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Strictly Confidential (FR) Class II FOMC

June 30, 1993

SUMMARY AND OUTLOOK

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

Overview

Currently available data suggest that real GDP growth in the second quarter has been in the 2 to 3 percent range, a little faster than projected in the May Greenbook. However, the uncertainty attending that assessment is extraordinary. The labor market data through May suggest the possibility of a far more positive outcome, while recent spending indicators point only to a moderate pickup from the 0.7 percent GDP gain of the first quarter.

STAFF PROJECTION OF REAL GDP--SELECTED COMPONENTS
(Percent change, at annual rates, except as noted)

	1993				
	Q1	Q2	H2	1993	1994
Real GDP	.7	2.5	2.3	2.0	2.6
Previous	1.8	2.0	2.5	2.2	2.7
Civilian unemployment rate[1]	7.0	7.0	6.9	6.9	6.8
Previous	7.0	7.0	7.0	7.0	6.7
CPI inflation	3.7	3.1	3.2	3.3	3.1
Previous	3.7	2.9	2.9	3.1	3.1

1. Averages for final quarter of period shown.

Looking ahead, we see no clear grounds for anticipating that the pace of expansion over the next year and a half will differ greatly from the 2-1/2 percent average pace of the past year and a half. To be sure, the current and prospective financial environment--characterized by the assumed maintenance of low short-term interest rates, by improving credit supplies, and by healthier balance sheets in both the business and household sectors--appears conducive to substantial growth in domestic demand. Moreover, we are anticipating that the slow improvement of the foreign industrial economies taken as a group will provide a modest boost to U.S. exports. However, ongoing fiscal restraint and the public's concerns about future government policies appear to be exerting a significant drag on demand, and we have little reason to believe that these negative forces will disappear entirely over the projection period.

Growth at the projected pace is likely to reduce the slack in labor and product markets only gradually. The unemployment rate is projected to edge down to just 6-3/4 percent by the end of 1994, and we do not expect capacity utilization to rise enough to create significant bottlenecks. As a result, the core CPI is projected to decelerate a few tenths from the 3-1/2 percent pace registered over the year ended in May.

Recent Developments

Incoming data provide mixed signals about economic growth in the second quarter. The labor market data are often at odds with other indicators even this late in a quarter; in the present case, however, the tension is especially marked, and our revised estimate of 2-1/2 percent (annual rate) GDP growth is unusually tentative. With the unemployment rate down to 6.9 percent in May and aggregate hours worked by private production or nonsupervisory workers up 1.4 percent, a literal reading of the reported labor inputs could imply real GDP growth of more than 5 percent. But such an estimate seems high, given the implausible magnitude of the rise in the workweek. In addition, much of the May gain in hours occurred in service-producing sectors, where the link between hours and output may be less reliable; in manufacturing, production-worker hours have been sluggish, with employment falling, and manufacturing output has decelerated.

In contrast, the available data on expenditures, on balance, suggest rather soft GDP growth--perhaps less than 2 percent. Sales of light motor vehicles have picked up smartly, but other consumer spending has posted a rather slight rebound from the weather-exaggerated first-quarter slump. Without a significant upward revision of recent estimates of retail sales, the data at present appear consistent with an increase in real PCE of roughly 3 percent (annual rate), but only about 1-3/4 percent excluding motor vehicles. In addition, real disposable income appears to have grown only slowly in the current quarter, while surveys of sentiment point to growing concerns about the prospects for business activity and employment.

Data on housing activity, which had been held down earlier in the year by exceptionally bad weather and high lumber prices, have been mixed in recent months. Sales of new homes dropped sharply in May after a runup in April. In contrast, starts of single-family units rose for the second consecutive month in May to a 1.09 million unit annual rate. Because of the usual lag between starts and expenditures, however, real residential investment is projected to have slipped slightly in the second quarter.

Real business fixed investment is projected to have risen nearly 13 percent at an annual rate in the second quarter, with the increase entirely in equipment spending. Part of the projected increase in PDE is due to a pickup in business demand for motor vehicles. Nominal shipments of office and computing equipment were down, on net, in April and May, but with continued price declines, real purchases likely have risen substantially this quarter. Shipments of other nondefense capital goods (excluding aircraft) were also down on net in April and May, but imports of capital goods were up sharply in April, and business spending on other equipment probably continued to increase this quarter. Nonresidential construction was little changed in April, and, on the basis of the behavior of contracts and permits, we expect it to be little changed for the quarter as a whole.

The rebound in federal defense purchases in the second quarter now appears to have been smaller than we had expected; the average level of spending reported in the Monthly Treasury Statements for April and May was little different from that in the first quarter, and even with an assumed June increase, purchases will retrace only a small portion of the sharp first-quarter decline. In the state and local sector, real purchases probably edged up this quarter, with increases in employment offsetting further declines in construction outlays.

The April merchandise trade figures and other indicators point to a further rise in imports in the second quarter, on top of the sharp jump in the first quarter. Exports, too, are projected to have increased in the second quarter; but, on balance, real net exports of goods and services are expected to decline noticeably.

Inventory investment is expected to be a slight drag on GDP growth in the second quarter. The motor vehicle sector, where higher sales and lower production have caused a run-off of stocks, more than accounts for this negative swing. Outside of autos, we have assumed a significant accumulation of inventories. Although the available data indicate only a small rise in non-auto stocks in April, our guess is that a good part of the recent influx of imports ended up in warehouses and on retailers' shelves and that subsequent figures will reflect this inventory buildup.

On the inflation front, we anticipate another set of mild CPI and PPI figures for June, on top of the better May reports. The overall CPI is projected to have risen about 3 percent at an annual rate in the second quarter. Food prices are expected to show a 3-1/4 percent rise, while survey data suggest that energy prices will decline slightly. The pattern of recent changes in the CPI, excluding food and energy, reinforces the notion that the earlier surge was related, at least in part, to seasonal adjustment problems; even accounting for these problems, however, the data have produced no sign of a resumption of the disinflation process. On the cost side, average hourly earnings have continued to increase somewhat faster this year than last, while prices of industrial commodities have, on balance, eased a bit recently.

The Outlook for 1993:H2 and 1994

Key assumptions. Short-term interest rates are assumed to remain near current levels, at least until the latter part of 1994. Long-term rates are projected to decline moderately further, in light of the ongoing fiscal consolidation, temperate private demand, and a price pattern that should calm inflation fears. In addition, the forecast anticipates increased credit availability. Banks already appear to be stepping up their lending efforts, and, with the ongoing improvements in household and business balance sheets, the banks--and other intermediaries--should become willing to make loans to a widening range of customers at narrower rate spreads or on less stringent nonprice terms.

Several temporary factors have buffeted the monetary aggregates over the first half of this year; but, on net, growth of M2 and M3 continues quite weak relative to the pace of nominal spending. Monetary expansion is expected to remain relatively subdued on average over the forecast period. The structure of interest rates and increasingly ready access will continue to induce households to shift from M2 assets to mutual funds and other capital market instruments. A continued preference among businesses for capital market financing is expected to limit the expansion of bank loans, and banks will probably continue to rely considerably on nondeposit sources to fund asset growth. As a result, M2 and M3 are projected to finish the year somewhat below the bottoms of their target ranges and to accelerate only modestly in 1994.

The staff's assumptions regarding fiscal policy have been altered to reflect a plausible compromise between the packages passed by the House and the Senate. The increase in marginal tax rates on high-income individuals is assumed to be phased in over 1993 and 1994; previously, we had assumed that the tax increase would be fully effective in 1993. With respect to the energy tax, we anticipate that the eventual outcome will adhere to the Senate's earlier starting date but will include a somewhat larger and broader tax than the Senate's 4.3 cent levy on transportation fuels. Details aside, the prospect is still for fiscal policy to remain moderately restrictive over the forecast period. The unified deficit excluding deposit insurance is expected to drop from $299 billion in FY1993 to $260 billion in FY1994, little different from that in the May Greenbook.

COMPOSITION OF ASSUMED DEFICIT REDUCTION IN FY1994
(Billions of dollars)

	FY1994
Total deficit reduction	37
Outlays	4
Medicare	3
Other	1
Receipts	33
Personal income taxes	17
Corporate income taxes	4
Social insurance	3
Energy taxes	8
Other taxes	1

The trade-weighted exchange value of the dollar has risen about 3 percent since the last FOMC meeting and is projected to continue drifting upward over the forecast period--and to remain a little above the previous projection path. The economies of the major industrial countries, on average, are projected to improve only gradually through 1994, as in the May Greenbook. Oil prices have fallen since the last Greenbook on the news of Kuwait's refusal to participate in the third-quarter OPEC production quotas. We expect, however, that as world demand picks up, the posted price of West Texas intermediate crude oil will rise from its average level in June of $18.07 per barrel to $19.50 per barrel by the fourth quarter of this year and will remain at that level for the rest of the forecast period.

Consumer spending. Real personal consumption expenditures are projected to grow at an annual rate of 2-3/4 percent in the third quarter--reflecting in part a return to normal levels of energy use--and to increase at roughly a 2 to 2-1/2 percent annual rate thereafter. Sales of new motor vehicles continue to contribute to spending growth, reflecting in part some pent-up demand. In addition, improving household financial positions should encourage consumers to spend more freely on big ticket items, especially on household goods typically associated with home purchases. In general, however, the pace of consumer spending over the projection period is likely to be inhibited by the sluggish economy and the attendant absence of a more substantial acceleration in income over the forecast period.

The projected growth in consumption this year and next is also restrained by the effects of higher taxes. Although the increase in 1993 income tax liabilities need not be paid until 1994, we are assuming that at least some wealthier households will recognize that their future disposable income has been trimmed and will begin adjusting their spending this year. In addition, the drag from the energy tax, which affects most consumers, begins to appear in the fourth quarter. As a result of the extra income tax payments, the measured saving rate will be artificially depressed next year by a small amount.

Housing. Homebuilding activity is projected to rise over the second half of this year and through 1994, with both supply and demand factors contributing to the increase. On the demand side, mortgage rates are now at their lowest levels in twenty years and are projected to move lower; affordability considerations thus are quite favorable, and in locales where prices have begun to firm, home purchases may again look like a good investment. The recent hesitant pace of new home sales, however, suggests that a firming of confidence in the economic outlook may be needed before demand will gather momentum. On the supply side, factors that previously had inhibited new construction have diminished: Lumber prices have retraced their earlier runup, and construction credit constraints faced by builders reportedly are lessening. Still, surveys of homebuilders have not indicated an improved tone of late, and financing for land acquisition and speculative building will not become readily available for a while. Thus, our optimism about the likely speed of the upswing has been tempered. On balance, residential investment is projected to increase at roughly an 8 percent annual rate over the next two quarters and at a 6 percent pace in 1994.

In the single-family sector, housing starts are expected to move up from about 1.05 million units (annual rate) in the first half of this year to almost 1-1/4 million units by the end of 1994. In contrast, high vacancy rates and low rents continue to depress construction of multifamily units, and starts in this sector are projected to increase only slightly from the currently slow pace.

Business fixed investment. Real BFI is projected to rise at roughly an 8 percent annual rate over the forecast period, with spending on producers' durable equipment rising at close to a 10 percent pace. Nonetheless, waning accelerator effects and flattening cash flows point to a slackening in PDE growth relative to the pace of recent quarters. Spurred by falling prices and opportunities to enhance productivity, purchases of computers are projected to grow at a 20 to 25 percent annual rate in real terms, accounting for a disproportionate share of total PDE increases; however, this pace is well below the recent trend. In addition, growth in expenditures for other types of industrial equipment is projected to ease off gradually over the next year and a half. One notable area of weakness will be commercial aircraft; with enormous numbers of planes already mothballed, air traffic would have to rise dramatically to stem the slide in production anytime soon.

Investment in nonresidential structures is projected to rise at a 3-3/4 percent average annual rate over the forecast period. Recent data on outlays, as well as on contracts and permits, suggest that this sector is bottoming out after three years of decline. Much of the pickup in building in the projection is expected to come in the non-office commercial sector. In addition, spending for pollution control equipment and an expansion of electrical power generation capacity should boost outlays in the utilities sector, while we are projecting a moderate upturn in spending on industrial plants in response to selective needs for additional industrial capacity. In contrast, given the still high vacancy rates and weak property prices, office construction is not expected to firm before some time in 1994.

Business inventories. With firms having curtailed orders in light of the disappointing pace of retail sales since yearend, we anticipate that growth of production will continue to lag that of final sales in the near term; the resultant slowing in nonfarm inventory investment is projected to subtract about 3/4 percentage point from GDP growth in the third quarter. Beyond the next quarter, inventory investment should pick up once again; however, firms likely will accumulate stocks only cautiously, and the expected contribution of inventory investment to GDP growth is marginal.

Government purchases. Real federal purchases are projected to decline at about a 4 percent annual rate over the forecast period, reflecting the deep cutbacks slated for defense outlays. In contrast, nondefense purchases are projected to increase at roughly a 2-1/2 percent annual rate.

Real state and local purchases are projected to rise at about a 1 percent annual rate in the second half of 1993 and about 2 percent in 1994. Budgetary pressures persist in many areas, and even though the projected expansion in activity should increase tax bases, we expect to see further efforts on the part of states and municipalities to restrain spending growth and to increase taxes. On balance, the deficit of operating and capital accounts is expected to narrow considerably over the forecast period--from $45 billion in the first quarter of this year to less than $20 billion by the end of 1994.

Net exports. Imports of goods and services in the third quarter are expected to move up only slightly from current levels, reflecting the inventory adjustments under way by domestic businesses; coupled with moderate export growth, this factor should offset about one-half of the drag from the swing in inventory investment next quarter. Beyond the third quarter, real exports of goods and services are expected to rise at nearly a 6 percent annual rate as the gradual improvement in the pace of expansion abroad increases the demand for U.S. goods. However, this boost to GDP growth is more than offset in the projection by the anticipated appreciation of the dollar and by the effects of rising domestic demand on imports. On balance, net exports are projected to be a negative contributor to GDP growth through next year. (A detailed discussion of these developments is contained in the International Developments section.)

Labor markets. Labor demand is projected to grow slowly over the projection period, with employment increases averaging roughly 160,000 per month--or nearly 2 percent at an annual rate.[1] Even this moderate pace of hiring is an improvement over last year's pace, and the projection reflects our view that the usual early-cycle adjustments in productivity are largely complete. Nonetheless, with reports of downsizing and "re-engineering" efforts still quite common, it seems clear that firms are continuing to look for ways to improve the efficiency of their operations. On balance, we expect productivity, which dropped sharply in the first half of this year, to rise at about a 1-1/2 percent annual rate, on average, in coming quarters; this is less than last year's pace but is still above the trend of the 1980s.

The unemployment rate is projected to decline only gradually over the forecast period, to about 6-3/4 percent by the end of 1994. In large part, the lack of a greater reduction in joblessness is simply a reflection of the moderate pace of employment and output growth. However, we also have assumed that some of the jobs that

1. It now appears that no additional funds will be appropriated for state and local summer jobs programs. A sizable amount is left over from last year's supplemental appropriation, but we have scaled back substantially the number of additional summer jobs expected to be created this year. Because most of these jobs were assumed to go to individuals who would not otherwise have been in the labor force, this change does not affect our projection for the unemployment rate.

are created will be filled by new entrants and re-entrants to the labor force, drawn in by the increase in job opportunities.[2]

STAFF LABOR MARKET PROJECTIONS
(Percent change, Q4 TO Q4, except as noted)

	1992	1993	1994
Output per hour, nonfarm business	2.9	.5	1.5
Previous	3.1	1.3	1.4
Nonfarm payroll employment	.8	1.9	1.8
Previous	.5	1.4	1.9
Civilian unemployment rate[1]	7.3	6.9	6.8
Previous	7.3	7.0	6.7

1. Average for the fourth quarter.

Wages and prices. Despite the considerable slack expected in labor and product markets through 1994, we are projecting only a slight deceleration in wages and prices over this period. A key factor underlying our projection is the behavior of this year's wage and price data, which, even allowing for the distortions in the PPI and CPI caused by seasonal adjustment problems, have not shown the deceleration that we would have expected given recent levels of the unemployment rate.

One possible explanation is that there is less slack in the labor market than is suggested by the recent behavior of the unemployment rate. This could occur, for example, if defense downsizing and other restructuring efforts have created unusual labor market mismatches--either across regions or occupations. However, we can find little hard evidence of a significant increase in structural unemployment; for example, the Conference Board's

2. We have raised our projection of the labor force participation rate throughout the forecast period in response to the higher rate indicated by the recent data, which, in our view, brought participation more in line with what we would have expected given the employment gains of the past year. However, because the May increase in the labor force was accompanied by a large increase in employment, this adjustment to the participation rate does not have a measurable effect on the unemployment rate.

index of help-wanted advertising has not increased relative to the unemployment rate.

Another explanation may be that rising capacity utilization rates, which according to revised estimates are higher than we had thought, have put upward pressure on prices for some goods; this influence may have been exacerbated in the case of steel by the levies associated with the prospective tariffs on imports. More broadly, however, we may have underestimated efforts by firms to increase profit margins in the wake of the runup in activity late last year. And while the slowing of the expansion this year may produce some reversal of these "speed" effects, we cannot rule out the possibility that even the moderate pace of growth in the projection will sustain some pressures. In addition, inflation expectations have turned up surprisingly and may be exacerbating wage-price pressures. Here, too, whether the impulse can be maintained is open to question; our forecast anticipates some calming of these fears.

STAFF INFLATION PROJECTIONS
(Percent change, Q4 TO Q4, except as noted)

	1992	1993	1994
Consumer price index	3.1	3.3	3.1
Previous	3.1	3.1	3.1
Excluding food and energy	3.4	3.3	3.1
Previous	3.4	3.3	3.0
ECI for compensation of private industry workers[1]	3.5	3.4	3.3
Previous	3.5	3.3	3.3

1. December to December.

While the uncertainties are considerable, on balance, the downward pressures associated with the projected levels of slack should lead to some further disinflation. Increases in the employment cost index are projected to edge down from 3-1/2 percent in 1992 to 3-1/4 percent in 1994.[3] Similarly, the CPI excluding food and energy is projected to decelerate slightly, from 3.4 percent in 1992 to 3.3 percent this year and 3.1 percent in 1994; the overall CPI is expected to rise at roughly the same rate as the core component. Energy prices likely will rise sharply in the fourth quarter of this year with the introduction of higher energy taxes and are projected to increase 3-3/4 percent in 1994 as the rise in oil prices over the second half of this year is passed through to consumer energy prices. However, increases in food prices are expected to remain moderate over the projection period; although there currently are some upward pressures associated with unusually severe planting delays for some crops--notably soybeans--we do not see any basis at this time for anticipating major crop losses. For both the total CPI and the index excluding food and energy, reported inflation rates are expected to be below their trends in the second half of this year as the seasonal adjustment problems that boosted the first-quarter figures are reversed; the same pattern is expected in 1994, with an outsized increase in the first quarter offset by smaller increases in the remaining quarters of the year.[4]

<u>Forecast Comparisons</u>

The staff projection for real GDP is significantly lower than the forecast developed in January 1992, before the last <u>Monetary Policy Report to the Congress</u>. In contrast, the projection for the unemployment rate is a bit lower than in January, and the forecast of CPI inflation is significantly higher. Many of the changes

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3. Reacting to recent news from the Administration, we have removed the minimum wage increase from the projection; this assumption formerly added 0.1 percentage point to compensation growth in 1994.

4. Analysts at the Bureau of Labor Statistics are aware of the seasonal adjustment problem and are examining possible ways to improve their adjustment routines. If they do change their procedures, this pattern may not show up in the data next year.

reflect the evidence now available for the first part of the year: In particular, the weaker-than-expected growth in real GDP in the first quarter, poor productivity performance, and less-favorable developments in the wage and price data. The staff forecast also now incorporates a contractionary fiscal package, with a price-increasing energy tax late in the year.

CHANGES IN STAFF PROJECTIONS SINCE JANUARY
(Percent change at annual rates, except where noted)

	1993				1993[1]
	Q1	Q2	Q3	Q4	
Nominal GDP					
June 1993	4.3	5.2	4.4	5.5	4.8
January 1993	6.2	5.1	5.1	5.1	5.4
FOMC[2]					5-1/2 to 6
Real GDP					
June 1993	.7	2.5	2.2	2.5	2.0
January 1993	2.7	2.9	2.9	2.9	2.8
FOMC[2]					3 to 3-1/4
Consumer price index					
June 1993	3.7	3.1	2.4	4.0	3.3
January 1993	2.4	2.8	2.7	2.6	2.6
FOMC[2]					2-1/2 to 2-3/4
Unemployment rate[3]					
June 1993	7.0	7.0	7.0	6.9	
January 1993	7.2	7.2	7.1	7.0	
FOMC[2]				6-3/4 to 7	

1. Percentage change, fourth quarter to fourth quarter.
2. Central tendency forecast in the February 1993 Humphrey-Hawkins report.
3. Level.

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

June 30, 1993

Interval	Nominal GDP		Real GDP		GDP fixed-weight price index		Consumer price index[1]		Unemployment rate (level except as noted)	
	5/14/93	6/30/93	5/14/93	6/30/93	5/14/93	6/30/93	5/14/93	6/30/93	5/14/93	6/30/93
ANNUAL										
1990[2]	5.2	5.2	.8	.8	4.6	4.6	5.4	5.4	5.5	5.5
1991[2]	2.8	2.8	-1.2	-1.2	4.0	4.0	4.2	4.2	6.7	6.7
1992[2]	4.8	4.8	2.1	2.1	2.9	2.9	3.0	3.0	7.4	7.4
1993	5.2	5.2	2.7	2.5	3.0	3.2	3.2	3.2	7.0	7.0
1994	5.0	5.1	2.6	2.5	2.6	2.8	3.0	3.3	6.8	6.9
QUARTERLY										
1991 Q1[2]	1.8	1.8	-3.0	-3.0	4.9	4.9	3.6	3.6	6.5	6.5
Q2[2]	5.2	5.2	1.7	1.7	3.5	3.5	2.1	2.1	6.7	6.7
Q3[2]	4.0	4.0	1.2	1.2	2.9	2.9	2.7	2.7	6.7	6.7
Q4[2]	2.8	2.8	.6	.6	2.4	2.4	3.3	3.3	7.0	7.0
1992 Q1[2]	6.2	6.2	2.9	2.9	3.4	3.4	3.5	3.5	7.3	7.3
Q2[2]	4.3	4.3	1.5	1.5	2.9	2.9	2.9	2.9	7.5	7.5
Q3[2]	5.3	5.3	3.4	3.4	2.2	2.2	2.9	2.9	7.5	7.5
Q4[2]	7.1	7.1	4.7	4.7	3.4	3.4	3.2	3.2	7.3	7.3
1993 Q1[2]	5.2	4.3	1.8	.7	4.2	4.3	3.7	3.7	7.0	7.0
Q2	4.2	5.2	2.0	2.5	2.5	2.6	2.9	3.1	7.0	7.0
Q3	4.7	4.4	2.5	2.2	2.5	2.4	2.7	2.4	7.0	7.0
Q4	5.0	5.5	2.6	2.5	2.7	3.3	3.1	4.0	7.0	6.9
4 Q1	5.1	5.1	2.7	2.5	2.7	2.9	3.1	3.5	6.9	6.9
Q2	5.1	5.1	2.7	2.6	2.6	2.8	3.0	3.1	6.8	6.9
Q3	5.2	4.9	2.7	2.6	2.8	2.6	3.3	2.9	6.7	6.8
Q4	4.9	4.9	2.7	2.7	2.6	2.6	2.9	2.9	6.7	6.8
TWO-QUARTER[3]										
1991 Q2[2]	3.5	3.5	.7	.7	4.2	4.2	3.0	3.0	.7	.7
Q4[2]	3.4	3.4	.9	.9	2.6	2.6	3.0	3.0	.3	.3
1992 Q2[2]	5.2	5.2	2.2	2.2	3.2	3.2	3.2	3.2	.5	.5
Q4[2]	6.2	6.2	4.1	4.1	2.8	2.8	2.9	2.9	.2	.2
1993 Q2	4.7	4.7	1.9	1.6	3.2	3.4	3.4	3.4	.3	.3
Q4	4.9	4.9	2.5	2.3	2.6	2.8	2.9	3.2	.0	.1
1994 Q2	5.1	5.1	2.7	2.5	2.7	2.9	3.0	3.3	.2	.0
Q4	5.1	4.9	2.7	2.6	2.7	2.6	3.1	2.9	.1	.1
FOUR-QUARTER[4]										
1990 Q4[2]	4.1	4.1	.5	.5	4.7	4.7	6.2	6.2	.6	.6
1991 Q4[2]	3.5	3.5	.1	.1	3.4	3.4	3.0	3.0	1.0	1.0
1992 Q4[2]	5.7	5.7	3.1	3.1	3.0	3.0	3.1	3.1	.3	.3
1993 Q4	4.8	4.8	2.2	2.0	2.9	3.1	3.1	3.3	-.3	.4
1994 Q4	5.1	5.0	2.7	2.6	2.7	2.7	3.1	3.1	.3	.1

1. For all urban consumers.
2. Actual.
3. Percent change from two quarters earlier; for unemployment rate, change in percentage points.
4. Percent change from four quarters earlier; for unemployment rate, change in percentage points.

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REAL GROSS DOMESTIC PRODUCT AND RELATED ITEMS, ANNUAL VALUES
(Seasonally adjusted annual rate)

June 30, 1993

Item	Unit[1]	1986	1987	1988	1989	1990	1991	1992	Projected 1993	Projected 1994
XPENDITURES										
Nominal GDP	Bill. $	4268.6	4539.9	4900.4	5250.8	5522.2	5677.5	5950.7	6259.0	6575.7
Real GDP	Bill. 87$	4404.5	4540.0	4718.6	4838.0	4877.5	4821.0	4922.6	5044.4	5169.9
Real GDP	% change	2.2	4.5	3.3	1.6	.5	.1	3.1	2.0	2.6
Gross domestic purchases		2.1	3.9	2.5	.9	-1.2	.2	3.7	2.5	2.9
Final sales		3.3	2.7	4.2	1.5	.6	.6	3.1	1.8	2.4
Private dom. final purch.		3.0	1.9	4.2	.5	.8	.9	4.5	3.3	3.3
Personal cons. expend.		4.0	2.1	4.2	1.2	.2	.0	3.4	2.2	2.3
Durables		12.5	-2.6	8.5	-.5	-2.3	-2.5	9.2	3.8	4.3
Nondurables		3.3	1.4	3.2	1.2	.7	-1.5	3.3	.6	1.4
Services		2.5	3.7	3.7	1.7	1.3	1.6	2.2	2.7	2.4
Business fixed invest.		-5.7	3.0	5.5	-.4	-1.4	-7.0	7.9	10.2	8.3
Producers' dur. equip.		.7	2.4	9.1	-1.7	-.2	-3.5	12.6	13.4	9.7
Nonres. structures		-14.1	4.4	-1.2	2.3	-3.7	-14.3	-3.0	1.4	3.8
Res. structures		11.1	-3.1	.9	-7.7	-14.7	.1	14.1	3.5	6.2
Exports		9.9	12.6	13.5	11.3	7.2	7.4	4.8	2.7	6.0
Imports		6.7	4.7	3.6	2.6	.1	4.8	9.5	7.1	7.8
Government purchases		4.1	3.3	.2	2.0	2.8	-.6	.4	-1.6	.2
Federal		3.8	3.7	-3.4	-.6	3.0	-2.3	.8	-5.5	-3.8
Defense		3.7	4.5	-3.2	-1.5	1.5	-5.2	-2.2	-9.0	-6.8
State and local		4.4	2.9	2.9	4.0	2.7	.7	1.3	1.0	2.1
Change in bus. invent.	Bill. 87$	8.6	26.3	19.9	29.8	6.2	-9.3	5.0	22.5	23.5
Nonfarm		10.6	32.7	26.9	29.9	3.7	-9.6	2.6	22.8	23.6
Net exports		-155.1	-143.0	-104.0	-73.7	-51.8	-21.8	-41.8	-75.7	-89.4
Nominal GDP	% change	4.7	8.0	7.7	6.0	4.1	3.5	5.7	4.8	5.0
MPLOYMENT AND PRODUCTION										
nfarm payroll employ.	Millions	99.3	102.0	105.2	107.9	109.4	108.3	108.5	110.2	111.9
Unemployment rate	%	7.0	6.2	5.5	5.3	5.5	6.7	7.4	7.0	6.9
Industrial prod. index	% change	1.5	6.3	3.2	-.1	-.2	-.3	3.2	3.1	3.2
Capacity util. rate-mfg.	%	79.1	81.6	83.6	83.1	81.1	77.8	78.8	80.8	81.5
Housing starts	Millions	1.81	1.62	1.49	1.38	1.19	1.01	1.20	1.24	1.37
Auto sales in U.S.		11.45	10.24	10.63	9.91	9.51	8.39	8.35	8.85	9.24
North American produced		8.22	7.07	7.54	7.08	6.91	6.14	6.25	6.79	7.25
Other		3.24	3.18	3.10	2.83	2.60	2.25	2.10	2.06	1.99
INCOME AND SAVING										
Nominal GNP	Bill. $	4277.8	4544.5	4908.2	5266.8	5542.9	5694.9	5962.0	6272.7	6588.0
Nominal GNP	% change	4.4	8.1	7.8	6.1	4.2	3.1	5.6	4.9	5.0
Nominal personal income		5.5	7.4	7.1	6.5	6.3	3.3	5.2	5.4	5.6
Real disposable income		2.8	2.1	3.2	1.1	.9	.5	2.5	2.2	2.0
Personal saving rate	%	6.0	4.3	4.4	4.1	4.4	4.8	4.8	4.6	4.1
Corp. profits, IVA&CCAdj	% change	-7.1	29.7	10.2	-6.3	-3.0	.9	23.5	2.4	3.9
Profit share of GNP	%	6.4	7.0	7.4	6.9	6.5	6.1	6.6	7.0	6.8
Federal surpl./def.	Bill. $	-201.1	-151.8	-136.6	-122.3	-166.2	-210.4	-298.0	-256.9	-203.1
State/local surpl./def.		54.3	40.1	38.4	44.8	30.1	17.1	15.5	15.1	29.9
Ex. social ins. funds		1.5	-14.7	-18.4	-17.5	-32.9	-43.1	-42.1	-40.0	-24.1
PRICES AND COSTS										
GDP implicit deflator	% change	2.6	3.3	4.2	4.4	4.5	3.4	2.5	2.8	2.4
GDP fixed-wt. price index		2.6	3.4	4.2	4.4	4.7	3.4	3.0	3.1	2.7
Gross domestic purchases fixed-wt. price index		2.3	3.9	4.1	4.4	5.3	2.8	2.8	3.1	2.7
CPI		1.3	4.5	4.3	4.6	6.2	3.0	3.1	3.3	3.1
Ex. food and energy		3.9	4.3	4.5	4.4	5.2	4.5	3.4	3.3	3.1
hourly compensation[2]		3.2	3.3	4.8	4.8	4.6	4.4	3.5	3.4	3.3
nfarm business sector										
Output per hour		1.3	1.9	.5	-1.4	.2	1.3	2.8	.5	1.5
Compensation per hour		4.7	3.9	3.8	3.1	6.0	4.1	3.4	3.5	3.4
Unit labor cost		3.4	1.9	3.3	4.6	6.2	2.8	.6	3.1	1.8

1. Percent changes are from fourth quarter to fourth quarter. 2. Private-industry workers.

Strictly Confidential (FR)
Class II FOMC

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

June 30, 1993

Item	Units	1992 Q3	1992 Q4	1993 Q1	Projected 1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 Q2	1994 Q3	1994 Q4
EXPENDITURES											
Nominal GDP	Bill. $	5978.5	6081.8	6145.8	6223.6	6291.0	6375.5	6455.9	6536.8	6615.3	6694.6
Real GDP	Bill. 87$	4933.7	4990.8	4999.9	5030.9	5058.0	5088.8	5120.5	5153.1	5185.8	5220.1
Real GDP	% change	3.4	4.7	.7	2.5	2.2	2.5	2.5	2.6	2.6	2.7
Gross domestic purchases		4.1	4.4	2.4	3.3	1.7	2.7	2.7	3.1	3.0	2.7
Final sales		2.8	5.2	-1.2	3.1	3.3	2.1	2.4	2.2	2.2	2.8
Private dom. final purch.		3.5	6.6	2.3	4.2	3.4	3.3	3.3	3.3	3.3	3.4
Personal cons. expend.		3.7	5.1	.8	3.2	2.8	2.0	2.1	2.3	2.4	2.5
Durables		9.4	14.0	.8	11.1	2.6	2.9	3.2	4.5	4.5	5.0
Nondurables		2.5	6.8	-2.7	1.7	2.3	1.2	1.3	1.4	1.4	1.4
Services		3.1	2.1	3.2	2.2	3.1	2.3	2.3	2.3	2.5	2.5
Business fixed invest.		3.1	9.7	13.1	12.8	7.3	7.6	8.1	8.3	8.3	8.3
Producers' dur. equip.		9.5	14.5	18.3	18.3	8.3	9.3	9.9	9.9	9.7	9.6
Nonres. structures		-11.3	-1.9	.0	-1.5	4.4	2.7	3.1	3.7	4.2	4.4
Res. structures		.2	25.1	1.4	-2.5	2.9	12.9	10.3	6.4	3.5	4.6
Exports		9.2	8.9	-2.8	3.4	5.2	5.3	5.7	5.8	6.1	6.4
Imports		14.8	5.7	11.2	9.5	.9	6.9	6.8	9.5	9.0	5.8
Government purchases		3.8	-2.6	-7.1	2.7	-.1	-1.7	.4	.1	.1	.1
Federal		7.5	-4.7	-17.9	5.4	-2.8	-5.3	-4.4	-3.6	-3.5	-3.7
Defense		8.3	-3.5	-25.9	7.4	-5.3	-8.9	-7.7	-6.6	-6.4	-6.3
State and local		1.4	-1.1	.5	1.1	1.6	.6	2.1	2.0	2.0	2.4
Change in bus. invent.	Bill. 87$	15.0	9.8	33.5	26.4	13.0	17.2	18.3	23.1	27.3	25.2
Nonfarm		9.6	5.6	30.5	24.5	15.4	20.7	18.8	22.6	27.7	25.2
Net exports		-52.7	-49.0	-70.3	-80.4	-74.4	-77.9	-80.9	-88.0	-94.2	-94.7
Nominal GDP	% change	5.3	7.1	4.3	5.2	4.4	5.5	5.1	5.1	4.9	4.9
LOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.6	108.9	109.4	109.9	110.4	110.8	111.3	111.7	112.1	112.6
Unemployment rate[1]	%	7.5	7.3	7.0	7.0	7.0	6.9	6.9	6.9	6.8	6.8
Industrial prod. index	% change	.8	6.7	5.5	1.8	1.8	3.2	3.2	3.2	3.2	3.2
Capacity util. rate-mfg[1]	%	78.7	79.6	80.5	80.7	80.9	81.1	81.3	81.5	81.5	81.6
Housing starts	Millions	1.18	1.25	1.16	1.22	1.28	1.31	1.34	1.36	1.39	1.41
Auto sales in U.S.		8.21	8.38	8.29	9.02	9.05	9.04	9.04	9.19	9.29	9.44
North American produced		6.24	6.37	6.31	6.88	6.95	7.00	7.05	7.20	7.30	7.45
Other		1.97	2.01	1.97	2.14	2.10	2.04	1.99	1.99	1.99	1.99
INCOME AND SAVING											
Nominal GNP	Bill. $	5992.0	6086.8	6160.5	6238.9	6305.9	6385.7	6470.3	6547.2	6629.3	6705.3
Nominal GNP	% change	5.7	6.5	4.9	5.2	4.4	5.2	5.4	4.8	5.1	4.7
Nominal personal income		2.7	8.0	6.1	4.0	5.3	6.2	6.2	5.3	5.0	6.1
Real disposable income		.5	4.3	2.7	1.4	2.5	2.1	1.0	1.8	2.5	3.0
Personal saving rate[1]	%	4.6	4.4	4.9	4.5	4.4	4.4	4.2	4.0	4.1	4.2
Corp. profits, IVA&CCAdj	% change	-13.9	72.1	1.0	16.4	-9.2	2.9	6.1	3.8	5.1	.6
Profit share of GNP[1]	%	6.2	7.0	7.0	7.2	6.9	6.9	6.9	6.9	6.9	6.8
Federal govt. surpl./def.	Bill. $	-304.4	-295.5	-272.1	-259.8	-252.0	-243.7	-211.0	-199.8	-198.6	-202.8
State/local surpl./def.		9.2	18.3	10.1	11.4	19.5	19.5	23.0	26.2	35.5	34.9
Ex. social ins. funds		-48.0	-38.1	-45.5	-43.9	-35.5	-35.2	-31.5	-28.0	-18.3	-18.6
PRICES AND COSTS											
GDP implicit deflator	% change	1.8	2.3	3.5	2.6	2.2	2.9	2.6	2.5	2.3	2.2
GDP fixed-wt. price index		2.2	3.4	4.3	2.6	2.4	3.3	2.9	2.8	2.6	2.6
Gross domestic purchases fixed-wt. price index		2.5	2.9	3.5	2.8	2.4	3.5	2.9	2.8	2.6	2.6
CPI		2.9	3.2	3.7	3.1	2.4	4.0	3.5	3.1	2.9	2.9
Ex. food and energy		2.7	3.6	4.1	3.4	2.8	2.9	3.5	3.1	3.0	3.0
hourly compensation[2]		3.2	3.5	4.2	2.9	3.3	3.3	3.3	3.3	3.3	3.2
Nonfarm business sector											
Output per hour		2.7	3.2	-1.6	-1.0	2.6	1.9	1.4	1.7	1.6	1.5
Compensation per hour		3.5	3.9	3.3	3.8	3.6	3.5	3.7	3.4	3.3	3.3
Unit labor cost		.7	.6	5.0	4.8	1.0	1.6	2.3	1.7	1.7	1.8

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

Strictly Confidential (FR)
Class II FOMC

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

June 30, 1993

Item	1992		Projected 1993				Projected 1994						Projected	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1991	1992	1993	1994
Real GDP	41.3	57.1	9.1	31.0	27.1	30.8	31.8	32.5	32.7	34.3	4.7	152.3	98.0	131.3
Gross domestic purchases	50.1	53.4	30.4	41.2	21.0	34.3	34.8	39.7	38.9	34.7	-7.5	180.8	126.9	148.1
Final sales	34.1	62.3	-14.7	38.2	40.6	26.5	30.7	27.8	28.5	36.3	-29.7	150.1	90.6	123.3
Private dom. final purch.	34.1	64.8	23.8	42.1	34.8	34.1	34.7	35.2	35.0	36.6	-36.5	174.9	134.8	141.4
Personal cons. expend.	29.9	41.5	6.6	26.6	23.3	17.2	17.9	19.8	20.9	21.6	1.0	110.9	73.7	80.2
Durables	9.8	14.6	.9	12.1	3.0	3.3	3.7	5.2	5.3	5.9	-10.5	38.3	17.5	20.1
Nondurables	6.4	17.4	-7.2	4.5	6.0	3.2	3.5	3.8	3.8	3.8	-16.0	33.8	6.5	14.8
Services	13.7	9.6	14.6	10.0	14.3	10.7	10.8	10.8	11.8	11.9	27.6	38.8	49.6	45.3
Business fixed invest.	4.0	12.2	16.6	16.8	10.0	10.6	11.5	12.0	12.3	12.5	-37.2	38.8	54.0	48.3
Producers' dur. equip.	8.4	12.9	16.6	17.3	8.5	9.6	10.4	10.7	10.7	10.9	-12.4	43.2	52.0	42.7
Nonres. structures	-4.4	.7	.0	.5	1.6	1.0	1.1	1.3	1.5	1.6	-24.8	-4.4	2.0	5.6
Res. structures	.1	11.0	.7	-1.3	1.4	6.3	5.2	3.4	1.9	2.5	.2	25.0	7.1	12.9
Change in bus. invent.	7.2	-5.2	23.7	-7.1	-13.5	4.2	1.1	4.8	4.2	-2.0	34.3	2.3	7.4	8.0
Nonfarm	3.6	-4.0	24.9	-6.0	-9.2	5.3	-1.9	3.8	5.1	-2.4	37.4	-6.2	15.1	4.5
Farm	3.5	-1.1	-1.2	-1.1	-4.3	-1.1	3.0	1.0	.9	.4	-3.0	8.4	-7.7	3.5
Net exports	-8.8	3.7	-21.3	-10.1	6.1	-3.5	-3.0	-7.1	-6.2	.5	12.2	-28.5	-28.9	-16.8
Exports	12.5	12.4	-4.1	4.9	7.5	7.8	8.4	8.7	9.3	9.8	38.8	26.9	16.1	36.2
Imports	21.3	8.7	17.2	15.1	1.5	11.3	11.4	15.9	15.4	10.3	26.5	55.5	45.0	53.0
Government purchases	8.8	-6.2	-17.2	6.2	.3	-4.0	-1.0	.3	.3	.2	-5.4	3.7	-15.3	-1.4
Federal	6.8	-4.5	-18.0	4.7	-2.6	-4.9	-4.0	-3.2	-3.1	-3.2	-9.1	-3.2	-20.8	-13.5
Defense	5.3	-2.4	-19.1	4.4	-3.4	-5.7	-4.8	-4.0	-3.8	-3.7	-14.8	-6.0	-23.8	-16.3
Nondefense	1.5	-2.2	1.2	.3	.8	.8	.8	.8	.7	.5	5.7	2.7	3.1	2.8
State and local	2.0	-1.6	.7	1.5	2.3	.9	3.0	2.9	2.8	3.4	3.7	7.0	5.4	12.1

1. Annual changes are from Q4 to Q4.

Strictly dential (FR)
Class II F...

STAFF PROJECTIONS OF FEDER... ...TOR ACCOUNTS AND RELATED ITEMS
(Billions of do...ars except as noted)

June 30, 1993

Item	Fiscal year				1992				1993				1994			
	1991a	1992a	1993	1994	Q1a	Q2a	Q3a	Q4a	Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1054	1091	1148	1233	239	321	275	265	262	328	293	275	278	372	307	290
Outlays[1]	1324	1381	1430	1501	354	350	338	386	325	350	370	374	374	374	380	388
Surplus/deficit[1]	-269	-290	-282	-268	-116	-28	-62	-120	-62	-22	-77	-98	-96	-1	-73	-98
On-budget	-322	-340	-336	-331	-121	-60	-62	-108	-90	-57	-81	-113	-105	-38	-75	-114
Off-budget	52	50	54	63	6	31	-1	-13	27	35	3	14	9	37	2	15
Surplus excluding deposit insurance[2]	-203	-287	-299	-260	-105	-25	-69	-128	-68	-29	-73	-95	-95	2	-72	-95
Means of financing																
Borrowing	293	311	256	275	83	62	77	81	60	61	54	95	81	39	60	88
Cash decrease	-1	-17	20	-1	29	-27	-12	29	8	-39	21	9	10	-30	10	10
Other[3]	-23	-4	7	-7	4	-7	-3	10	-6	0	3	-6	4	-7	3	1
Cash operating balance, end of period	41	59	39	40	20	47	59	30	22	60	39	30	20	50	40	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1118	1144	1223	1325	1143	1150	1155	1193	1214	1236	1248	1273	1327	1347	1353	1370
Expenditures	1313	1433	1492	1538	1433	1453	1460	1489	1486	1496	1500	1516	1538	1547	1552	1573
Purchases	447	446	447	441	445	445	455	452	441	448	448	444	441	439	438	436
Defense	326	315	310	297	314	312	320	318	304	311	308	303	299	295	292	289
Nondefense	121	132	137	143	131	133	136	133	137	138	139	141	142	144	145	147
Other expenditures	866	987	1045	1098	988	1008	1005	1037	1045	1047	1053	1072	1096	1107	1114	1137
Surplus/deficit	-194	-289	-270	-213	-289	-303	-304	-296	-272	-260	-252	-244	-211	-200	-199	-203
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-153	-218	-206	-150	-221	-229	-232	-232	-207	-196	-187	-179	-146	-136	-137	-144
Change in HEB, percent of potential GDP	-.4	1.1	-.2	-.9	.5	.1	0	0	-.4	-.2	-.1	-.1	-.5	-.2	0	.1
Fiscal impetus (FI), percent, cal. year	-3.8	-3.9	-4.9	-6.6	-2.6	-.1	1.3	-1.2	-5.5	2	0	-2.8	-3.3	-1.6	-1	-1.3

1. OMB's April deficit estimates, including the President's proposals, are $322 billion in FY93 and $264 billion in FY94. CBO's preliminary deficit estimates of the President's proposals are $308 billion in FY93 and $268 billion in FY94. Budget receipts, outlays, and surplus/deficit include corresponding social security (OASDI) categories. The OASDI surplus is excluded from the on-budget deficit and shown separately as off-budget, as classified under current law. The Postal Service deficit is included in off-budget outlays beginning in FY90.

2. OMB's April deficit estimates, excluding deposit insurance spending, are $319 billion in FY93 and $256 billion in FY94. CBO's preliminary deficit estimates, excluding deposit insurance spending, are $315 billion in FY93 and $263 billion in FY94.

3. Other means of financing are checks issued less checks paid, accrued items, and changes in other financial assets and liabilities.

4. HEB is the NIPA measure in current dollars, with cyclically sensitive receipts and outlays adjusted to the level of potential output generated by 2.2 percent real growth and an associated unemployment rate of 6 percent. Quarterly figures for change in HEB and FI are not at annual rates. Change in HEB, as a percent of nominal potential GDP, is reversed in sign. FI is the weighted difference of discretionary changes in federal spending and taxes (in 1987 dollars), scaled by real federal purchases. For change in HEB and FI, negative values indicate restraint.

a--Actual.

Recent Developments

Longer-term interest rates have declined since the May FOMC meeting as a deficit-reduction package has come closer to reality, inflation worries have receded, and the latest economic indicators have pointed to sluggish expansion. Despite the maintenance of a 3 percent federal funds rate, other short-term rates firmed early in the intermeeting period on reports that the FOMC had tilted in favor of tightening; these rates have backtracked more recently and are up only slightly on balance. Major stock market indexes have risen around 2-1/4 to 3 percentage points over the period and are near record highs.

The monetary aggregates rose sharply in May on the strength of surges in liquid deposits and money market funds. M2 advanced at a 10-3/4 percent annual rate in May after declining over the first quarter and posting only a small rise in April; M3 grew at a 9-1/4 percent rate in May. Perhaps as much as one-half of the sudden jump in these aggregates can be attributed to special factors, namely, an unusually low volume of nonwithheld tax payments in April, which restrained the seasonal buildup of liquid deposits in April and their runoff in May, and a resurgence of home mortgage refinancings. The boost provided by these factors appears to have waned in June, with M2 estimated to have advanced at around a 3 percent rate and M3 to have held at about its May level.

In contrast to the pattern of the past two years, commercial banks channeled most of their increased deposit flows in May into loans rather than into security holdings. Loans posted a broad-based 10-1/2 percent rate of increase, reflecting sharp rebounds in business and real estate loans and a continuation of recent strength in consumer loans. Loans in these categories continued to expand in early June, although at a somewhat slower pace.

The latest available indicators suggest some pickup in debt growth in the business and household sectors during the second quarter. Nonfinancial businesses resumed borrowing, on net. They stepped up their short-term borrowing considerably in May and continued to borrow at the short end in June. Gross public bond issuance fell off sharply in May but has since been robust in response to the drop in longer-term rates; however, a substantial portion of bond issuance has continued to be directed toward refinancing, muting its effect on net funds raised. The recent swing in gross bond issuance was concentrated in the investment-grade sector; issuance of junk bonds has stayed on a record-breaking pace, fueled by heavy inflows to mutual funds. Gross equity issuance of nonfinancial firms was strong in May and June.

On the basis of limited data for the second quarter, it appears that household net borrowing also may have picked up somewhat. Industry reports show mortgage applications for home purchases running ahead of the first-quarter pace on a seasonally adjusted basis, and net debt formation may also have been lifted by some cashing out of equity in the large volume of refinancings closed during the quarter. Growth in consumer debt accelerated a bit in April, and gains in spending on motor vehicles suggest that the faster pace of consumer borrowing likely persisted over the rest of the quarter.

Borrowing by state and local governments appears to have maintained the faster pace of the first quarter. Although issuance for the purpose of raising new capital has been sizable, governments also have continued to take advantage of a favorable rate environment to sell huge amounts of advance refunding issues. The market has been able to absorb the heavy volume of state and local debt without any widening of yield spreads relative to Treasuries in part because of the strong investor demand for tax-exempt bond funds.

In the federal sector, debt growth has quickened during the second quarter on a seasonally adjusted basis, as the Treasury has sought to build its cash balance. The sizes of the weekly bill auctions have been bumped up some lately in light of the lower-than-expected receipts of nonwithheld tax payments, and in accordance with the Treasury's announced shift toward greater reliance on the short end of the maturity spectrum. The monthly auctions of two-year notes have been increased in size by about $750 million.

Outlook

Consistent with our projection of a moderate expansion of economic activity and subdued inflation, the staff anticipates a gradual rise in credit demands. Total debt of domestic nonfinancial sectors is projected to grow at a seasonally adjusted annual rate of about 5 percent over the second half of 1993 and during 1994, a pace that nearly matches that of nominal GDP. Growth of federal debt is expected to remain rapid but to slow to about an 8 percent annual rate through 1994, in line with an anticipated decline in the federal deficit.

After two years of essentially no change, nonfinancial businesses are expected to increase their indebtedness at about a 1-1/2 percent annual rate over the next six quarters. Corporate borrowing should strengthen a little as capital outlays rise faster than internally generated funds and as net equity issuance slows in light of the progress achieved in reducing leverage ratios. Also, the run-off of noncorporate business debt should diminish as the slump in commercial real estate markets moderates. Business credit demands should continue to focus on the bond market, in view of the further declines in long-term rates envisioned in the forecast and the desire of firms to fund out shorter-term debts. The projected moderate flattening of the yield curve seems unlikely to put much of a damper on mutual fund growth, and these institutions should still acquire a sizable volume of corporate bonds. Life insurance companies are likely to continue their emphasis on high-quality bonds, as many still have a fairly long way to go in resolving their real estate loan problems. Bank lending to business has begun to expand, partly reflecting an increased willingness to lend to small and middle-market borrowers, but will probably remain tepid by historical standards. The financing needs of smaller firms are expected to stay relatively light, and other creditors, such as finance companies, should continue to be aggressive competitors.

Households are expected to exhibit the fastest debt growth among nonfederal sectors but at a pace still tempered by more cautious attitudes toward borrowing than those that prevailed through most of the 1980s. Growth in home mortgage debt in 1994 should about match its present 6 percent rate, as a tapering off of refinancing--and the equity extraction often associated with it--is roughly offset by a rise in the funding of home purchases. Consumer debt, less restrained by the heavy prepayments that held down its growth last year, is likely to grow at about a 5 percent pace over the second half of 1993 and nearly 7 percent in 1994. Increases in total household liabilities are expected to exceed the growth of disposable personal income over the forecast period, but falling average interest rates on the stock of debt should generate a small further decline in the ratio of household debt service obligations to disposable income. Delinquencies and charge-offs on consumer loans should show further declines as well.

Borrowing by state and local governments is projected to slow somewhat over the next few quarters, partly because the pool of bonds eligible for refunding has been reduced significantly. In addition, retirements of bonds that were previously refunded in advance should pick up appreciably. Nevertheless, with needs for new capital on the rise, municipal debt will likely grow at a 4-1/2 percent rate in 1994. Mutual funds should continue to absorb a large share of the net new supply.

Confidential FR Class II
June 30, 1993

CHANGE IN DEBT OF THE DO[illegible]C NONFINANCIAL SECTORS[1]
(Pe[illegible]t)

			-Nonfederal-						-MEMO-	
				-Households-						
	Total[2]	Federal govt	Total	Total	Home mtg.	Cons. credit	Business	State and local govt	Private financial assets	Nominal GDP
Year										
1980	9.4	11.8	8.9	8.7	11.1	0.7	10.2	3.6	9.7	9.9
1981	9.8	11.6	9.4	7.9	7.6	4.8	11.6	5.2	10.6	9.3
1982	9.4	19.7	7.0	5.6	4.8	4.4	7.8	9.3	10.4	3.2
1983	11.7	18.9	9.9	11.6	11.3	12.6	8.3	9.7	11.7	11.0
1984	14.5	16.9	13.8	13.2	12.0	18.7	15.4	9.1	13.0	9.1
1985	15.0	16.5	14.5	14.3	12.2	15.8	11.5	31.3	13.1	7.0
1986	12.9	13.6	12.7	14.1	17.3	9.6	11.9	10.5	9.1	4.7
1987	9.2	8.0	9.6	11.5	13.7	5.0	7.1	13.4	8.4	8.0
1988	9.1	8.0	9.4	11.1	12.5	7.2	8.3	7.0	8.4	7.7
1989	8.0	7.0	8.2	9.6	11.3	5.6	6.9	8.4	7.1	6.0
1990	6.6	11.0	5.3	7.2	9.0	2.2	3.3	5.9	4.5	4.1
1991	4.3	11.1	2.2	4.2	5.4	-1.6	-0.4	4.5	0.9	3.5
1992	5.1	10.9	3.2	5.6	7.0	1.2	0.0	5.2	1.3	5.7
1993	5.1	8.8	3.9	5.8	6.2	4.7	1.2	5.5	0.3	4.8
1994	5.2	8.0	4.1	6.2	6.3	6.6	1.5	4.4	0.7	5.0
Quarter (seasonally adjusted annual rates)										
1992:1	6.0	13.3	3.6	5.9	7.9	-0.2	0.7	5.1	5.3	6.2
2	4.9	12.3	2.4	3.9	4.8	-1.9	-0.4	6.9	-0.7	4.3
3	4.2	6.5	3.4	5.9	7.3	1.2	0.1	5.4	-2.1	5.3
4	5.0	10.0	3.2	6.4	7.2	5.7	-0.4	3.0	2.6	7.1
1993:1	4.6	8.9	3.0	5.4	5.9	3.4	-0.5	6.2	-1.0	4.3
2	6.2	10.8	4.6	5.6	6.0	4.8	2.9	6.3	1.2	5.2
3	3.7	3.3	3.9	6.0	6.4	4.6	1.3	4.3	-0.4	4.4
4	5.7	11.0	3.8	5.7	5.9	5.5	1.3	4.7	1.2	5.5
1994:1	5.7	10.8	3.8	5.7	5.9	5.7	1.5	4.2	0.5	5.1
2	4.9	7.3	4.0	6.0	6.0	6.5	1.4	4.5	1.4	5.1
3	4.0	3.7	4.1	6.2	6.2	6.6	1.6	4.1	0.2	4.9
4	5.6	9.2	4.3	6.3	6.3	7.1	1.7	4.7	0.8	4.9

1. Data after 1993:1 are staff projections. Year-to-year change in nominal GDP measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes measured from end of preceding period to end of period indicated.
2. Deposit insurance outlays raised total debt growth roughly 0.4 percentage point in 1991; it had little effect on debt growth in 1992 and is not anticipated to affect debt growth significantly in 1993 or 1994. On a quarterly average basis, total debt growth is projected to be 5.1 in 1993 and 5.1 percent in 1994.

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

		Calendar year				1993				1994			
		1991	1992	1993	1994	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Seasonally Adjusted Annual Rates							
	Net funds raised by domestic nonfinancial sectors												
1	Total	479.2	601.1	634.1	658.1	566.2	774.4	475.0	720.7	728.1	635.8	527.2	741.2
2	Net equity issuance	18.3	26.8	26.8	17.5	27.0	30.0	25.0	25.0	20.0	18.0	16.0	16.0
3	Net debt issuance	461.0	574.4	607.3	640.6	539.2	744.4	450.0	695.7	708.1	617.8	511.2	725.2
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	-4.3	-30.0	12.6	42.4	17.7	5.1	7.9	19.8	27.9	39.3	50.0	52.4
5	Net equity issuance	18.3	26.8	26.8	17.5	27.0	30.0	25.0	25.0	20.0	18.0	16.0	16.0
6	Credit market borrowing	-15.9	0.8	44.7	55.9	-18.4	103.9	47.1	46.1	53.9	50.6	58.1	61.1
	Households												
7	Net borrowing, of which:	160.2	222.6	240.8	272.7	224.1	238.5	255.0	245.7	251.6	268.9	281.2	289.2
8	Home mortgages	139.5	190.6	180.7	195.0	172.1	177.0	194.4	179.4	184.2	189.9	199.6	206.4
9	Consumer credit	-13.1	9.3	37.7	56.3	27.8	39.0	38.0	46.0	48.0	56.0	58.0	63.0
10	Debt/DPI (percent)[3]	91.8	91.5	92.0	92.8	92.2	92.5	92.8	92.7	93.1	93.4	93.6	93.7
	State and local governments												
11	Net borrowing	38.5	47.0	52.1	44.2	58.8	61.2	42.3	46.2	41.6	45.6	41.5	48.1
12	Current surplus[4]	-39.6	-42.9	-38.0	-29.5	-41.5	-39.8	-32.4	-38.4	-35.3	-33.0	-24.3	-25.6
	U.S.government												
13	Net borrowing	278.2	304.0	269.7	267.7	274.7	340.8	105.6	357.7	361.1	252.7	130.4	326.7
14	Net borrowing;quarterly, nsa	278.2	304.0	269.7	267.7	59.8	60.8	53.6	95.5	81.4	38.8	59.8	87.7
15	Unified deficit;quarterly, nsa	266.8	326.8	259.8	267.9	62.4	22.0	77.2	98.3	95.6	1.3	72.6	98.5
	Funds supplied by												
16	depository institutions	-60.9	30.2	117.1	115.8	117.0	140.6	108.1	102.8	123.5	86.4	110.5	142.6
	MEMO: (percent of GDP)												
17	Dom. nonfinancial debt[3]	193.6	193.5	193.4	193.6	194.2	194.8	194.5	194.6	195.0	194.9	194.5	194.9
18	Dom. nonfinancial borrowing	8.1	9.7	9.7	9.7	8.8	12.0	7.2	10.9	11.0	9.5	7.7	10.8
19	U.S. government[5]	4.9	5.1	4.3	4.1	4.5	5.5	1.7	5.6	5.6	3.9	2.0	4.9
20	Private	3.2	4.5	5.4	5.7	4.3	6.5	5.5	5.3	5.4	5.6	5.8	6.0

1. Data after 1993:1 are staff projections.
2. For corporations: Excess of capital expenditures over U.S. internal funds.
3. Annuals are average debt levels in the year (computed as the average of year-end debt positions) divided by nominal GDP.
4. NIPA surplus, net of retirement funds.
5. Excludes government-insured mortgage pool securities.

Recent Developments

Since the May FOMC meeting, the weighted-average foreign-exchange value of the dollar in terms of other G-10 currencies has appreciated about 2 percent, on balance. The dollar depreciated somewhat through the end of May, then drifted up during the first half of June in response to stronger-than-expected U.S. labor market data for May and rose more strongly during the last two weeks of June largely in response to developments abroad.

The overall rise of the dollar was accounted for by sizable appreciations against European currencies, especially the mark, against which it rose 4 percent over the intermeeting period. News of a substantial decline in west German GDP in the first quarter and growing expectations that the Bundesbank will ease substantially over the next several months contributed to the decline in the mark. Even so, three-month market rates in Germany have actually risen 25 basis points over the past six weeks as expectations of an easing early in the period failed to be realized. Meanwhile, the weakness of the mark, which has declined somewhat within the ERM grid, has enabled other ERM countries to reduce their short-term interest rates, in some cases to levels below those in Germany. Long-term interest rates in Germany have fallen 20 basis points, while those in France and the United Kingdom have declined 40 to 45 basis points.

While the dollar strengthened against European currencies, it continued its downward trend against the yen, falling about 6 percent to a low of just below 105 yen per dollar in mid-June. The dollar moved back up around the time of Prime Minister Miyazawa's loss of a vote of no confidence on June 18. But the dollar returned to near its previous lows against the yen in late June, when the market's attention was refocused on Japan's trade surplus ahead of the Tokyo Summit starting July 7. Japanese short-term interest rates were little changed over the period, while long-term rates declined 25 basis points.

. The Desk intervened on three occasions, selling just over $1 billion equivalent of yen, evenly divided between the Federal Reserve and the Treasury.

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The downturn of economic activity in continental Europe appears to have quickened during the first half of 1993, while recent data for Japan show a mixed picture. Real GDP in western Germany declined 5.6 per cent at an annual rate in the first quarter, reflecting an even sharper decline in domestic demand (some of which was associated with the bunching of expenditures into the fourth quarter ahead of a VAT increase). West German industrial production (excluding construction) fell 11.5 percent in the first quarter and remained weak in April. In France, industrial production fell nearly 5 percent at an annual rate over the first four months of the year, and the unemployment rate reached nearly 11 percent in April.

In Japan, real GDP rose 2.7 percent in the first quarter, following three quarters of decline. A surge in government spending accounted for much of the increase, but private consumption turned significantly positive as well. More recent indicators have been generally negative, with industrial production and housing starts declining significantly in April and May.

Economic activity appears to have advanced moderately in the United Kingdom, with real GDP rising 1-3/4 percent at an annual rate in the first quarter, manufacturing output increasing through April, and unemployment falling in May for the fourth consecutive month. Economic recovery in Canada has taken hold more strongly; real GDP grew 3.8 percent in the first quarter, led by a surge in exports, and domestic demand expanded 2.5 percent.

Inflationary pressures remain subdued for the most part in the foreign G-7 countries, abstracting from recent changes in indirect taxes. However, continued strong increases in the price of housing services have helped keep twelve-month CPI inflation in western Germany at 3-1/2 percent through June even after the effects of tax increases are removed.

Japan's trade surplus increased to $122 billion (s.a.a.r.) for the first five months of the year, compared with $107 billion for the same period last year. The widening of the surplus largely reflected increases in the dollar value of exports associated with the appreciation of the yen (that is, initial "J-curve" effects).

U.S. real net exports of goods fell sharply in the first quarter, reflecting a decline in exports and a surge in imports. The drop in exports was somewhat less than we had expected after a runup in the fourth quarter and was primarily in shipments to developing countries in Latin America and Asia; exports to industrial countries rose moderately on balance, primarily to Canada and the United Kingdom. The jump in imports was concentrated in computers, autos, and consumer goods. The nominal U.S. merchandise trade deficit in April was $142 billion at an annual rate, the same as in March but well above the first quarter average of $116 billion. Imports expanded strongly and exports rose only slightly in April relative to their first-quarter rates.

Outlook

After having increased much faster than anticipated over the first four months of 1993, merchandise imports are expected to grow considerably less rapidly over the months ahead, resulting in a somewhat less negative trajectory for real net exports of goods and services for the balance of 1993 than we had projected previously. Thereafter, a higher dollar causes real net exports to decline a bit faster than in the May Greenbook. Our outlook for real GDP growth abroad is little changed, with stronger growth in Canada about offsetting a weaker outlook for much of continental Europe.

The dollar. The foreign exchange value of the dollar in terms of the other G-10 currencies is projected to drift up through the end of 1994 from around its current level, which is almost 2 percent higher than the level implicit in the May forecast. We continue to expect the dollar to move up as European monetary policies ease relative to that of the United States. Against the currencies of key developing countries, the CPI-adjusted value of the dollar is expected to show a moderate depreciation on average through the end of the forecast period.

Foreign industrial countries. We expect growth in the G-6 countries (weighted by their shares in U.S. exports) to have averaged about 1 percent at an annual rate in the second quarter and to rise to 2 percent in the second half of 1993 and 2-3/4 percent during 1994, roughly the same as in the May forecast. A further weakening of the outlook for continental European countries has been offset by stronger growth anticipated for Canada.[1]

1. When weighted by GDP shares, which attach less importance to Canada GDP in the G-6 countries is expected to have declined slightly in the second quarter and to grow at only about a 1 percent rate in the second half.

The unexpected depth of the west German recession in the first quarter and signs of further weakness in the second have led us to move back the projected recovery of GDP in that country to early 1994. Real GDP in western Germany is now expected to decline nearly 3 percent this year and to show only a modest recovery during 1994. Growth in the other major continental European countries should level off and turn modestly positive around the middle of 1993. The moderate recovery in the United Kingdom is expected to gain momentum over the quarters ahead. The anticipated pickup of growth in Europe continues to be based on significant past and, in some cases, prospective declines in interest rates.

Despite the unexpected strength of Japanese GDP in the first quarter, we have not altered our outlook for only a slow recovery of Japanese growth over the forecast period. The composition of the first-quarter expansion (heavily dependent on government purchases) and signs of lingering weakness in the second quarter suggest caution. Fiscal stimulus should prod the private sector into a moderate recovery in the second half of this year.

The economic expansion in Canada has been well established since the fourth quarter of 1992, and growth is now expected to average more than 3 percent over the forecast period.

CPI inflation rates in several foreign industrial countries will likely pick up for the year 1993 (Q4/Q4) as a result of increases in indirect taxes. But we expect that economic slack will restrain underlying inflationary pressures, and average CPI inflation is expected to fall below 2-1/2 percent again in 1994.

Foreign short-term interest rates, on average, are projected to decline roughly 150 basis points from current levels by mid-1994. We expect German rates to fall 300 basis points over the year ahead, to a level 50 basis points below that in the previous forecast.

Rates in other major continental European countries should fall somewhat less. We expect Japanese short-term rates to ease slightly over the next few months. Long-term interest rates in the major foreign countries should decline on average about 75 basis points over the forecast period.

Developing countries. The outlook for real GDP growth in the developing countries that are major U.S. trading partners is essentially unchanged on average from that in the last Greenbook. Real GDP growth slowed to 4 percent in 1992, as weak import demand in industrial countries and tight macroeconomic policies in a number of developing countries restrained growth. Output is projected to grow faster in some countries in 1993 as they relax their contractionary policies. However, we expect real GDP growth in Mexico to slow to an annual rate of 2 percent in 1993 because of a tightening of macroeconomic policies in Mexico and concerns about the approval of NAFTA by the U.S. Congress. Growth in key U.S. export markets among developing countries in Asia is projected to increase slightly to a range of 5-1/2 to 6-1/4 percent on average over the next two years.

U.S. real net exports. We project real net exports of goods and services will decline $8 billion at an annual rate over the last three quarters of 1993 and another $17 billion during 1994. The near-term decline is about half as great as projected previously, partly to offset a greater-than-expected drop in net exports in the first quarter this year that we believe was associated with a bunching of imports. The projected decline in net exports in 1994 is somewhat larger than that in the May Greenbook, largely because of the higher projected path of the dollar.

TRADE QUANTITIES*
(Percent change from preceding period shown, s.a.a.r.)

	1992		------- Projection ------- 1993				1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
Exports							
Total	12.7	13.7	-6.6	4.1	6.8	6.2	6.8
Agricultural	58.7	-5.6	-20.3	-3.1	1.1	-0.1	3.0
Computers	35.4	33.5	-2.8	8.2	21.5	23.4	27.6
Other nonag.	5.1	13.2	-5.4	4.4	5.1	4.2	3.4
Imports							
Total	15.5	6.8	12.4	10.8	0.9	7.7	8.7
Oil	13.2	-3.0	6.3	20.7	0.1	-7.5	4.9
Computers	81.2	19.0	32.8	33.0	26.4	24.0	25.1
Other non-oil	8.3	6.2	10.1	6.2	-3.2	6.8	5.8

* GDP basis, 1987 dollars.

After declining in the first quarter, the quantity of merchandise exports is projected to have resumed expanding in the second quarter and to grow at about a 6-3/4 percent annual rate over the next year and a half. This rate of expansion is half a percentage point less than in the previous forecast, largely because of the higher dollar. Recent USDA data indicate further declines in shipments of corn and soybeans during the second quarter, and growth in total agricultural exports is likely to be slow over the remainder of the forecast period, with little increase in exports of the major crops. Exports of computers are expected to return to a double-digit pace, after a lull in the first half of this year, as economic activity abroad picks up.

The quantity of imports (excluding oil and computers) grew substantially faster over the first four months of 1993 than would have been predicted by the growth of U.S. domestic expenditures. Some of this growth may have reflected orders placed late in 1993 when domestic demand appeared to be growing strongly. Accordingly, we project those imports to decline somewhat over the next several months and then to resume expanding over the rest of the forecast period in line with the growth of U.S. demand and the higher dollar. Imports of computers are expected to increase at about the same rapid pace in real terms as domestic expenditures on computers.

The quantity of oil imports is projected to have risen in the second quarter as stocks were rebuilt. Over the rest of the forecast period, imports are likely to remain on an upward trend as U.S. oil production declines.

Oil prices. From the time of the last Greenbook through early June, the spot price of West Texas intermediate crude (WTI) fluctuated in a relatively narrow band around $20.00 per barrel. More recently, oil prices have fallen since Kuwait decided not to participate in OPEC's third-quarter quota allocations, and spot WTI now stands at just over $19.00 per barrel. As a result of the recent price declines, we have lowered our near-term oil price projection. For the second and third quarters the import unit value is, on average, almost $1.00 per barrel below the May Greenbook path. Beyond the third quarter, the import price is assumed to return to $18.00 per barrel as world oil demand increases and production in Kuwait begins to level off.

SELECTED PRICE INDICATORS
(Percent change from preceding period shown, except as noted, a.r.)

				------- Projection -------			
	1992		1993				1994
	Q3	Q4	Q1	Q2	Q3	Q4	Q4
PPI (exp. wts.)	3.1	-1.6	1.8	1.9	1.6	2.5	2.0
Nonag. exports*	3.2	0.5	1.2	0.8	1.4	2.1	1.8
Non-oil imports*	4.7	1.0	-2.3	1.9	1.7	2.4	2.2
Oil imports (level, $/bl)	18.50	17.90	16.40	17.00	16.80	18.00	18.00

* Excluding computers.

Prices of non-oil imports and exports. The recent appreciation of the dollar has led us to revise downward the projected rate of increase in non-oil import prices (excluding computers) over the next two quarters. We expect these prices to rise at about a 2 percent annual rate in the second half of 1993, about a percentage point slower than in the previous forecast. The projected further appreciation of the dollar should hold import price inflation to 2-1/4 percent in 1994. The increase in prices of U.S. nonagricultural exports (excluding computers) should keep pace with increases in U.S. producer prices.

Nominal trade and current account balances. We project that the merchandise trade deficit increased to nearly $130 billion at an annual rate in the second quarter and that it will widen further, to more than $145 billion, by the end of 1994. We expect that net service receipts will continue on an uptrend, from an annual rate of nearly $60 billion in the first quarter of 1993 to nearly $70 billion by the end of 1994. Investment income receipts (portfolio and direct investment combined) are projected to continue roughly to offset investment income payments throughout the forecast period. The bottom line for the current account is a projected deterioration of about $15 billion over the last three quarters of 1993 and another $12 billion during 1994, reaching an annual rate of $115 billion by the end of 1994, about $5 billion more than in the previous forecast.

June 30, 1993

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CLASS II FOMC

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1990-94
(Percent change from fourth quarter to fourth quarter)

				Projection	
Measure and country	1990	1991	1992	1993	1994
REAL GDP					
Canada	-1.6	-0.1	0.8	3.2	3.2
France	1.8	1.2	0.7	-0.5	2.0
Western Germany	5.8	2.0	0.4	-2.9	1.6
Italy	1.6	1.4	-0.3	0.4	1.7
Japan	4.7	3.0	0.0	1.3	2.7
United Kingdom	-1.0	-1.7	0.2	1.9	2.5
Average, weighted by 1987-89 GDP	2.6	1.4	0.2	0.5	2.3
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	2.0	1.6	1.2	2.2	3.0
G-6	0.8	0.7	0.5	1.7	2.7
Developing countries	5.0	4.9	3.8	4.3	4.6
CONSUMER PRICES					
Canada	4.9	4.1	1.8	2.0	1.7
France	3.6	2.9	1.8	2.6	1.9
Western Germany	3.0	3.9	3.7	3.6	2.4
Italy	6.3	6.1	4.8	5.7	4.6
Japan	3.2	3.2	0.9	1.2	1.2
United Kingdom	10.0	4.2	3.1	2.6	4.0
Average, weighted by 1987-89 GDP	4.8	3.9	2.4	2.7	2.4
Average, weighted by share of U.S. non-oil imports	4.4	3.8	1.9	2.1	1.9

U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1990				1991				1992		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1989	1990	1991
GDP Net Exports of Goods and Services (87$)	-58.4	-56.9	-59.3	-32.7	-17.9	-17.4	-31.6	-20.5	-21.5	-43.9	-73.7	-51.8	-21.8
Exports of G+S	500.2	508.7	508.4	522.6	515.9	536.1	544.2	561.4	565.4	563.4	471.8	510.0	539.4
Merchandise	363.5	368.7	366.7	375.3	377.4	390.1	395.2	407.3	408.1	408.0	343.8	368.6	392.5
Services	136.7	140.0	141.7	147.3	138.5	146.1	149.0	154.0	157.3	155.4	128.0	141.4	146.9
Imports of G+S	558.6	565.6	567.7	555.3	533.8	553.5	575.8	581.8	586.8	607.3	545.4	561.8	561.2
Merchandise	458.3	464.5	465.7	452.7	438.9	454.9	477.9	482.2	488.0	507.8	450.4	460.3	463.5
Oil	55.9	55.6	53.3	43.5	44.2	51.5	52.4	46.5	46.7	50.9	51.3	52.1	48.7
Non-oil	402.4	408.9	412.4	409.1	394.7	403.4	425.5	435.7	441.3	456.8	399.1	408.2	414.8
Services	100.3	101.2	102.0	102.6	94.9	98.5	97.9	99.6	98.8	99.5	95.1	101.5	97.7
Memo:(Percent change 1/)													
Exports of G+S	10.7	7.0	-0.2	11.6	-5.0	16.6	6.2	13.3	2.9	-1.4	11.5	7.3	7.8
of which: Goods	10.2	5.8	-2.2	9.7	2.3	14.2	5.3	12.8	0.8	-0.1	10.6	5.9	8.6
Imports of G+S	2.6	5.1	1.5	-8.5	-14.6	15.6	17.1	4.2	3.5	14.7	2.7	0.2	5.6
of which: Non-oil Goods	-4.4	6.6	3.5	-3.2	-13.4	9.1	23.8	9.9	5.2	14.8	3.2	0.6	7.4
Current Account Balance	-89.3	-83.1	-100.2	-94.7	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-101.6	-91.9	-8.3
Merchandise Trade, net	-108.9	-99.0	-115.8	-112.4	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-115.2	-109.0	-73.8
Exports	381.1	389.3	385.7	401.0	405.3	416.8	415.1	430.5	433.4	433.2	362.1	389.3	416.9
Agricultural	43.1	41.5	38.7	37.4	39.5	38.5	39.7	42.8	43.3	42.6	42.2	40.2	40.1
Nonagricultural	338.0	347.9	347.0	363.6	365.8	378.3	375.4	387.7	390.0	390.6	319.9	349.1	376.8
Imports	490.0	488.3	501.5	513.4	480.5	482.1	493.6	506.7	504.4	532.4	477.4	498.3	490.7
Oil	63.2	51.3	61.8	72.9	52.4	52.3	53.0	49.4	41.9	52.4	50.9	62.3	51.8
Non-oil	426.9	437.0	439.7	440.6	428.1	429.8	440.7	457.4	462.5	480.0	426.4	436.0	439.0
Other Current Account	0.9	-1.1	0.7	-13.2	89.7	60.7	24.6	34.8	26.6	22.6	-1.2	-3.2	52.5
Invest. Income, net	18.7	16.9	14.9	30.9	23.1	11.6	6.5	10.9	17.7	3.6	14.8	20.3	13.0
Direct, net	54.4	56.7	52.4	61.4	60.3	52.8	45.1	52.8	57.6	47.6	48.9	56.2	52.8
Portfolio, net	-35.7	-39.8	-37.5	-30.5	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-34.0	-35.9	-39.7
Military, net	-7.6	-6.5	-6.3	-10.9	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-6.7	-7.8	-5.9
Other Services, net	35.3	36.2	36.7	45.7	43.4	50.8	55.6	57.2	58.5	57.5	31.6	38.5	51.7
Transfers, net	-26.9	-30.7	-29.7	-48.0	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-26.1	-33.8	6.6

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

OUTLOOK FOR U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1992		1993 (Projection)				1994 (Projection)				ANNUAL (Projection)		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994
GDP Net Exports of Goods and Services (87$)	-52.7	-49.0	-70.3	-80.4	-74.4	-77.9	-80.9	-88.0	-94.2	-94.7	-41.8	-75.7	-89.4
Exports of G+S	575.9	588.3	584.2	589.1	596.7	604.4	612.8	621.6	630.8	640.6	573.3	593.6	626.5
Merchandise	420.4	434.1	426.7	431.1	438.2	444.9	451.9	459.2	466.9	475.1	417.7	435.2	463.3
Services	155.5	154.2	157.5	158.1	158.5	159.5	160.9	162.4	163.9	165.6	155.6	158.4	163.2
Imports of G+S	628.6	637.3	654.5	669.6	671.1	682.3	693.7	709.6	725.0	735.3	615.0	669.4	715.9
Merchandise	526.4	535.1	551.0	565.3	566.6	577.2	587.9	602.9	617.6	627.2	514.3	565.0	608.9
Oil	52.5	52.1	52.9	55.4	55.5	54.4	53.3	56.4	59.1	57.1	50.6	54.5	56.5
Non-oil	473.9	483.0	498.1	509.9	511.2	522.9	534.6	546.5	558.4	570.1	463.7	510.5	552.4
Services	102.2	102.2	103.5	104.3	104.4	105.1	105.8	106.6	107.4	108.1	100.7	104.3	107.0
Memo: (Percent change 1/)													
Exports of G+S	9.2	8.9	-2.8	3.4	5.2	5.3	5.7	5.8	6.1	6.4	4.9	2.8	6.0
of which: Goods	12.7	13.7	-6.6	4.1	6.8	6.2	6.4	6.6	6.9	7.2	6.8	2.6	6.8
Imports of G+S	14.8	5.7	11.2	9.5	0.9	6.9	6.8	9.5	9.0	5.8	9.7	7.1	7.8
of which: Non-oil Goods	15.8	7.9	13.1	9.8	1.0	9.5	9.3	9.2	9.0	8.7	10.9	8.4	9.0
Current Account Balance	-71.1	-94.7	-89.0	-99.1	-90.1	-103.5	-98.2	-108.2	-110.0	-115.8	-66.4	-95.4	-108.0
Merchandise Trade, net	-110.4	-103.8	-116.3	-128.1	-119.8	-127.4	-130.6	-138.2	-145.2	-146.7	-96.1	-122.9	-140.2
Exports	438.0	456.0	446.5	450.8	453.0	459.8	466.6	473.1	479.7	486.1	440.1	452.5	476.4
Agricultural	44.7	45.5	43.4	42.4	42.2	42.3	42.9	43.5	44.1	44.6	44.0	42.6	43.8
Nonagricultural	393.3	410.4	403.1	408.4	410.8	417.5	423.7	429.6	435.6	441.5	396.1	410.0	432.6
Imports	548.4	559.8	562.8	578.9	572.9	587.3	597.2	611.3	624.9	632.8	536.3	575.5	616.6
Oil	57.2	54.9	51.0	55.2	54.7	57.3	56.2	59.5	62.3	60.1	51.6	54.5	59.5
Non-oil	491.2	505.0	511.8	523.7	518.2	529.9	541.0	551.8	562.6	572.7	484.7	520.9	557.0
Other Current Account	32.5	12.3	26.2	27.3	28.5	27.3	31.7	33.2	34.7	33.9	23.5	27.3	33.4
Invest. Income, net	6.8	-3.2	1.1	1.7	1.2	-3.4	0.8	-3.2	0.4	-2.9	6.2	0.2	-1.2
Direct, net	47.1	40.8	46.5	46.2	43.0	42.5	43.5	43.2	44.1	45.0	48.3	44.5	43.9
Portfolio, net	-40.3	-44.0	-45.4	-44.5	-41.8	-45.8	-42.7	-46.4	-43.6	-47.9	-42.0	-44.4	-45.2
Military, net	-2.5	-3.3	-1.5	-1.5	-1.5	-1.1	-0.6	-0.2	0.2	0.6	-2.8	-1.4	0.0
Other Services, net	63.6	57.1	60.0	60.6	61.8	63.0	64.1	65.2	66.3	67.9	59.2	61.4	65.9
Transfers, net	-28.6	-41.4	-32.3	-31.8	-31.8	-34.6	-31.8	-31.8	-31.8	-34.6	-32.9	-32.6	-32.5

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