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Strictly Confidential (FR) Class II FOMC

September 26, 1990

SUMMARY AND OUTLOOK

Prepared for the Federal Open Market Committee

By the staff of the Board of Governors of the Federal Reserve System

Overview

Available data suggest that real gross national product will register a small increase in the third quarter. However, the sharp rise in oil prices appears to be draining forward momentum from the economy, and, barring a sudden favorable change in the situation in the Middle East, some contraction in activity in coming months now appears more likely than not: On the assumption that oil prices will not drop much below current levels until early 1991, the staff forecast now shows small declines in real GNP in both the fourth and first quarters, as well as greater inflation.

Given the deterioration in the outlook for inflation, we have continued to assume that the System will maintain current money market conditions in the face of a weak economy and anticipated restrictive fiscal action. In this forecast, a moderate upturn in business activity is sparked next spring by an assumed drop in oil prices, to around $25 per barrel (West Texas Intermediate). Specifically, the fall in oil prices over the first half of 1991 boosts real disposable income, which is projected to bolster consumer demand and, with a lag, business spending. In addition, gains in merchandise exports are expected to increase appreciably from the recent slow pace, in response to a pickup in growth abroad and to the decline in the dollar over the past year; the lower dollar also should help to restrain imports. With inventories currently in check and expected to remain that way, the higher demand should translate quickly into gains in domestic production. In the absence of further exogenous shocks, real GNP is expected to expand at about a 2-1/4 percent annual rate, on average, over the final three quarters of 1991 and about 2-1/2 percent in 1992.

As noted above, the outlook for inflation has deteriorated since the last Greenbook, despite the prospect of lower economic activity and higher unemployment over the next few quarters. Higher oil prices are only part of the story, albeit a big part. Incoming data also indicate that the underlying inflation trend probably has moved up in recent months; for example, the year-over-year increase in the CPI for items other than food and energy as of August, at 5-1/2 percent, was the largest since 1982. In addition, the level of the dollar is a bit lower than was anticipated last month, and non-oil import prices are projected to post substantial increases in the near term.

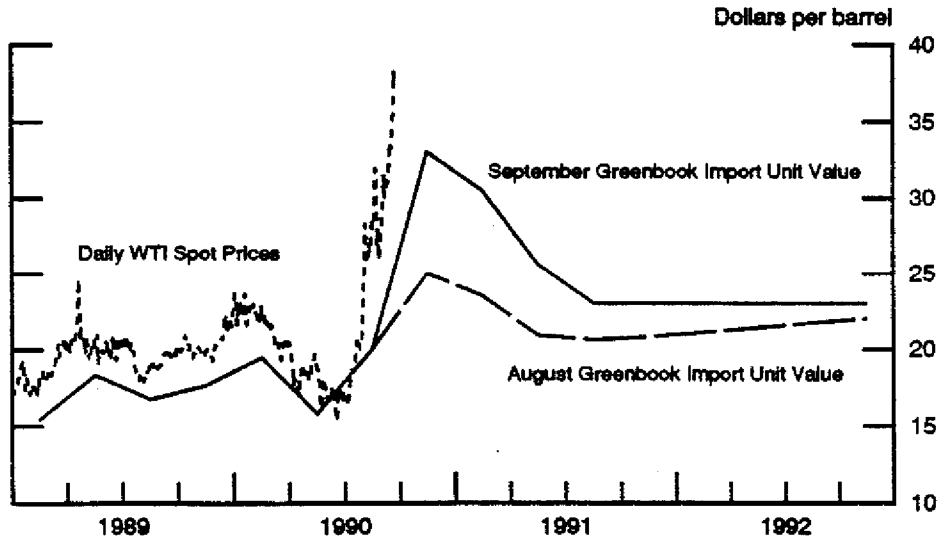
The extent of the passthrough of higher prices into labor costs will be a key factor determining the persistence of faster near-term inflation. Initially, compensation per hour is expected to rise a bit more rapidly than in the last Greenbook, as wage adjustments tend to reflect increases in the cost of living.

But before long, wage increases should be significantly restrained by higher unemployment. Moreover, the assumed decline in energy prices damps consumer price inflation and helps ease pressures on nominal wages. Non-oil import prices are expected to add a little to inflation in 1991, but to be a damping influence in 1992. All told, after a period of CPI increases that average more than 6 percent at an annual rate, inflation slows to about 4-1/2 percent, on average, in the final three quarters of 1991 and drops toward 4 percent by late 1992.

Key Assumptions

As noted above, the assumed path for oil prices has been raised, especially in the near term. The spot price of West Texas Intermediate (WTI) is now expected to average about $35 per barrel over the remainder of 1990; this price, which is about $8 per barrel higher than that in the August Greenbook, embodies a sizable uncertainty premium associated with fears that war will erupt. The $35 spot price translates into an average import price for crude oil and refined products of about $33 per barrel in the fourth quarter.

Prices of Petroleum and Products



We continue to assume that total OPEC production will return to the rate targeted in OPEC's July accord and that the precautionary building of inventories will abate. That outcome could be consistent with either an easing of tensions and restoration of Iraqi and Kuwaiti production, or with a protracted stalemate and continued offsetting increases in oil production elsewhere. Thus, prices are assumed to decline $10 per barrel over the first half of next year to $25 per barrel (WTI), somewhat higher than in the August Greenbook. They hold at this level over the remainder of the forecast period, as an assumed tendency for the nominal price of crude oil to rise with general inflation is offset by a further easing of the uncertainty premium.

The staff's fiscal assumptions have been updated to reflect the revisions to the staff's economic forecast, as well as the available information on the costs of Operation Desert Shield and the latest news on budget deliberations. The deficit estimate for FY1990 remains around $220 billion; however, the projection for the FY1991 deficit has been raised to around $235 billion, largely because of the weaker economic outlook.

In putting together the forecast, we have assumed that Operation Desert Shield--all else equal--will add $1-1/2 billion to defense spending in FY1990 and $7 billion in FY1991.[1] However, we expect that virtually all of these outlays will be matched by in-kind contributions and cash payments from other nations and thus will have little net effect on the federal budget.

With regard to deficit reduction, we continue to assume that the Congress eventually will enact legislation that cuts spending and raises revenues by a total of $35 billion in FY1991. Although, on the surface, our assumption appears less ambitious than the $50 billion reduction targeted by

1. These estimates are based on figures provided by the Department of Defense, which show that if Operation Desert Shield remains at its current level, it will add $1.6 billion to defense spending in FY1990 and $9.6 billion in FY1991. Taking the more optimistic view of the prospect for an easing of tensions in the Persian Gulf, we have scaled back DOD's estimate for FY1991 to about $7 billion.

the budget negotiators, we interpret it as essentially equivalent: Even if the negotiators are able to agree on $50 billion of deficit cuts, it seems prudent to predict some slippage as the package moves through the Congress. We are assuming another $35 billion in cuts for FY1992.

Turning to monetary policy, we have assumed that the federal funds rate will remain near the current level through 1991 but perhaps edge off in 1992 as inflation slows. The staff's assumed budget outcome seems broadly consistent with expectations in financial markets. Thus, we see little reason to expect a major bond market reaction as the agreement is announced and the package moves through the Congress. We have, however, built in a moderate decline in bond yields by next spring in response to the soft economy and the assumed drop in oil prices.

Credit supply conditions probably have tightened further recently, in part because of increased pressures on banks and other financial intermediaries. We continue to assume that more stringent lending terms and reductions in credit availability to some businesses will act to restrain aggregate demand over the next few quarters. Credit supply conditions are anticipated to stabilize over the next year or so, and possibly to then improve slightly, providing a modest lift to economic growth in 1992.

M2 is expected to finish 1990 a little below the midpoint of its annual target range, with recent data indicating slightly stronger growth for the year than in the August Greenbook, while M3 still is projected to be near the lower end of its range. Next year M2 is expected to grow around the midpoint of its tentative range; expansion of M3 should remain quite sluggish, in the lower half of its tentative range, as intermediation continues to be damped by the thrift resolution process, cautious lending behavior, and the effects of higher capital requirements and elevated costs of funds for depositories. The growth rates of both aggregates are expected to pick up a little in 1992, with the higher trend of nominal income and some easing in credit supply conditions.

We have lowered the projected path of the dollar about 2 percent, reflecting developments in foreign exchange markets since mid-August and the prospect of somewhat higher interest rates abroad than anticipated earlier. The dollar remains around its recent level on average in terms of the other G-10 currencies through the forecast period. We also have revised down moderately the projections for economic activity in the other major industrial countries, largely because of the higher path for oil prices. Growth in the other G-10 countries is now projected to be less than 2 percent at an annual rate through the end of this year, and then to recover to a little over 3 percent in 1991 and 1992. (For further details, see the International Developments section.)

Near-Term Developments and Outlook

The limited data now in hand suggest that real GNP may have grown at around a 1-1/2 percent annual rate in the third quarter. However, GNP is projected to drop 1 percent at an annual rate in the fourth quarter and another 1/2 percent in the first quarter of next year; the August Greenbook had shown increases of 1/2 percent and 1-1/4 percent, respectively. With output weaker, the unemployment rate rises more rapidly, to 6-1/4 percent in the first quarter. The downward revision to the staff forecast primarily reflects our assessment of the effects of even higher oil prices on aggregate demand, as well as our reading of the bleak anecdotal information that has accompanied the oil shock.

Private employment was virtually unchanged in July and August, as employment at manufacturing and construction establishments fell further and hiring in the service-producing sector--with the exception of health services--slowed substantially. Meanwhile, the civilian unemployment rate reached 5.6 percent in August, and in the weeks since the August labor market surveys, initial claims for unemployment insurance have moved into a range a little higher than was seen over the preceding few months. The output path in our forecast implies additional layoffs, especially in the goods-producing sector; thus, assuming that labor force growth resumes, a noticeable further increase in joblessness is likely by year-end.

On the spending side, consumption is projected to be essentially flat in real terms over the next two quarters. The firm pace of auto sales through mid-September suggests that actual spending has held up much better than the August and September attitude surveys would seem to imply. Nonetheless, the higher consumer prices stemming from the oil price hike already are cutting into households' real disposable income and--along with weak employment--should act to restrain their spending in coming months. In addition, household wealth has been depressed by the recent decline in the stock and bond markets.

Problems in real estate markets undoubtedly will be a drag on the economy for a time, especially in view of the increasing problems of financial institutions. Housing starts have been on a slow, but steady, downtrend since early this year; the level of activity in the past few months is the lowest since the early 1980s, and demand is unlikely to rebound in the face of rising unemployment. In the nonresidential sector, construction put in place reportedly posted a big gain in July; given the volatility and frequent large revisions to this series--as well as the weakness in contracts and permits--this reading probably is statistical noise. Spending on petroleum exploration and drilling is likely to increase in the near term; but in view of the shortage of skilled labor as well as the uncertainty about whether the higher oil prices will be sustained, the increment to investment is likely to be relatively small.

Indicators of spending on producers' durable equipment through August continued to depict a relatively flat trend overall, with considerable divergence across sectors: sustained strength in aircraft and an upturn in purchases of motor vehicles, but sluggish demand for computers and industrial equipment. Responding to the pattern of new orders in recent months, as well as to the more pessimistic tone of the anecdotal evidence over the past several weeks, we are projecting appreciable declines in real equipment outlays over the next two quarters.

Hard data on inventories extend only through July, but business commentary does not suggest that large imbalances have developed since then. The projection assumes that businesses will continue to move aggressively to keep stocks in check and that efforts to trim inventories as sales slacken will result in a slight liquidation over the next few quarters.

The external sector should help buoy domestic production in the next few quarters. Given the decline in the dollar over the past year, exports are expected to increase considerably. Imports, meanwhile, are likely to be restrained by the slowdown in the domestic economy as well as by the lower dollar.

Longer-Run Outlook for Activity

Economic growth is anticipated to resume in the spring of 1991, with real GNP expanding at close to its potential rate over the balance of the projection period. The assumed drop in oil prices boosts the real disposable income of households, and thus should stimulate consumer spending. The strengthening of consumption subsequently spills over to business investment as firms raise capital spending in response to the increase in demand for their output. Assuming that firms will have been able to keep stocks in reasonable balance despite the weak sales environment of late 1990 and early 1991, a swing toward inventory accumulation will provide a fillip to aggregate production.

Housing demand will benefit from the resumption of income growth and will be supported by longer-run demographic trends that suggest an "equilibrium" level of starts above the current pace; meanwhile, some homebuilders should be able to establish new credit sources, after the disruptions associated with the S&L debacle. Nonresidential construction, however, is anticipated to remain weak through 1992, given the lingering overhang of vacant space. Government purchases are expected to be a restraining influence on overall activity in both 1991 and 1992; real federal outlays for goods and services are projected to decline, and budgetary pressures are likely to hold spending growth at the state and local level to modest proportions.

Prices and Labor Compensation

With crude oil costs higher, retail energy prices are now projected to rise at a 15 percent annual rate in the third quarter and at a 40 percent rate in the fourth quarter. The rise in energy costs alone now adds roughly

1-1/2 percentage points, on average, to the annual rate of increase in the overall CPI in the second half of 1990--twice as much as anticipated in the August Greenbook.

Relative to the last projection, prices of other goods and services also are projected to rise more rapidly, on average, over the next few quarters, in part because of indirect effects of the higher oil prices. In addition, the lower dollar exerts greater upward pressure on import prices. And in light of reports from the budget summit, we have built in additional hikes in excise and sales taxes; in total, the increases in indirect business taxes enacted at all levels of government are expected to add about 1/4 percentage point to consumer prices next year. On balance, the CPI excluding energy is now expected to rise about 5-1/4 percent next year, 1/2 percentage point more than in the last forecast.

PRICE AND WAGE PROJECTIONS
(Percent change from previous period, compound annual rates)

	1990	1991			1992	
	H2	Q1	Q2	H2	H1	H2
Consumer price index	6.8	5.4	4.1	4.6	4.7	4.1
Energy	26.9	-2.0	-6.5	.4	7.4	3.5
Excluding energy	5.2	6.1	5.1	5.0	4.5	4.2
Nonpetroleum import prices	7.6	5.8	6.0	5.5	3.4	2.4
ECI compensation	4.9	5.5	5.3	4.7	4.6	4.2

We continue to show a substantial easing of price pressures over time. Overall CPI inflation, which now is expected to be 6-1/4 percent over the four quarters of this year, is projected to fall to about 4 percent at the end of 1992. If crude oil prices decline next year, as assumed, much of the upward impetus to overall inflation from this year's price rise will be reversed. Assuming, too, that the foreign exchange value of the dollar holds at current levels, prices of non-oil imports are expected to decelerate appreciably in 1992. Finally, with the unemployment rate now projected to rise to around 6-1/2 percent by mid-1991 and to remain at that level throughout 1992, wage inflation should ease. As measured by the employment cost index, hourly compensation is projected to decelerate to 4-3/4 percent in the second half of 1991 and to about 4 percent by the end of 1992.

Alternative Scenario

In light of the vast uncertainty surrounding the outlook for the energy market, we have used our econometric models to explore the possible economic effects of a less optimistic scenario for oil prices. In evaluating these simulations--or the judgmental baseline forecast for that matter--it should be kept in mind that the risks of error probably multiply, the larger the shock assumed.

In the simulation reported here, the spot price of West Texas Intermediate is assumed to remain at $35 per barrel through the end of the forecast period. Such a price path might be sustained, for example, if world oil production eventually declined to rates 2 to 3 mbd below the path we have assumed in the more optimistic baseline scenario. Our assumptions regarding short-term interest rates and fiscal policy in this alternative scenario have not been altered.

This scenario shows substantially higher inflation in 1991 than in the staff forecast, while the level of real GNP is lower throughout the period. With the failure of crude oil prices to drop back, CPI inflation does not fall below 6 percent at an annual rate until the end of next year.

Nonetheless, in light of the higher levels of unemployment and lower rates of industrial capacity utilization, there is a noticeable improvement in the inflation trend over the course of 1992. The current account deficit is roughly $20 billion (annual rate) greater in the second half of 1991 as a result of a higher value of oil imports. This effect diminishes over time as lower GNP and higher oil prices depress demand for imports.

ALTERNATIVE SCENARIO
(Percent change from end of previous period, compound annual rates)

	1991		1992	
	H1	H2	H1	H2
Real GNP				
Greenbook	.8	2.4	2.5	2.5
Alternative	.6	1.4	1.7	2.3
Consumer price index				
Greenbook	4.8	4.6	4.7	4.1
Alternative	6.2	5.8	5.1	4.3
Excluding energy				
Greenbook	5.6	5.0	4.5	4.2
Alternative	5.7	5.6	4.9	4.4
Unemployment rate (percent)[1]				
Greenbook	6.4	6.5	6.5	6.5
Alternative	6.5	6.7	6.9	6.9
Current account balance (billions)[1]				
Greenbook	-78	-70	-59	-60
Alternative	-97	-88	-70	-65

1. End of period.

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STAFF GNP PROJECTIONS

Percent changes, annual rate

	Nominal GNP		Real GNP		GNP fixed-weight price index		Consumer Price Index <1>		Unemployment rate (percent)	
	8/15/90	9/26/90	8/15/90	9/26/90	8/15/90	9/26/90	8/15/90	9/26/90	8/15/90	9/26/90
Annual changes:										
1988 <2>	7.9	7.9	4.5	4.5	4.2	4.2	4.1	4.1	5.5	5.5
1989 <2>	6.7	6.7	2.5	2.5	4.5	4.5	4.8	4.8	5.3	5.3
1990	5.4	5.2	1.2	1.0	4.6	4.5	5.3	5.4	5.5	5.5
1991	5.8	5.4	1.4	.7	4.5	4.8	4.7	5.3	6.1	6.4
1992	6.5	6.9	2.4	2.4	4.2	4.4	4.4	4.6	6.1	6.5
Quarterly changes:										
1989 Q1 <2>	7.5	7.5	3.6	3.6	4.9	4.9	5.4	5.4	5.2	5.2
Q2 <2>	5.8	5.8	1.6	1.6	4.6	4.6	6.0	6.0	5.3	5.3
Q3 <2>	5.1	5.1	1.7	1.7	3.1	3.1	2.9	2.9	5.3	5.3
Q4 <2>	3.9	3.9	.3	.3	3.8	3.8	3.9	3.9	5.3	5.3
1990 Q1 <2>	6.7	6.7	1.7	1.7	6.6	6.6	8.2	8.2	5.2	5.2
Q2 <2>	5.8	5.1	1.2	.4	3.9	3.9	3.8	3.8	5.3	5.3
Q3	5.7	5.7	1.2	1.4	4.7	4.2	6.1	6.4	5.6	5.6
Q4	3.9	2.6	.5	-1.0	4.0	4.4	5.3	7.1	5.9	6.0
1991 Q1	6.2	5.1	1.3	-.4	4.9	5.8	4.4	5.4	6.0	6.3
Q2	6.7	7.1	2.0	2.0	4.5	4.8	4.3	4.1	6.1	6.4
Q3	6.3	6.9	2.3	2.3	4.2	4.5	4.4	4.4	6.1	6.5
Q4	6.3	7.1	2.4	2.4	4.1	4.2	4.5	4.7	6.1	6.5
1992 Q1	7.1	7.2	2.4	2.5	4.6	5.0	4.5	5.1	6.1	6.5
Q2	6.3	6.7	2.4	2.5	4.1	4.1	4.4	4.4	6.1	6.5
Q3	6.4	6.4	2.5	2.5	4.0	4.0	4.3	4.2	6.1	6.5
Q4	6.3	6.5	2.5	2.5	4.0	4.0	4.3	4.1	6.1	6.5
Two-quarter changes: <3>										
1989 Q2 <2>	6.7	6.7	2.6	2.6	4.7	4.7	5.7	5.7	.0	.0
Q4 <2>	4.5	4.5	1.0	1.0	3.4	3.4	3.4	3.4	.0	.0
1990 Q2 <2>	6.2	5.9	1.5	1.1	5.3	5.3	5.9	5.9	.0	.0
Q4	4.8	4.1	.8	.2	4.4	4.3	5.7	6.8	.6	.7
1991 Q2	6.5	6.1	1.7	.8	4.7	5.3	4.4	4.8	.2	.4
Q4	6.3	7.0	2.3	2.4	4.1	4.3	4.4	4.6	.0	.1
1992 Q2	6.7	7.0	2.4	2.5	4.3	4.6	4.4	4.7	.0	.0
Q4	6.3	6.5	2.5	2.5	4.0	4.0	4.3	4.1	.0	.0
Four-quarter changes: <4>										
1988 Q4 <2>	7.8	7.8	3.5	3.5	4.6	4.6	4.3	4.3	-.5	-.5
1989 Q4 <2>	5.6	5.6	1.8	1.8	4.0	4.0	4.6	4.6	.0	.0
1990 Q4	5.5	5.0	1.1	.6	4.8	4.8	5.8	6.3	.6	.7
1991 Q4	6.4	6.6	2.0	1.6	4.4	4.8	4.4	4.7	.2	.5
1992 Q4	6.5	6.7	2.4	2.5	4.2	4.3	4.4	4.4	.0	.0

<1> For all urban consumers.
<2> Actual.
<3> Percent change from two quarters earlier.
<4> Percent change from four quarters earlier.

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GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1984	1985	1986	1987	1988	1989	Projection 1990	1991	1992
EXPENDITURES										
Nominal GNP	Billions of $	3772.2	4014.9	4231.6	4515.6	4873.7	5200.8	5473.1	5770.8	6169.0
Real GNP	Billions of 82$	3501.4	3618.7	3717.9	3845.3	4016.9	4117.7	4158.5	4189.4	4291.2
Real GNP	Percent change*	5.1	3.6	1.9	5.0	3.5	1.8	.6	1.6	2.5
Gross domestic purchases		6.4	4.3	2.1	4.2	2.6	1.1	.0	.7	2.2
Final sales		4.7	4.6	2.7	3.1	4.5	1.7	.9	1.6	2.0
Private dom. final purchases		5.6	4.6	2.9	2.5	4.0	1.2	.1	.9	2.1
Personal consumption expend.		4.1	4.6	3.8	2.3	4.1	1.2	.8	1.4	1.6
Durables		10.8	7.0	11.5	-1.2	9.3	-1.4	.2	.8	1.4
Nondurables		2.3	3.3	2.9	1.3	2.4	.6	-1.3	.1	.5
Services		3.5	5.0	2.1	4.1	3.7	2.4	2.5	2.3	2.4
Business fixed investment		13.8	3.7	-5.5	6.1	5.3	4.5	-1.3	-1.8	3.6
Producers' durable equipment		14.9	4.6	.4	8.2	8.2	5.4	-.3	-.3	6.0
Nonresidential structures		11.8	1.9	-17.7	.8	-2.7	1.7	-4.5	-6.5	-5.0
Residential structures		6.1	5.8	11.6	-2.2	-.1	-7.1	-6.2	.8	6.3
Exports		5.9	-2.4	10.6	19.8	14.0	10.1	4.2	6.5	6.8
Imports		17.4	4.5	10.0	10.4	5.5	4.5	.3	.9	5.3
Government purchases		7.9	8.6	3.1	2.0	1.1	.3	1.4	.2	.0
Federal		13.0	13.3	.5	1.5	-1.6	-2.8	.9	-1.7	-2.7
Defense		6.5	7.1	6.0	4.0	-1.8	-2.1	-2.7	-3.4	-4.8
State and local		4.4	4.9	5.2	2.3	3.1	2.6	1.8	1.6	1.7
Change in business inventories	Billions of 82$	62.3	9.1	5.6	22.8	23.6	23.8	6.1	-.4	19.7
Nonfarm	Billions of 82$	57.8	13.4	8.0	28.7	26.5	18.7	4.3	-3.1	16.4
Net exports	Billions of 82$	-84.0	-104.3	-129.7	-118.5	-75.9	-54.1	-36.1	1.1	19.5
Nominal GNP	Percent change*	8.6	6.6	4.6	8.2	7.8	5.6	5.0	6.6	6.7
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employment	Millions	94.5	97.5	99.5	102.2	105.6	108.5	110.4	111.0	112.3
Unemployment rate	Percent	7.5	7.2	7.0	6.2	5.5	5.3	5.5	6.4	6.5
Industrial production index	Percent change*	4.7	1.9	1.4	6.5	4.5	1.1	1.2	1.4	3.7
Capacity utilization rate-mfg.	Percent	80.4	79.5	79.0	81.4	83.9	83.9	82.4	80.2	80.7
Housing starts	Millions	1.77	1.74	1.81	1.62	1.49	1.38	1.20	1.15	1.27
Auto sales	Millions	10.35	11.03	11.44	10.23	10.65	9.89	9.51	8.91	9.08
Domestic	Millions	7.92	8.22	8.22	7.06	7.55	7.06	6.83	6.48	6.58
Foreign	Millions	2.43	2.82	3.22	3.18	3.10	2.83	2.68	2.44	2.50
INCOME AND SAVING										
Nominal personal income	Percent change*	8.4	6.6	5.8	8.1	7.6	6.8	6.4	7.1	6.9
Real disposable income	Percent change*	4.3	2.7	3.3	2.7	4.3	1.7	.1	1.5	1.6
Personal saving rate	Percent	6.1	4.4	4.1	2.9	4.2	4.6	4.5	4.2	4.2
Corp. profits with IVA & CCAdj	Percent change*	7.4	9.2	-5.6	17.4	8.2	-16.8	-6.8	-3.8	1.4
Profit share of GNP	Percent	7.1	7.0	6.7	6.8	6.9	6.0	5.4	4.4	4.2
Federal govt. surplus/deficit	Billions of $	-169.6	-196.9	-206.9	-158.2	-141.7	-134.3	-158.8	-143.8	-98.8
State and local govt. surplus		64.6	65.1	62.8	51.0	46.5	46.4	41.5	52.6	71.0
Exc. social insurance funds		19.8	13.8	5.6	-8.3	-16.4	-19.9	-28.0	-20.5	-5.8
PRICES AND COSTS										
GNP implicit deflator	Percent change*	3.4	2.9	2.6	3.0	4.1	3.7	4.3	4.9	4.1
GNP fixed-weight price index		3.7	3.3	2.6	3.8	4.6	4.0	4.8	4.8	4.3
Cons. & fixed invest. prices		3.3	3.4	2.5	4.5	4.3	4.3	5.5	4.5	4.2
CPI		4.2	3.5	1.3	4.5	4.3	4.6	6.3	4.7	4.4
Exc. food and energy		5.0	4.3	3.9	4.3	4.5	4.3	5.5	5.4	4.5
ECI hourly compensation		4.9	3.9	3.2	3.3	4.8	4.8	5.1	5.0	4.4
Nonfarm business sector										
Output per hour		1.5	1.6	1.3	2.2	1.7	-1.3	-.1	1.0	1.2
Compensation per hour		4.2	4.6	5.0	3.7	4.7	2.0	5.0	5.0	4.4
Unit labor costs		2.6	3.0	3.6	1.4	2.9	3.4	5.2	4.0	3.1

* Percent changes are from fourth quarter to fourth quarter.

September 26, 1990

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

	Units	1988 Q1	1988 Q2	1988 Q3	1988 Q4	1989 Q1	1989 Q2	1989 Q3	1989 Q4	1990 Q1	1990 Q2
EXPENDITURES											
Nominal GNP	Billions of $	4735.8	4831.4	4917.9	5009.8	5101.3	5174.0	5238.6	5289.3	5375.4	5443.3
Real GNP	Billions of 82$	3970.2	4005.8	4032.1	4059.3	4095.7	4112.2	4129.7	4133.2	4150.6	4155.1
Real GNP	Percent Change	5.1	3.6	2.7	2.7	3.6	1.6	1.7	.3	1.7	.4
Gross domestic purchases		1.6	3.0	3.2	2.4	1.2	1.8	2.8	-1.2	.5	1.3
Final sales		7.1	5.1	1.1	4.6	2.4	1.7	1.8	.9	3.8	-.7
Private dom. final purchases		6.7	4.8	3.0	1.7	.8	1.4	4.1	-1.5	2.4	-1.2
Personal consumption expend.		6.9	2.7	3.5	3.5	-.3	1.3	4.6	-.8	1.1	.2
Durables		21.8	3.7	-1.1	14.1	-6.0	5.6	9.6	-13.0	14.4	-9.5
Nondurables		2.6	2.0	4.1	1.2	.6	-1.7	3.9	-.2	-3.2	-1.9
Services		5.6	2.9	4.5	1.9	.9	2.1	3.5	3.1	.1	5.1
Business fixed investment		11.4	15.7	1.6	-6.3	8.9	6.9	6.3	-3.8	5.0	-4.7
Producers' durable equipment		20.3	17.9	2.2	-5.5	9.5	12.2	6.1	-5.2	5.7	-3.3
Nonresidential structures		-10.5	9.9	-.3	-8.7	7.5	-8.2	7.1	1.3	2.3	-9.0
Residential structures		-6.8	6.8	.4	-.4	-3.6	-11.3	-7.6	-5.5	15.1	-11.2
Exports		31.7	4.4	5.4	16.7	15.8	12.4	-.5	13.5	11.2	-5.0
Imports		.5	.3	9.2	12.4	-2.3	12.8	6.4	1.7	2.5	.7
Government purchases		-9.2	3.3	-3.8	15.7	-3.3	4.0	-2.4	3.0	2.9	6.2
Federal		-24.1	3.5	-10.4	33.6	-9.1	7.0	-7.9	-.4	.4	16.4
Defense		-5.6	-1.4	-5.0	4.9	-10.9	3.2	7.2	-7.0	-1.7	3.3
State and local		3.9	3.2	1.2	4.3	1.3	1.8	1.8	5.6	4.8	-.6
Change in business inventories	Billions of 82$	31.0	16.9	32.6	14.0	26.1	25.5	24.6	18.9	-2.2	9.5
Nonfarm	Billions of 82$	28.8	19.2	31.0	27.2	16.4	21.5	21.7	15.3	-8.2	11.6
Net exports	Billions of 82$	-77.3	-72.2	-78.5	-75.7	-51.1	-53.3	-64.1	-47.9	-35.4	-44.6
Nominal GNP	Percent change	7.8	8.3	7.4	7.7	7.5	5.8	5.1	3.9	6.7	5.1
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	104.3	105.1	105.9	106.8	107.6	108.2	108.7	109.2	109.9	110.5
Unemployment rate	Percent*	5.7	5.5	5.5	5.3	5.2	5.3	5.3	5.3	5.2	5.3
Industrial production index	Percent change	5.0	4.2	5.9	2.8	2.7	2.8	-1.2	.2	.6	4.1
Capacity utilization rate-mfg.	Percent*	83.1	83.6	84.3	84.6	84.7	84.5	83.7	82.9	82.6	82.7
Housing starts	Millions	1.46	1.49	1.47	1.54	1.51	1.35	1.34	1.35	1.45	1.20
Auto sales	Millions	10.91	10.67	10.15	10.88	10.03	10.26	10.20	9.09	10.01	9.53
Domestic	Millions	7.60	7.50	7.20	7.89	7.08	7.26	7.36	6.56	7.11	6.78
Foreign	Millions	3.30	3.17	2.95	2.99	2.95	3.00	2.84	2.53	2.90	2.75
INCOME AND SAVING											
Nominal personal income	Percent change	6.4	8.6	8.1	7.4	11.6	5.8	3.7	6.2	8.6	5.3
Real disposable income	Percent change	7.3	2.7	4.9	2.3	4.2	-1.2	2.7	1.2	2.5	.3
Personal saving rate	Percent*	4.0	4.1	4.5	4.1	5.2	4.6	4.1	4.6	4.9	5.0
Corp. profits with IVA & CCAdj	Percent change	9.5	6.6	-1.7	19.5	-23.2	-7.0	-17.1	-19.1	8.4	13.9
Profit share of GNP	Percent*	7.0	7.0	6.8	7.0	6.4	6.2	5.9	5.5	5.5	5.6
Federal govt. surplus/deficit	Billions of $	-153.7	-136.9	-120.1	-156.3	-132.6	-122.7	-131.7	-150.1	-168.3	-166.0
State and local govt. surplus		45.5	48.3	46.8	45.2	48.9	50.3	48.1	38.5	38.1	38.6
Exc. social insurance funds		-15.6	-14.1	-17.0	-19.0	-16.2	-15.6	-18.7	-29.1	-30.2	-30.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	2.7	4.4	4.7	4.7	3.9	3.9	3.2	3.8	4.8	4.7
GNP fixed-weight price index		3.9	4.7	5.5	4.4	4.9	4.6	3.1	3.8	6.6	3.9
Cons. & fixed invest. prices		2.9	4.9	4.5	5.0	5.0	5.3	2.3	4.6	6.8	2.6
CPI		3.5	4.2	5.2	4.1	5.4	6.0	2.9	3.9	8.2	3.8
Exc. food and energy		4.4	4.7	4.6	4.6	5.2	4.1	3.8	4.4	6.2	4.9
ECI hourly compensation**		5.2	5.2	3.8	4.6	4.6	4.9	4.9	4.8	5.6	5.1
Nonfarm business sector											
Output per hour		4.2	-.6	2.8	.5	-1.7	-.5	-.8	-2.2	-1.9	1.5
Compensation per hour		4.3	5.0	5.3	4.2	2.0	1.5	1.8	2.7	3.2	5.8
Unit labor costs		.1	5.6	2.5	3.6	3.8	2.0	2.7	5.1	5.2	4.3

* Not at an annual rate.
** Private industry workers

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Seasonally adjusted; annual rate)

		Projection									
		1990		1991				1992			
	Units	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GNP	Billions of $	5519.0	5554.6	5624.3	5722.0	5818.5	5918.6	6022.7	6120.8	6217.0	6315.5
Real GNP	Billions of 82$	4169.4	4159.1	4155.2	4176.2	4200.5	4225.5	4251.5	4278.2	4304.4	4330.9
Real GNP	Percent Change	1.4	-1.0	-.4	2.0	2.3	2.4	2.5	2.5	2.5	2.5
Gross domestic purchases		1.0	-2.5	-1.6	1.0	1.9	1.8	2.1	2.2	2.3	2.4
Final sales		1.2	-.4	.8	1.7	1.9	2.0	2.0	2.1	1.9	1.9
Private dom. final purchases		1.1	-1.8	-1.1	.9	1.9	1.8	2.0	2.2	2.2	2.2
Personal consumption expend.		2.6	-.7	.5	1.7	1.8	1.4	1.6	1.6	1.7	1.6
Durables		2.2	-4.7	-3.1	2.9	2.8	.6	1.2	1.3	1.7	1.3
Nondurables		.8	-1.0	-.5	.3	.4	.4	.5	.5	.5	.5
Services		3.9	.9	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4
Business fixed investment		-.5	-4.7	-7.2	-2.9	1.2	2.1	2.8	3.7	3.9	4.0
Producers' durable equipment		.6	-3.9	-6.8	-1.8	3.3	4.4	5.2	6.2	6.4	6.4
Nonresidential structures		-3.9	-7.2	-8.6	-6.4	-5.7	-5.5	-5.2	-5.0	-4.9	-4.7
Residential structures		-14.4	-11.3	-7.9	-1.2	6.1	6.8	5.8	7.0	6.1	6.5
Exports		3.8	7.4	3.0	7.8	7.1	8.1	7.7	6.7	6.6	6.5
Imports		1.0	-3.0	-4.8	.8	3.9	4.2	5.0	4.5	5.7	6.0
Government purchases		-.7	-2.6	2.6	-.5	-.8	-.3	-.1	-.1	.0	.0
Federal		-3.7	-7.9	4.2	-3.4	-4.3	-3.2	-2.7	-2.9	-2.5	-2.5
Defense		-2.2	-9.7	4.6	-5.9	-6.5	-5.3	-5.1	-4.6	-4.9	-4.8
State and local		1.6	1.4	1.5	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Change in business inventories	Billions of 82$	11.5	5.7	-6.8	-3.0	2.0	6.3	11.5	16.4	22.1	28.6
Nonfarm	Billions of 82$	9.6	4.3	-9.2	-5.5	-.9	3.3	8.4	13.2	18.8	25.2
Net exports	Billions of 82$	-40.5	-24.0	-11.1	-.4	4.7	11.1	15.5	19.3	21.1	22.2
Nominal GNP	Percent change	5.7	2.6	5.1	7.1	6.9	7.1	7.2	6.7	6.4	6.5
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employment	Millions	110.7	110.6	110.6	110.8	111.1	111.4	111.7	112.1	112.5	112.9
Unemployment rate	Percent*	5.6	6.0	6.3	6.4	6.5	6.5	6.5	6.5	6.5	6.5
Industrial production index	Percent change	2.3	-2.0	-3.6	2.5	3.5	3.5	3.6	3.7	3.7	3.7
Capacity utilization rate-mfg.	Percent*	82.5	81.5	80.2	80.1	80.2	80.3	80.4	80.6	80.7	80.9
Housing starts	Millions	1.13	1.09	1.10	1.13	1.16	1.20	1.23	1.26	1.28	1.31
Auto sales	Millions	9.61	8.90	8.70	8.85	9.05	9.05	9.05	9.05	9.10	9.10
Domestic	Millions	7.10	6.35	6.35	6.45	6.55	6.55	6.55	6.55	6.60	6.60
Foreign	Millions	2.51	2.55	2.35	2.40	2.50	2.50	2.50	2.50	2.50	2.50
INCOME AND SAVING											
Nominal personal income	Percent change	5.2	6.4	7.9	6.9	6.4	7.2	8.3	6.5	6.1	6.7
Real disposable income	Percent change	-.5	-2.0	1.4	1.8	1.2	1.6	2.3	1.3	1.1	1.7
Personal saving rate	Percent*	4.3	4.0	4.2	4.2	4.1	4.1	4.3	4.2	4.1	4.1
Corp. profits with IVA & CCAdj	Percent change	3.9	-41.3	-28.2	-1.8	7.4	13.1	-8.7	1.2	2.5	11.6
Profit share of GNP	Percent*	5.6	4.9	4.4	4.3	4.3	4.4	4.2	4.2	4.1	4.2
Federal govt. surplus/deficit	Billions of $	-150.6	-150.4	-164.5	-147.1	-133.8	-129.7	-118.5	-103.7	-88.3	-84.9
State and local govt. surplus		43.9	45.6	47.4	50.2	53.5	59.2	64.1	68.5	72.8	78.5
Exc. social insurance funds		-26.1	-25.3	-24.4	-22.5	-20.1	-15.3	-11.3	-7.8	-4.4	.4
PRICES AND COSTS											
GNP implicit deflator	Percent change	4.2	3.6	5.5	5.0	4.5	4.5	4.6	4.0	3.9	3.9
GNP fixed-weight price index		4.2	4.4	5.8	4.8	4.5	4.2	5.0	4.1	4.0	4.0
Cons. & fixed invest. prices		5.3	7.4	5.3	4.0	4.2	4.4	4.8	4.2	4.1	4.0
CPI		6.4	7.1	5.4	4.1	4.4	4.7	5.1	4.4	4.2	4.1
Exc. food and energy		5.9	4.9	6.4	5.2	5.1	5.0	4.8	4.5	4.3	4.2
ECI hourly compensation**		4.8	5.0	5.5	5.3	4.7	4.6	4.9	4.3	4.2	4.1
Nonfarm business sector											
Output per hour		1.0	-1.1	-.7	1.4	1.7	1.6	1.3	1.2	1.3	1.2
Compensation per hour		5.3	5.9	4.1	5.8	4.8	5.2	4.9	4.3	4.2	4.1
Unit labor costs		4.3	7.0	4.8	4.3	3.1	3.6	3.6	3.1	2.9	2.9

* Not at an annual rate.
** Private industry workers

September 26, 1990

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

	1988				1989				1990		1987	1988	1989	Projection 1990
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	(fourth quarter to fourth quarter, net change)			
Real GNP	49.5	35.6	26.3	27.2	36.4	16.5	17.5	3.5	17.4	4.5	187.1	138.6	73.9	25.9
Gross domestic purchases	15.5	30.5	32.6	24.4	11.8	18.7	28.3	-12.7	4.9	13.7	163.0	103.0	46.1	2.0
Final sales	66.9	49.7	10.6	45.7	24.4	17.0	18.5	9.3	38.4	-7.2	117.9	172.9	69.2	39.0
Private dom. final purchases	51.8	38.3	24.4	14.2	6.5	11.4	34.1	-12.9	20.2	-10.3	78.5	128.7	39.1	3.8
Personal consumption expend.	42.6	17.3	22.3	22.4	-2.1	8.6	30.0	-5.4	7.4	1.5	56.4	104.6	31.1	21.6
Durables	19.8	3.8	-1.1	13.9	-6.6	5.8	9.9	-15.0	14.5	-10.8	-4.9	36.4	-5.9	.9
Nondurables	5.7	4.4	9.1	2.7	1.4	-3.9	8.8	-.4	-7.4	-4.4	11.7	21.9	5.9	-12.3
Services	17.1	9.1	14.2	6.0	3.0	6.7	11.3	10.0	.4	16.6	49.6	46.4	31.0	33.0
Business fixed investment	12.7	17.6	2.0	-8.0	10.5	8.4	7.8	-4.9	6.2	-6.2	26.6	24.3	21.8	-6.6
Producers' durable equipment	16.0	14.9	2.0	-5.2	8.4	10.9	5.7	-5.2	5.4	-3.3	25.6	27.7	19.8	-1.1
Nonresidential structures	-3.4	2.9	-.1	-2.8	2.2	-2.6	2.1	.4	.7	-2.9	1.0	-3.4	2.1	-5.6
Residential structures	-3.4	3.2	.2	-.2	-1.8	-5.7	-3.7	-2.6	6.5	-5.5	-4.5	-.2	-13.8	-11.2
Change in business inventories	-17.4	-14.1	15.7	-18.6	12.1	-.6	-.9	-5.7	-21.1	11.7	69.2	-34.4	4.9	-13.2
Nonfarm	-26.6	-9.6	11.8	-3.8	-10.8	5.1	.2	-6.4	-23.5	19.8	66.3	-28.2	-11.9	-11.0
Farm	9.1	-4.5	3.9	-14.8	22.9	-5.7	-1.1	.7	2.4	-8.1	3.0	-6.3	16.8	-2.2
Net exports	34.0	5.1	-6.3	2.8	24.6	-2.2	-10.8	16.2	12.5	-9.2	24.1	35.6	27.8	23.9
Exports	34.7	5.6	7.0	21.0	20.8	17.1	-.7	19.1	16.5	-8.0	80.5	68.3	56.3	25.6
Imports	.7	.5	13.3	18.2	-3.7	19.2	10.1	2.8	4.1	1.2	56.4	32.7	28.4	1.9
Government purchases	-18.9	6.3	-7.5	28.7	-6.7	7.8	-4.8	6.0	5.7	12.3	15.3	8.6	2.3	11.4
Federal	-23.2	2.8	-8.9	23.9	-8.1	5.7	-6.9	-.3	.3	12.9	5.3	-5.4	-9.6	3.0
Defense	-3.8	-.9	-3.3	3.1	-7.4	2.0	4.5	-4.7	-1.1	2.1	10.2	-4.9	-5.6	-6.8
Nondefense	-19.4	3.7	-5.6	20.8	-.8	3.8	-11.4	4.4	1.4	10.8	-4.9	-.5	-4.0	9.8
State and local	4.3	3.5	1.3	4.8	1.5	2.1	2.1	6.3	5.5	-.7	10.0	13.9	12.0	8.4

September 26, 1990

CONFIDENTIAL - FR
CLASS II FOMC

GROSS NATIONAL PRODUCT AND RELATED ITEMS
(Net changes, billions of 1982 dollars)

	Projection											Projection		
	1990		1991				1992				1989	1990	1991	1992
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	(fourth quarter to fourth quarter, net change)			
Real GNP	14.3	-10.3	-3.9	21.0	24.3	25.0	25.9	26.8	26.2	26.5	73.9	25.9	66.4	105.4
Gross domestic purchases	10.2	-26.7	-16.8	10.2	19.2	18.7	21.5	22.9	24.5	25.4	46.1	2.0	31.3	94.3
Final sales	12.3	-4.5	8.6	17.2	19.3	20.7	20.7	21.9	20.5	20.0	69.2	39.0	65.8	83.1
Private dom. final purchases	9.5	-15.6	-9.5	7.4	15.9	15.0	16.5	18.3	18.8	18.8	39.1	3.8	28.8	72.3
Personal consumption expend.	17.1	-4.4	3.2	11.5	12.0	9.7	10.6	10.8	11.3	11.0	31.1	21.6	36.4	43.7
Durables	2.3	-5.1	-3.4	3.1	2.9	.6	1.2	1.4	1.8	1.4	-5.9	.9	3.2	5.9
Nondurables	1.8	-2.3	-1.1	.7	.9	.9	1.1	1.1	1.1	1.1	5.9	-12.3	1.4	4.5
Services	13.0	3.0	7.7	7.8	8.2	8.2	8.3	8.3	8.4	8.4	31.0	33.0	31.9	33.3
Business fixed investment	-.6	-6.0	-9.3	-3.6	1.4	2.5	3.4	4.5	4.8	5.0	21.8	-6.6	-8.9	17.7
Producers' durable equipment	.6	-3.8	-6.7	-1.7	3.1	4.1	4.9	5.9	6.2	6.3	19.8	-1.1	-1.2	23.2
Nonresidential structures	-1.2	-2.2	-2.6	-1.9	-1.7	-1.6	-1.5	-1.4	-1.3	-1.3	2.1	-5.6	-7.7	-5.5
Residential structures	-7.0	-5.2	-3.5	-.5	2.5	2.8	2.4	3.0	2.6	2.8	-13.8	-11.2	1.3	10.9
Change in business inventories	2.0	-5.8	-12.5	3.8	5.0	4.3	5.2	4.9	5.7	6.5	4.9	-13.2	.6	22.3
Nonfarm	-2.0	-5.3	-13.5	3.7	4.6	4.2	5.1	4.8	5.6	6.4	-11.9	-11.0	-1.0	21.9
Farm	4.0	-.5	1.0	.1	.4	.1	.1	.1	.1	.1	16.8	-2.2	1.6	.4
Net exports	4.1	16.5	12.9	10.8	5.0	6.4	4.4	3.9	1.7	1.1	27.8	23.9	35.1	11.1
Exports	5.8	11.3	4.7	12.1	11.3	13.2	12.6	11.3	11.3	11.3	56.3	25.6	41.3	46.5
Imports	1.7	-5.1	-8.1	1.4	6.3	6.8	8.2	7.4	9.6	10.1	28.4	1.9	6.3	35.4
Government purchases	-1.4	-5.3	5.3	-1.0	-1.7	-.7	-.2	-.3	.0	.1	2.3	11.4	1.9	-.3
Federal	-3.3	-7.0	3.5	-2.9	-3.7	-2.7	-2.3	-2.4	-2.1	-2.0	-9.6	3.0	-5.8	-8.7
Defense	-1.4	-6.4	2.8	-3.8	-4.1	-3.3	-3.1	-2.8	-2.9	-2.8	-5.6	-6.8	-8.4	-11.6
Nondefense	-1.9	-.6	.7	.9	.4	.6	.8	.4	.8	.8	-4.0	9.8	2.6	2.9
State and local	1.9	1.7	1.8	1.9	2.0	2.0	2.1	2.1	2.1	2.1	12.0	8.4	7.7	8.4

FEDERAL SECTOR ACCOUNTS[1]
(Billions of dollars)

	Fiscal years				1990				1991				1992			
	1989a	1990	1991	1992	Ia	IIa	III	IV	I	II	III	IV	I	II	III	IV
BUDGET					Not seasonally adjusted											
Budget receipts[2]	991	1036	1112	1195	230	319	258	242	255	338	277	258	277	364	295	272
Budget outlays[2]	1143	1257	1346	1373	310	331	316	345	331	334	335	347	338	342	346	357
Surplus/deficit(-)[2]	-152	-221	-234	-178	-80	-12	-58	-103	-76	4	-58	-89	-61	23	-50	-84
(On-budget)	-207	-282	-302	-252	-94	-41	-70	-110	-96	-22	-75	-98	-82	-4	-68	-95
(Off-budget)	55	61	68	74	14	29	12	7	19	25	17	9	21	27	17	10
Surplus excluding RTC spending[3]	-143	-173	-159	-137	-77	11	-42	-80	-58	22	-42	-75	-49	32	-44	-80
Means of financing:																
Borrowing	140	263	230	167	90	41	69	82	72	29	47	82	42	6	38	82
Cash decrease	3	4	2	0	8	-16	-3	26	-9	-25	10	10	5	-20	5	10
Other[4]	8	-46	1	10	-18	-13	-8	-5	13	-8	1	-3	14	-8	7	-8
Cash operating balance, end of period	41	37	35	35	18	35	37	11	20	45	35	25	20	40	35	25
NIPA FEDERAL SECTOR					Seasonally adjusted annual rates											
Receipts	1038	1092	1167	1265	1081	1106	1128	1136	1159	1177	1197	1220	1259	1280	1301	1326
Expenditures	1174	1251	1316	1375	1249	1272	1278	1286	1323	1324	1331	1350	1378	1384	1390	1411
Purchases	400	414	426	429	411	422	424	419	430	429	427	426	431	430	430	430
Defense	301	307	308	303	307	310	310	305	313	310	306	304	305	303	301	299
Nondefense	99	108	118	126	103	112	114	114	117	119	121	122	126	127	129	131
Other expend.	774	837	890	946	838	850	854	867	893	896	904	924	947	954	960	981
Surplus/deficit	-136	-159	-149	-110	-168	-166	-151	-150	-165	-147	-134	-130	-118	-104	-88	-85
FISCAL INDICATORS[5]																
High-employment (HEB) surplus/deficit(-)	-162	-167	-113	-62	-182	-171	-148	-130	-128	-106	-90	-83	-70	-55	-38	-34
Change in HEB, percent of potential GNP	.1	.1	-1	-.9	.3	-.2	-.4	-.3	0	-.4	-.3	-.1	-.2	-.3	-.3	-.1
Fiscal impetus measure (FI), percent	-3.5 *	-4.1 *	-4.1 *	-4.9 *	-2.3	1.2	-.4	-2.8	-.7	-.9	-1	-1.5	-2.1	-.6	-.6	-1.3

a--actual *--calendar year

Note: Details may not add to totals due to rounding.

1. Staff projections. The FY1990, FY1991 and FY1992 deficits in OMB's Mid-Session Review (July 1990) are $220 billion, $176 billion and $134 billion, respectively. These estimates incorporate approximately $53 billion of cuts from the adjusted Gramm-Rudman-Hollings baseline in FY1991 and $70 billion in FY1992. CBO's FY1990, FY1991 and FY1992 baseline deficits (July 1990) are $195 billion, $232 billion and $239 billion, respectively.
2. Budget receipts, outlays, and surplus/deficit include social security (OASDI) receipts, outlays and surplus, respectively. 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 FY1990.
3. The Administration's deficit projections, excluding RTC spending, for FY1990, FY1991 and FY1992, were $163 billion, $114 billion and $93 billion, respectively. CBO's July deficit estimates, excluding RTC spending, for FY1990, FY1991 and FY1992, were $159 billion, $162 billion, and $179 billion, respectively.
4. Other means of financing are checks issued less checks paid, accrued items; and changes in other financial assets and liabilities.
5. HEB is the NIPA measure in current dollars with cyclically-sensitive receipts and outlays adjusted to a 6 percent unemployment rate and 2.5% potential output growth. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GNP, is reversed in sign. FI is the weighted difference of discretionary federal spending and tax changes (in 1982 dollars), scaled by real federal purchases. For change in HEB and FI, (-) indicates restraint.

Recent Developments

Signs of increasing uncertainty and stress have surfaced in financial markets since the August meeting. The situation in the Middle East, and most immediately the steep climb of oil prices, has stirred fears of recession and greater inflation. Meanwhile, more borrowers of all sorts were perceived to be facing actual or potential debt-servicing problems. In these circumstances, investors have displayed an increased affinity for liquidity and safety. Treasury bill rates have fallen 10 to 20 basis points over the intermeeting period, while private short-term rates have risen around 20 basis points, despite evidence that private demands for credit remain weak. Longer-term yields have risen more uniformly, as bond markets evidently have ranked inflation as a greater concern than recession. Although quality spreads on debt instruments have widened, the increases generally have been moderate and most spreads remain well within historical ranges. Stock prices have fallen broadly, and major indexes have retreated to levels last seen in the first half of 1989 or even earlier.

Especially prominent in recent weeks has been the deepening concern about the creditworthiness of commercial banking firms. Both the GAO and the CBO released reports raising questions about the health of large banks and the adequacy of the bank deposit insurance fund. These reports, together with mounting evidence of deteriorating asset portfolios at banks, drove bank stock prices down relative to broad market indexes. In the debt markets, a subordinated debt issue of Chase Manhattan was repriced at nearly a 5 percentage point spread over Treasury yields, and many banking firms have seen smaller, though still substantial, increases in spreads. These pressures undoubtedly are imposing tighter constraints on banks' lending capacity. The same applies to the Japanese banks which have assumed a significant role in the U.S. credit market; their capital positions and lending capacity have been eroded by the sharp declines in stock prices in Tokyo.

World tensions and the uncertainties in financial markets helped boost growth in the monetary aggregates in August and September. M1 has grown at a nearly 10 percent rate over the two months as heavy net shipments of currency overseas, particularly to the Middle East, have accompanied a rebound in transaction deposits. A surge in money market funds accounted for a good share of the acceleration in M2, as investors apparently shunned exposure to stocks and bonds in favor of safer, more liquid assets. Over August and September, M2 grew at around a 6-1/2 percent rate, lifting it toward the midpoint of its annual target cone. Expansion of M3 quickened as well, to a 4 percent rate across August and September; its non-M2 component has contracted, as a surge in institution-only money funds and term Eurodollars was more then offset by a runoff of large time deposits at banks and thrifts. Banks' needs for managed liabilities were damped by an unusually large Treasury balance, as the government accumulated cash to meet large RTC disbursements expected late in the quarter.

Bank credit also accelerated in August, but the strength masked continued sluggish lending to private nonfinancial borrowers. Security loans were by far the strongest component of bank credit, likely reflecting the placement of some of the temporary Treasury balances. Among the principal loan categories, real estate loans registered their slowest growth since early 1983, C&I loans would have contracted but for a spurt in merger funding, and consumer lending, after adjustment for securitization, decelerated.

Businesses probably have trimmed their net demands for external funds in recent months. The issuance of long-term debt has dropped to a low level, in part because firms are hoping that bond yields will come down shortly; and new equity sales are running at half the rate posted earlier this year. Moreover, the reduction in capital market funding has not been offset by any material increase in short-term borrowing. Commercial bank loans, as mentioned, have been soft, and nonfinancial commercial paper issuance, though brisk in recent weeks, has remained below its trend earlier in the year.

In the household sector, indications are that borrowing has remained subdued. Given the recent pattern of housing sales and construction, net home mortgage borrowing presumably has remained relatively slow. Consumer installment credit grew at a 7-1/2 percent rate in July, with a surge in revolving credit, but for the first seven months of 1990 it has expanded at only a 3 percent rate, with auto lending being the weakest component. In addition to a possible tax-induced shift away from consumer debt, households may have decided, in light of weakening income and employment trends, to avoid adding to already high installment debt burdens.

At the federal level, borrowing is expected to reach $69 billion for the third quarter, of which about $16 billion will have been spent by the RTC by quarter-end. Issuance of municipal securities was heavy in August, but it appears to have receded in September. Here too, financial stresses are appearing as lower-than-expected tax revenues contribute to debt downgrades.

Outlook

As has been noted, the staff outlook assumes steady short-term interest rates, at least through 1991, and a moderate decline in bond yields over the next several months. Credit supply conditions are expected to tighten further in the near term, imposing some additional restraint on spending, as deteriorating asset quality and wary investors cause a widening of risk premia and encourage intermediaries to toughen lending standards. Although this additional caution seems likely to persist in substantial degree, some greater willingness to lend probably will tend to emerge after the economy has reestablished a more solid growth trend.

In the near term, private credit demands should be damped in a slow economy. Nonfederal debt, which expanded at almost a 6 percent rate in the first half of 1990, should decelerate to near a 5 percent rate of growth in the second half of the year and in 1991. By 1992, increased business outlays for inventories and fixed capital and stronger housing activity likely will give a boost to private borrowing. Federal borrowing, spurred by the RTC's needs for working capital, is expected to remain quite heavy in the next couple of quarters, but then to recede over the rest of the forecast period as the assumed deficit reduction program takes hold and RTC borrowing needs wane. Growth of total domestic nonfinancial debt, after an expected 6-3/4 percent pace this year, should slip to a 6 percent rate in both 1991 and 1992, falling below the growth rate of nominal GNP for the first time since 1980. That shortfall would be even greater were an allowance made for the artificial boost to these figures from the government's financial intermediation through the RTC.

Borrowing by nonfinancial businesses is projected to remain near its current depressed level through 1991 before rebounding. Although the financing gap rises in the fourth quarter, as profits fall off faster than investment spending, net borrowing increases very little, owing to a reduced pace of net equity retirements. Business fixed investment weakens next year, and inventories decline, keeping business funding needs in check. By 1992, improved prospects for the economy are assumed to have encouraged renewed stockbuilding and some rebound in fixed investment spending. With profits showing little vigor, firms are expected to satisfy an increased need for funds through greater debt issuance.

Households' net borrowing also is sluggish over the forecast horizon. The rate of growth of mortgage indebtedness is projected to remain constant well below its pace of recent years; the stable percent changes translate into increasing dollar volumes, in line with the outlook for residential construction and home sales. Consumer credit growth, after several more quarters of slight growth, accelerates modestly. Nonetheless, growth of total household borrowing remains a bit below that of nominal income, so that consumers' debt burden eases somewhat.

Net borrowing by state and local governments should be negligible until the middle of next year, when a slow uptrend is expected to begin. Fiscal problems likely will constrain local governments' demands for credit, and may increase borrowing costs. Still, the expected scale of the financial troubles does not suggest any widespread loss of access to the credit markets.

Recent Developments

Sentiment about the dollar has been generally bearish over the past six weeks, although on balance, the average value of the dollar in terms of other G-10 currencies has changed little from its level at the time of the August FOMC meeting. However, that level of the dollar is about 2 percent below the level projected in the August Greenbook. A 6-1/4 percent decline in the dollar against the yen over the intermeeting period has been offset by moderate appreciations against most other currencies. The yen appreciated in response to a further tightening of monetary conditions in Japan in the face of continued strength in Japanese economic activity.

Short-term market interest rates in Japan have risen 35 basis points and long-term rates more than 60 basis points since the last FOMC meeting. Most of the change in long rates come after the Bank of Japan raised the official discount rate 75 basis points to 6 percent on August 30. Most of the change in short-term rates preceded that action. Interest rates remained about flat in Germany. The price of gold fell from its recent peak of almost $415 per ounce at the time of the August FOMC to less than $380 per ounce, but recently has returned to over $400 per ounce as oil prices and Mid-East tensions have risen further.

Economic growth in the other G-10 countries, on average, slowed in the second quarter. In Germany and Japan, the second-quarter decelerations were from unusually rapid first-quarter rates, and recent indicators suggest that activity in both countries still is buoyant. In other major foreign industrial countries, however, growth does not appear to have rebounded from more subdued second-quarter rates. Consumer-price inflation abroad picked up in August by about 1/4 percentage point on average (year over year), reflecting the initial effects of higher oil prices. In recent weeks, authorities in many of the major foreign industrial countries have emphasized the desirability of leaning against the increased inflationary pressures associated with higher oil prices.

Activity in Eastern European countries (and in East Germany) has been weaker than expected. Output growth in Latin America has remained depressed. In contrast, growth has been strong in some Asian countries, particularly Korea and Malaysia.

The U.S. merchandise trade deficit widened in July to $9.3 billion (seasonally adjusted, Census basis), from a low figure in June of $5.3 billion. The value of imports rose across a broad spectrum of commodities in July, but remained below peak monthly rates reached earlier in the year. Exports declined 6 percent in July after having risen nearly as much in June. Nevertheless, the average rate of exports over the four months through July was about unchanged from the rate in the first quarter. This flatness can be attributed in part to a decline in economic growth in some of the major markets for U.S. exports.

The average price of U.S. non-oil imports declined moderately in July for the fourth consecutive month. Prices of non-oil industrial supplies and materials and consumer goods have accounted for most of the decline in recent months. Export prices rose moderately in July, at somewhat above their second-quarter pace. Despite a rise in global oil production in recent weeks, spot oil prices have risen about $6 per barrel since the August Greenbook because of increased tensions in the Middle East and an associated increase in demand for stocks. As of early September, the loss of 4.3 mbd oil production in Iraq and Kuwait appears to have been largely offset by increased production in Saudi Arabia, Venezuela, and the United Arab Emirates.

Outlook

Compared with the August Greenbook, the current forecast incorporates higher prices for oil over the forecast period, especially in the near term (as described in the section on domestic nonfinancial developments) and a somewhat lower value of the dollar. Higher oil prices contribute to a weaker outlook for foreign growth and more rapid price inflation in the near term and also result in a larger projected U.S. nominal trade deficit than in the August forecast. The trade and current account deficits are now projected to widen significantly over the next several months, to narrow substantially during 1991, and to level off during 1992.

The Dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to remain unchanged over the forecast period at a level about 2 percent below that projected in the last Greenbook. This revision reflects the dollar's failure to appreciate back to the level projected in the August Greenbook, as well as prospects for an interest differential that is less favorable for the dollar. The risks to the dollar in this outlook may very well be on the downside. As long as U.S. economic growth appears to be slowing or negative, the dollar could come under downward pressure, even if U.S. short-term interest rates do not decline. Against the currencies of eight major developing countries, the dollar is expected to be little changed in real terms, on balance, over the forecast horizon.

Foreign Industrial Countries. The outlook for real growth in the major foreign industrial countries has been weakened somewhat from that prepared for the August Greenbook, largely as a result of the higher trajectory for oil prices. Growth of real GNP in the other G-10 countries now is projected to be less than 2 percent at an annual rate in the second half of 1990, and then to recover to a rate of about 3 percent for the next two years. The average rate of inflation in the other G-10 countries now is expected to move to slightly above 5 percent (Q4/Q4) this year before decelerating to about 4 percent by the end of next year. Compared with the August projection, the level of GNP in foreign G-10 countries is projected to be about 1/2 percent lower at the end of 1991, and the level of consumer prices 1/2 percent higher. Foreign authorities are expected to permit short-term interest rates to rise moderately on average from current levels through the first half of next year to blunt the near-term inflationary effects of higher oil-prices, and then to allow rates to move downward gradually.

Growth performances among the major foreign countries are expected to remain divergent. German growth is expected to be depressed somewhat in the near term by higher oil prices, but to increase during 1991 before easing in 1992 in response to increased monetary restraint. The stimulus to investment associated with unification and reform of the East German economy has been somewhat slower to develop than expected. In Japan, the monetary tightening that has been implemented over the past year, along with the rise in oil prices, will tend to depress growth through the middle of next year. Japanese growth is then expected to recover over the remainder of the forecast period. Two successive quarters of negative real growth are now projected for both Canada and the United Kingdom this year, followed by modest recoveries in 1991. The United Kingdom is not expected to make significant progress in reducing its very high rate of inflation (lately nearly 10 percent) until next year.

Developing Countries. Growth in the developing countries on average is expected to be about 2-3/4 percent (year over year) in 1990 and then to rebound to an average rate of about 4 percent in 1991 and 1992. Activity is expected to strengthen particularly in Latin America, as a result of recovery in Brazil and Argentina and the stimulus to oil exporters in the region from higher oil prices. This outlook calls for slower growth for developing countries on average in 1990 and 1991 than in the August forecast, as a result of slower growth expected in exports to the industrial countries.

U.S. Merchandise Trade Quantities. Growth of the quantity of U.S. nonagricultural exports is expected to pick up noticeably in the fourth quarter from its slow pace in the past several months. The decline in the dollar over the past year and the projected pattern of growth abroad are expected to support export growth that remains strong through 1991 and begins to ease a bit during 1992. The growth of U.S. agricultural exports is projected to remain sluggish, however, because Soviet purchases are not expected to expand further during the next two years. A cut off of about $1 billion (annual rate) in agricultural shipments to Iraq during the second half of this year is expected to be made up next year by additional shipments to other countries. Relative to the August projection, the growth of total export quantity is somewhat lower over the next two years in response to the lower growth abroad; this weakening in export growth in eventually largely offset by the effects of the lower dollar.

The quantity of non-oil imports is projected to remain little changed through the first half of next year, and then to resume expanding as U.S. economic growth increases. Relative to the August projection, the forecast for the level of non-oil imports has been revised downward through 1992 because of slower U.S. growth and the lower level of the dollar. In addition, the projected quantity of oil imports has been raised somewhat in the near term due to increased stock building in response to events in the Middle East. Imports of oil are still expected to decline late this year and early next year as economic activity weakens and stocks are run down.

Thereafter, oil imports are projected to expand considerably faster, as domestic production of crude oil trends down and as activity picks up.

TRADE QUANTITIES *
(Percent change, annual rate)

	1989-Q4 / 1988-Q4	1990-Q2 / 1989-Q4	--- Projection --- 1990-Q4 / 1990-Q2	1992-Q4 / 1990-Q4
Nonagricultural exports	12.2	7.9	3.0	10.5
Agricultural exports	12.1	-4.4	5.1	1.1
Non-oil imports	6.6	-0.5	-0.1	4.5
Oil imports	2.4	4.0	-2.7	1.7

* GNP basis data.

On balance, total real net exports of merchandise are estimated to have weakened somewhat in the third quarter, but are still projected to show a significant improving trend through early 1992 and to level off thereafter. The improvement in net exports by the end of 1992 is now projected to be a little more than $10 billion (annual rate) greater than in the August forecast, primarily because of the lower level of the dollar. The effects on net exports of lower domestic and foreign GNP growth are largely offsetting.

Merchandise Trade Prices. The fixed-weight index of prices of nonagricultural exports is expected to rise more strongly during the second-half of this year and more moderately thereafter, at about the projected rate of increase in domestic producer prices (export-share weighted) shown in the table below. The revisions to the outlook for the dollar and foreign inflation have raised the projected rate of increase in prices of non-oil imports somewhat. The average price of oil imports is expected to peak in the fourth quarter, to decline through the middle of next year, and to remain unchanged thereafter, as discussed in the section on domestic nonfinancial developments.

SELECTED PRICE INDICATORS
(Percent change, annual rate)

	1989-Q4 / 1988-Q4	1990-Q2 / 1989-Q4	--- Projection --- 1990-Q4 / 1990-Q2	1992-Q4 / 1990-Q4
PPI (export-share weighted)	3.4	2.4	6.3	2.1
Nonagric. exports (Fx-Wt)	0.0	1.9	6.4	2.2
Non-oil imports (Fx-Wt)	-1.0	1.4	7.6	4.3
Oil imports	37.4	-19.6	351.7	-16.5

Nominal Balances: Trade and Services. As a result of the increase in oil import prices, the merchandise trade deficit is expected to rise sharply in the near term, reaching an annual rate of $145 billion in the fourth quarter, well in excess of the $119 billion rate recorded in July. This bulge in the deficit in the months ahead is expected to be unwound during 1991 as oil prices recede; the deficit is then projected to level off at an annual rate of about $80 billion towards the end of the forecast period.

Net portfolio payments to foreigners are expected to rise significantly over the next two years because of rising U.S. international indebtedness; this deterioration does not differ significantly from that projected in the August forecast. These rising net payments are expected to be more than fully offset by increased receipts on net direct investment income and other net services and transfers. This outlook incorporates an estimated $2 billion sales of military equipment to Saudi Arabia to be delivered by year-end 1990, and an estimate for cash grants received from foreign governments associated with Operation Desert Shield. As a result, of all of there changes in non-trade items, the current account balance is projected to improve somewhat more than the trade balance over the forecast period, averaging about $60 billion in 1992.

Outlook for U.S. Net Exports and Related Items
(Billions of Dollars, Seasonally Adjusted Annual Rates)

	ANNUAL			1990		1991				1992			
	1990-P	1991-P	1992-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P	Q1-P	-Q2-P	-Q3-P	-Q4-P
1. GNP Exports and Imports 1/													
Current $, Net	-37.6	-16.0	9.4	-35.7	-59.6	-40.7	-16.8	-6.1	-0.3	4.7	9.1	11.0	12.8
Exports of G+S	672.5	729.7	795.8	673.7	695.3	704.7	721.6	737.3	755.2	772.9	788.3	803.5	818.8
Imports of G+S	710.0	745.7	786.4	709.4	754.9	745.4	738.4	743.4	755.6	768.2	779.2	792.5	805.9
Constant 82 $, Net	-36.1	1.1	19.5	-40.5	-24.0	-11.1	-0.4	4.7	11.1	15.5	19.3	21.1	22.2
Exports of G+S	627.8	660.0	708.2	625.9	637.2	642.0	654.1	665.4	678.6	691.2	702.5	713.8	725.1
Imports of G+S	664.0	659.0	688.6	666.4	661.3	653.1	654.5	660.8	667.5	675.8	683.2	692.7	702.9
2. Merchandise Trade Balance 2/	-113.5	-101.9	-83.5	-114.1	-144.6	-122.4	-102.3	-93.4	-89.4	-86.5	-83.8	-81.8	-81.9
Exports	391.0	430.5	479.9	390.1	401.9	413.2	424.2	435.5	449.0	462.2	474.6	486.2	496.7
Agricultural	42.4	45.0	48.2	41.4	42.8	44.2	45.0	44.9	46.1	46.8	47.8	48.5	49.6
Non-Agricultural	348.7	385.4	431.8	348.7	359.1	368.9	379.3	390.6	403.0	415.4	426.8	437.7	447.1
Imports	504.5	532.4	563.4	504.2	546.5	535.6	526.5	528.9	538.5	548.7	558.3	568.0	578.6
Petroleum and Products	69.3	75.7	72.3	64.4	102.0	88.5	75.2	68.9	69.9	71.3	71.9	72.6	73.4
Non-Petroleum	435.2	456.7	491.1	439.8	444.5	447.1	451.3	460.0	468.5	477.4	486.5	495.4	505.2
3. Other Current Account Transactions													
Capital Gains and Losses 3/	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other D.I. Income, Net	46.5	51.2	52.3	47.7	50.8	51.0	51.1	51.3	51.3	51.7	52.5	52.0	52.8
Portfolio Income, Net	-45.0	-49.7	-52.9	-45.8	-47.1	-48.3	-49.2	-50.2	-51.1	-51.9	-52.6	-53.2	-53.7
Other Current Account, Net	11.1	20.3	24.1	9.9	18.5	18.7	22.7	20.5	19.3	24.0	24.6	24.9	22.9
4. U.S. Current Account Balance													
Including Capital G/L	-99.6	-80.1	-60.0	-102.2	-122.3	-101.0	-77.7	-71.8	-69.9	-62.8	-59.2	-58.1	-59.9
Excluding Capital G/L	-100.9	-80.1	-60.0	-102.2	-122.3	-101.0	-77.7	-71.8	-69.9	-62.8	-59.2	-58.1	-59.9
5. Foreign Outlook 4/													
Real GNP--Ten Industrial 5/	3.0	2.4	3.1	1.0	1.9	2.8	3.2	3.4	3.2	3.1	3.0	2.9	2.9
Real GNP--LDC 6/	2.8	3.7	4.2	3.2	3.6	4.0	4.0	4.0	3.9	4.0	4.3	4.6	5.0
Consumer Prices--Ten Ind. 5/	4.6	4.7	3.8	3.9	5.9	4.9	5.1	3.2	3.5	3.8	4.2	3.8	3.9

1/ National Income and Product Account data.
2/ International accounts basis.
3/ The net of gains (+) or losses (-) on foreign-currency denominated assets due to their revaluation at current exchange rates and other valuation adjustments.
4/ Percent change, annual rates.
5/ Weighted by multilateral trade-weights of G-10 countries plus Switzerland; prices are not seasonally adjusted.
6/ Weighted by share in LDC GNP.
P/ Projected