in which the Federal Reserve could be seen as having reverted to its traditional posture of making policy adjustments based on new information. In these circumstances, the market might well perceive that the System could not tie its hands very tightly for very long; the statement itself probably would not give market participants a reason for

altering their fundamental assessment that underlying economic strength will require additional tightening in the future. A statement would be helpful, however, in conveying the Federal Reserve's judgment that it doesn't suddenly see a larger inflation problem looming than most market participants had already anticipated, that it sees the risks after the action as reasonably well balanced, and that in the absence of very surprising information, it doesn't expect to follow one action with another in the immediate future.

Table Distributed by Governor Lindsey

ESTIMATED INCREASES IN HOUSEHOLD CASH FLOW
93:II to 94:II

<u>Income Item</u>	<u>NIPA</u>	<u>CashFlow</u>	<u>Adjustment</u>
Wages	180.8	180.8	
Interest	17.6	5.0	Share of 1992 NIPA Interest reported on tax returns -- either taxable or non-taxable.
Dividends	12.2	5.6	Same, but for dividends.
Proprietors Inc.	29.3	18.8	Share of 1992 NIPA Prop. Income reported on Sched C, or as Partnership or Small Bus. Corp. Income
Transfers	44.3	23.3	NIPA data on cash transfers
Other Labor Inc.	26.2	0	Payments to Pension and Health Plans do not increase cash flow
Rent and Farm	10.5	0	Mostly return to owner occupied units, no increase in cash flow.
Less Social Ins.	(18.1)	(18.1)	
Personal Income	320.9	215.4	
Personal Taxes	60.3	60.3	
Disposable Personal Income	260.3	155.1	
P.C.E.	237.5	237.5	
Less Third Party PCE Medical		32.3	Payments included in transfers and other labor income deleted above
Cash Flow P.C.E.		205.2	