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Strictly Confidential (FR) Class II FOMC

November 10, 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

The economic data received since the last FOMC meeting have been stronger on balance, than we had anticipated, and we have raised our projection of real GDP growth over the second half of the year somewhat from the September Greenbook. However, some of the forces behind this more rapid growth--notably, the tendency for consumer spending to outstrip gains in disposable income--are of doubtful durability. Consequently, we are still projecting that real GDP growth will drop back to around 2-1/2 percent in 1994, in the vicinity of our estimate of the increase in potential output.

Indeed, to achieve that moderate rate of growth in the face of ongoing fiscal restraint and other drags on aggregate demand, it may be necessary to maintain a relatively stimulative monetary policy for a while longer, marked by low real short-term interest rates. In such circumstances, we believe it most likely that bond yields will turn back down and that private spending will be buoyed not only by favorable borrowing costs but also by continuing improvements in balance sheets and in the availability of credit.

In light of the projected pace of economic expansion, we expect the unemployment rate to decline only slightly from the October level of 6.8 percent. The rate of increase in hourly compensation apparently has changed little over the past year or so in response to the slack in labor markets, and we expect this pattern to continue over the forecast period. However productivity gains are projected to hold growth in unit labor costs to modest levels. In recent quarters, price increases have been moving into closer alignment with the rise in trend unit labor costs, and the twelve-month change in the CPI excluding food and energy has slowed to

3 percent Anticipating an extension of this pattern, we are projecting that core consumer price inflation will edge below 3 percent in 1994.

Key Assumptions

We continue to assume that the federal funds rate will remain near 3 percent at least well into 1994. But, we have pushed the forecast horizon out to the end of 1995 in this Greenbook, and it seems likely that some firming of money market conditions will be called for by then to hold aggregate demand on a moderate path. Absent a sizable run-up in short rates, however, and in an environment of subdued inflation, we expect that long rates will remain in the recent range--with the term structure of rates thus taking on a more "normal" slope.

Growth in the broad monetary aggregates has continued to be sluggish. Flows into stock and bond mutual funds slowed somewhat in September but evidently returned to a near-record pace in October, as these funds remain a popular alternative to traditional M2 assets. Both M2 and M3 are projected to finish 1993 in the lower portions of their target ranges, and to pick up a bit in 1994--and perhaps a bit more in 1995, if and as the yield curve flattens further.

The staff's fiscal policy assumptions are little changed from the September Greenbook. The unified deficit is projected to fall from $255 billion in the fiscal year just ended to $242 billion in fiscal year 1994 and $218 billion in fiscal year 1995. The projected deficits are a bit lower than in the most recent Greenbook, mainly as a result of increased tax receipts associated with the higher level of income in this forecast.

With the formal announcement of the Administration's proposal, the debate about health care reform has intensified. At this point, it does not appear likely that any legislation will be passed that has significant effects before 1996. Nevertheless, uncertainties about the possibility of new government mandates in this and other areas could have negative effects on the hiring and expansion plans of some businesses through a good part of the projection period.

The trade-weighted foreign exchange value of the dollar is projected to remain near current levels over the forecast period--a slight upward revision relative to the September Greenbook. We still expect foreign economic activity to accelerate in 1994, but the pickup is modest and a bit less than in the last forecast as a result of a weaker near-term outlook for Europe and Japan.

Recent Indicators of Economic Activity

Recent indicators of production and expenditures have been generally positive. Although the unemployment rate edged back up to 6.8 percent in October, the upward movement mainly reflected a large jump in labor force participation. Both the household and the payroll surveys indicated solid gains in employment last month. Together with a small uptick in the average workweek, aggregate hours in private industry were up sharply and stood 0.4 percent above their level in the third quarter. The continuing low level of initial claims for unemployment insurance in recent weeks points to further moderate growth in payrolls in November.

Industrial production is estimated to have risen sharply in October, boosted by a large increase in motor vehicle assemblies. Production problems reported during the model changeover appear to have been corrected, and the automakers have scheduled a sizable increase in output. Even discounting their plans somewhat, we project that the upturn in assemblies will add 1-1/2 percentage points to real GDP growth in the fourth quarter. That forecast is based, in part on the strength of sales of light vehicles in October which drew dealer inventories down to quite low levels

Apart from auto sales, we have no direct statistical information on expenditures this quarter Reports on non-auto retailing have been mixed of late, as have indexes of consumer sentiment. However, surveys conducted before the recent backup in mortgage rates showed households holding an extraordinarily positive view of homebuying conditions, and reports from builders and mortgage bankers were very favorable as well In the business sector capital goods orders through September suggest some thrust in spending for communications and industrial equipment, and the demand for computer products is reported to be strong. However, another round of production cuts in the commercial aircraft industry is scheduled for this quarter.[1]

On the inflation front, the latest information has been somewhat less favorable than in earlier months. The CPI rose 0.4 percent in October, boosted by higher food prices and the increase in federal excise taxes on gasoline. Excluding food and energy, the CPI was up 0.3 percent. The prices of some industrial commodities have firmed of late, reflecting, in particular, the strong demand for steel and wood products. Moreover, although the ECI for hourly compensation rose at only a 3.4 percent annual rate in the third quarter, the twelve-month change was 3.7 percent.

The Outlook for the Economy Through 1994

Real GDP is expected to increase at a 4 percent annual rate in the fourth quarter (3-1/2 percent, excluding the effect of crop

1. Boeing is sharply curtailing its output of 737s, 757s, and 767s, and these cutbacks are projected to reduce real GDP growth 1/4 percentage point in the fourth quarter. Deliveries to both domestic and foreign airlines are scheduled to rise in the current quarter, and the production loss appears in our forecast as a $9 billion runoff in nonfarm inventories.

losses) but then to decelerate next year. Growth over the four quarters of 1994, at 2-1/2 percent, is projected to be about the same as in 1993. In broad terms, the major differences between the two years in the patterns of expenditure growth are smaller increases in consumer spending and outlays for business equipment next year, a lesser decline in net exports, and a faster pace of business inventory investment.

SUMMARY OF THE STAFF PROJECTION
(Percent change, at annual rates, except as noted)

	1993				
	H1	Q3	Q4	1993	1994
Real GDP	1.3	2.8	4.0	2.4	2.5
Previous	1.3	1.2	3.4	1.8	2.5
Excluding crop losses		3.4	3.6		
Previous		1.8	3.0		
Civilian unemployment rate[1]	7.0	6.7	6.8	6.8	6.7
Previous	7.0	6.8	6.7	6.7	6.7
CPI inflation	3.3	1.4	3.2	2.8	3.1
Previous	3.3	1.5	3.6	3.0	3.1

1 Averages for final quarter of period shown.

<u>Consumer spending</u>. Real consumer spending is expected to post a gain of 2-1/2 percent (annual rate) in the fourth quarter. Even allowing for some moderation in light vehicle sales from the strong October pace, spending on new cars and light trucks is projected to rise at a double-digit annual rate in the current quarter. Expenditures on other types of consumer goods are likely to register another healthy gain, led by strong sales of appliances, home furnishings, and electronic equipment. In contrast, growth in outlays for services is projected to slow, on the assumption that consumer energy use returns to normal after hitting unusually high levels during the summer.

We expect growth of real PCE to slow to only 2 percent in 1994. If our forecast for 1993 is close to the mark, consumer spending will have outstripped the gains in disposable personal income over the past two years enough to reduce the personal saving rate by almost a percentage point [2] Unless there were to be a marked increase in household wealth, we would not expect this pattern to be extended much further We are not anticipating a large increase in asset values in coming quarters, and we therefore are looking for real PCE to expand generally in line with income in 1994. In addition, although high-income households may have begun to adjust their expenditures to the higher tax liabilities, that process probably is far from complete and seems likely to accelerate early next year

Spending on new cars and light trucks likely will continue to rise moderately next year, stimulated by low interest rates, deferred demand, and the need to replace aging vehicles. Outside of motor vehicles, growth of real PCE is forecast to slow to a shade less than 2 percent in 1994 after advancing 2-3/4 percent this year.

Residential investment. Housing activity is expected to be a strong contributor to fourth-quarter economic growth. Responding to historically low mortgage interest rates, both home sales and housing starts rose significantly in the third quarter, and because of the normal lag between starts and construction outlays, this pickup will give a sizable boost to investment this quarter.

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2. There is no sign at this time that we can expect upward revisions to income to reduce this gap materially. The BLS has indicated that, based on a preliminary analysis of data from the unemployment insurance system, the level of payroll employment in March 1993 may be revised upward next summer by 250,000. However, at the time of the last annual revision, BEA's estimate of wage and salary income in 1992 was based on UI data through December 1992, which apparently were consistent at least in part, with a higher level of employment.

Overall we are projecting real residential investment to increase at almost a 20 percent annual rate in the current quarter

Looking beyond the fourth quarter, we expect the growth in residential construction to remain fairly strong in early 1994 but to tail off considerably over the course of the year as the stimulus from the large 1993 decline in mortgage rates wanes. Nonetheless, homeownership still is projected to remain relatively affordable, and constraints on the availability of credit for land acquisition and development are likely to ease further. Consequently, single-family housing starts are projected at 1.2 million units next year, compared with 1.1 million in 1993.

In the multifamily market, the recent reinstatement of federal tax credits for the construction of low-income rental units has given a boost to activity, and this stimulus is likely to continue into 1994. In addition, vacancy rates have edged lower, and the flow of cash from REITs and other investors into multifamily properties has been on the rise. We project that multifamily housing starts will move up to 190,000 units in 1994--still a relatively anemic pace by historical standards, but an improvement from the recent levels.

Producers' durable equipment. Real PDE is projected to rise at a 19 percent annual rate in the fourth quarter Based on anecdotal evidence and recent trends in orders and shipments, we expect business purchases of computers to post another big increase in real terms, and demand appears to be quite strong for other equipment as well Purchases of aircraft by domestic carriers are likely to retrace part of their large third-quarter decline, while business spending on motor vehicles is projected to rise moderately.

After a 16-3/4 percent increase in 1993, real PDE is expected to grow 10 percent in 1994. This slowdown reflects the expected flattening of corporate cash flows, the waning accelerator effects from the earlier upswing in output growth, and the smaller declines projected for the real cost of capital. Nonetheless, real PDE is still expected to be one of the fastest growing components of domestic demand, stimulated by ongoing efforts of businesses to improve efficiency and cut costs. In addition, rapid technological change (and intense price competition) are expected to sustain large increases in purchases of computing and telecommunications equipment. The only major element of PDE that is expected to be weak is the commercial aircraft sector, where excess capacity among domestic airlines is projected to result in a 27 percent cut in the purchases of new jetliners next year.

Nonresidential structures. After shrinking for the past three years, real investment in nonresidential structures now appears to have turned upward--albeit hesitantly in comparison to the swings observed in prior cycles. Spending is projected to rise for industrial construction, commercial buildings other than office buildings, and institutional structures. Outlays by public utilities are forecast to increase rapidly over the projection period, stimulated by the construction of natural gas-fired generation plants. Overall, we expect real NRS to increase at about a 4-3/4 percent annual rate over the forecast period.

Business inventories. We anticipate that businesses will be attempting to keep a tight rein on inventories throughout the projection period. Nonetheless, because stocks appear generally in reasonable balance with sales at this time--or even on the lean side in some instances--we expect that the projected growth in final demand next year will elicit some additional nonfarm inventory investment which contributes about 1/4 percentage point to real GDP growth in 1994.[3]

Government purchases. Real federal purchases are projected to continue declining over the projection period. Real defense expenditures are projected to fall at a 6-1/2 percent annual rate in the fourth quarter and another 6 percent in 1994. In contrast real nondefense spending probably will edge up at about a 1 percent annual rate in the fourth quarter and 3/4 percent in 1994: the small increases in nondefense spending are slated for law enforcement and basic science and research. We expect total federal employment to fall more than 100,000 from current levels by the end of 1994.

In the state and local sector, ongoing fiscal problems are expected to restrain the growth of spending and to necessitate another round of tax increases next year. Real state and local purchases are projected to rise at under a 2 percent annual rate through the end of 1994, led by further increases in construction expenditures and government employment. Although this would be the fourth straight year of historically low spending growth by the sector its deficit on operating and capital accounts is projected to narrow only slightly, from $61 billion in the third quarter of 1993 to $52 billion by the end of next year

Net exports. Although an acceleration in economic activity abroad is projected to bolster merchandise exports over the forecast period, growth in merchandise imports is expected to remain quite strong. As a result, net exports are forecast to restrain real GDP growth by more than 1/2 percentage point next year, compared with

3. As noted in Part 2, manufacturing and wholesale inventory figures received since the BEA issued its initial estimate of third-quarter GDP suggest the possibility of a downward revision to inventory investment. We have, as usual, used a "best-change" approach in putting together the current forecast, and consequently the inventory investment levels indicated in the projection tables are somewhat above our expectations.

the almost 1 percentage point drag projected for 1993. (A detailed discussion of these developments is contained in the International Developments section.)

Labor markets. Labor productivity is projected to increase around 1 percent in both 1993 and 1994. At this stage of the business cycle, the most rapid productivity gains likely are behind us, and we expect growth in output per hour to average less than the estimated trend (of almost 1-1/2 percent) over the forecast period. Under these circumstances, future increases in output generate further steady growth in employment, with monthly payroll gains of about 150,000 per month in 1994. With labor force participation projected to inch upward, these gains in jobs are expected to suffice only to hold the unemployment rate at its recent level

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

	1992	1993	1994
Output per hour, nonfarm business	3.7	1.1	1.1
Previous	3.7	.0	1.4
Nonfarm payroll employment	.7	1.7	1.6
Previous	.7	1.6	1.5
Civilian unemployment rate[1]	7.3	6.8	6.7
Previous	7.3	6.7	6.7

1 Average for the fourth quarter

Labor costs. Although the various data series on labor costs paint a far from uniform picture, we are interpreting them as generally indicating an essentially flat trend of increases in hourly compensation over the past year or so--in the face of unemployment averaging about 7 percent Structural changes in the economy (such as the downsizing of the defense industry) may be raising the "natural rate" of unemployment, but the prevailing slack in labor markets--and the widespread concern about job security--should have exerted greater downward pressure on wages, judging by past patterns. The fact that household surveys show that inflation expectations have failed to move downward in step with actual consumer price increases suggests one possible explanation for this lack of deceleration (while raising another question about the causes of the stickiness of price expectations). Some anecdotal evidence also suggests that in an environment of aggressive downsizing, businesses simply are passing on some of the fruits of the productivity gains to their remaining employees. And it is also apparent that, in the short run, many firms have been unable to offset higher benefit costs with slower growth in wages. All things considered, we have forecast a continuation of the sideways movement of compensation gains, despite the persistence of relatively high unemployment.

Hourly compensation is projected to continue rising at about a 3-1/2 percent annual rate through 1994. We expect to see a slight slowing in the ECI for wages and salaries, while benefit cost increases are forecast to be about level next year--with rising pension contributions likely offsetting smaller health insurance increases. The staff projection does not include an increase in the minimum wage, which remains an upside risk to our compensation forecast. On the other hand, our projection could turn out to be too pessimistic if inflation expectations were to move down significantly.

Prices. We expect monthly increases in the CPI excluding food and energy to be about 0.3 percent per month over the near term. In addition, upward pressures for food and energy still appear to be in train. Retail food price increases picked up in October, and there also have been further declines in crop production estimates and a resurgence of grain prices. Private survey information indicates that the prices of gasoline and heating oil declined in early November; however we expect these prices to firm in the next few months because of the passthrough of the higher crude oil costs that we have built into the projection. In addition, we have made an allowance for a repetition in the first quarter of 1994 of the seasonal adjustment problems that overstated increases in the CPI excluding food and energy earlier this year [4]

Looking at 1994 as a whole, we anticipate some further progress in reducing core inflation. Although increases in hourly compensation flatten out, businesses remain intent on cutting costs and improving efficiency. These actions will hold down the rate of increase in unit labor costs over the projection period and--with an abatement of the cyclical rise in the markup--should lead to a further deceleration of prices. However, owing to the adverse movements in food and energy prices noted above, the overall CPI is expected to accelerate from a 2-3/4 percent rise this year to just over 3 percent in 1994.

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

	1992	1993	1994
Consumer price index	3.1	2.8	3.1
Previous	3.1	3.0	3.1
Excluding food and energy	3.4	3.1	2.9
Previous	3.4	3.1	2.9
ECI for compensation of private industry workers[1]	3.5	3.6	3.5
Previous	3.5	3.6	3.4

1 December to December

4. The BLS has yet not decided whether it will change its seasonal adjustment methodology to smooth out these seasonal problems in the first quarter.

A First Look at 1995

For this Greenbook, the projection period has been extended to include 1995. With the drag from fiscal policy diminishing somewhat and the expectation of an acceleration of economic activity abroad, there would be a tendency for real GDP growth to increase and for the pressures on resources to intensify. With this in mind, we have assumed an increase in short-term interest rates that we believe sufficient to hold real GDP growth to 2-1/2 percent. With continued slack in labor and product markets, core inflation edges down further in 1995, to about 2-3/4 percent.

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

November 10, 1993

Interval	Nominal GDP 9/15/93	Nominal GDP 11/10/93	Real GDP 9/15/93	Real GDP 11/10/93	GDP fixed-weight price index 9/15/93	GDP fixed-weight price index 11/10/93	Consumer price index[1] 9/15/93	Consumer price index[1] 11/10/93	Unemployment rate (level except as noted) 9/15/93	Unemployment rate (level except as noted) 11/10/93
ANNUAL										
1991[2]	3.2	3.2	-.7	-.7	4.0	4.1	4.2	4.2	6.7	6.7
1992[2]	5.5	5.5	2.6	2.6	3.3	3.3	3.0	3.0	7.4	7.4
1993	5.3	5.5	2.6	2.8	3.1	3.2	3.0	3.0	6.9	6.9
1994	4.9	5.1	2.5	2.8	2.7	2.8	3.1	3.0	6.7	6.7
1995		4.6		2.5		2.6		2.8		6.6
QUARTERLY										
1992 Q1[2]	7.4	7.4	3.5	3.5	4.2	4.2	3.5	3.5	7.3	7.3
Q2[2]	5.7	5.7	2.8	2.8	3.4	3.4	2.9	2.9	7.5	7.5
Q3[2]	4.6	4.6	3.4	3.4	2.5	2.5	2.9	2.9	7.5	7.5
Q4[2]	9.2	9.2	5.7	5.7	3.1	3.1	3.2	3.2	7.3	7.3
1993 Q1[2]	4.4	4.4	.8	.8	4.3	4.3	3.7	3.7	7.0	7.0
Q2[2]	4.2	4.3	1.8	1.9	2.8	2.8	2.8	2.8	7.0	7.0
Q3[2]	3.5	4.4	1.2	2.8	2.1	2.1	1.5	1.4	6.8	6.7
Q4	5.8	6.6	3.4	4.0	3.0	3.1	3.6	3.2	6.7	6.8
1994 Q1	5.4	5.3	3.0	2.7	2.8	3.1	3.8	3.6	6.7	6.7
Q2	4.7	4.8	2.3	2.3	2.7	2.8	3.0	3.1	6.7	6.7
Q3	4.6	4.6	2.4	2.4	2.5	2.6	2.8	2.9	6.7	6.7
Q4	4.5	4.5	2.4	2.4	2.5	2.5	2.7	2.8	6.7	6.7
1995 Q1		4.9		2.5		2.9		3.0		6.7
Q2		4.5		2.5		2.5		2.7		6.7
Q3		4.4		2.5		2.4		2.6		6.6
Q4		4.4		2.5		2.5		2.6		6.6
TWO-QUARTER[3]										
1992 Q2[2]	6.6	6.6	3.2	3.2	3.9	3.9	3.2	3.2	.5	.5
Q4[2]	6.9	6.9	4.6	4.6	2.8	2.8	2.9	2.9	-.2	-.2
1993 Q2[2]	4.3	4.3	1.3	1.3	3.4	3.4	3.4	3.4	-.3	-.3
Q4	4.7	5.5	2.3	3.4	2.5	2.7	2.6	2.2	-.3	-.2
1994 Q2	5.0	5.1	2.7	2.5	2.7	3.0	3.4	3.4	.0	-.1
Q4	4.5	4.5	2.4	2.4	2.5	2.5	2.8	2.8	.0	.0
1995 Q2		4.7		2.5		2.7		2.9		.0
Q4		4.4		2.5		2.5		2.6		-.1
FOUR-QUARTER[4]										
1991 Q4[2]	3.7	3.7	.3	.3	3.6	3.6	3.0	3.0	1.0	1.0
1992 Q4[2]	6.7	6.7	3.9	3.9	3.3	3.3	3.1	3.1	.3	.3
1993 Q4	4.5	4.9	1.8	2.4	3.0	3.1	3.0	2.8	-.6	-.5
1994 Q4	4.8	4.8	2.5	2.5	2.6	2.7	3.1	3.1	.0	-.1
1995 Q4		4.6		2.5		2.6		2.8		-.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)

November 10, 1993

Item	Unit[1]	1987	1988	1989	1990	1991	1992	Projected 1993	Projected 1994	Projected 1995
EXPENDITURES										
Nominal GDP	Bill. $	4539.9	4900.4	5250.8	5546.1	5722.9	6038.5	6371.3	6699.1	7008.1
Real GDP	Bill. 87$	4540.0	4718.6	4838.0	4897.3	4861.4	4986.3	5126.7	5269.1	5398.8
Real GDP	% change	4.5	3.3	1.6	.2	.3	3.9	2.4	2.5	2.5
Gross domestic purchases		3.9	2.5	.9	-.4	-.2	4.3	3.3	3.0	2.6
Final sales		2.7	4.2	1.5	1.2	-.3	3.8	2.3	2.1	2.5
Private dom. final purch.		1.9	4.2	.5	-.1	-.7	5.0	4.2	3.2	3.0
Personal cons. expend.		2.1	4.2	1.2	.7	.0	4.0	2.7	2.0	2.1
Durables		-2.6	8.5	-.5	-.8	-.4	9.7	6.2	3.2	2.7
Nondurables		1.4	3.2	1.2	-.1	-1.3	3.6	1.3	1.2	1.6
Services		3.7	3.7	1.7	1.7	.9	2.8	2.6	2.1	2.1
Business fixed invest.		3.0	5.5	-.4	.7	-6.3	7.4	13.0	8.7	8.3
Producers' dur. equip.		2.4	9.1	-1.7	2.9	-3.3	11.4	16.8	9.9	8.9
Nonres. structures		4.4	-1.2	2.3	-3.9	-12.6	-2.0	3.1	4.9	6.4
Res. structures		-3.1	.9	-7.7	-15.2	1.6	17.6	4.8	7.5	1.8
Exports		12.6	13.5	11.3	6.7	8.4	4.9	2.4	5.6	8.1
Imports		4.7	3.6	2.6	.4	4.2	8.5	9.7	9.3	7.7
Government purchases		3.3	.2	2.0	3.3	-.7	1.1	-1.2	-.2	.5
Federal		3.7	-3.4	-.6	2.8	-3.7	.4	-6.3	-3.8	-2.6
Defense		4.5	-3.2	-1.5	1.5	-7.3	-1.4	-9.3	-6.0	-4.4
State and local		2.9	2.9	4.0	3.6	1.5	1.6	2.2	1.9	2.2
Change in bus. invent.	Bill. 87$	26.3	19.9	29.8	5.7	-8.4	6.5	15.8	29.0	35.3
Nonfarm		32.7	26.9	29.9	3.2	-8.6	2.7	21.0	30.4	34.5
Net exports		-143.0	-104.0	-73.7	-54.7	-19.1	-33.6	-75.2	-106.5	-119.6
Nominal GDP	% change	8.0	7.7	6.0	4.7	3.7	6.7	4.9	4.8	4.6
EMPLOYMENT AND PRODUCTION										
Nonfarm payroll employ.	Millions	102.0	105.2	107.9	109.4	108.3	108.5	110.2	112.0	113.7
Unemployment rate	%	6.2	5.5	5.3	5.5	6.7	7.4	6.9	6.7	6.6
Industrial prod. index	% change	6.3	3.2	-.1	-.2	-.3	3.2	3.8	3.4	3.2
Capacity util. rate-mfg.	%	81.6	83.6	83.1	81.1	77.8	78.8	80.9	82.1	82.8
Housing starts	Millions	1.62	1.49	1.38	1.19	1.01	1.20	1.26	1.39	1.43
Auto sales in U.S.		10.24	10.63	9.91	9.50	8.39	8.38	8.68	8.89	9.05
North American produced		7.07	7.54	7.08	6.90	6.14	6.28	6.70	6.96	7.15
Other		3.18	3.10	2.83	2.60	2.25	2.11	1.98	1.93	1.90
INCOME AND SAVING										
Nominal GNP	Bill. $	4544.5	4908.2	5266.8	5567.8	5737.1	6045.8	6368.7	6693.1	7000.3
Nominal GNP	% change	8.1	7.8	6.1	4.9	3.3	6.5	4.8	4.8	4.5
Nominal personal income		7.4	7.1	6.5	6.5	3.5	8.1	3.3	5.1	5.2
Real disposable income		2.1	3.2	1.1	1.1	.7	4.9	.6	1.9	2.1
Personal saving rate	%	4.3	4.4	4.0	4.2	4.8	5.3	4.0	4.0	4.1
Corp. profits, IVA&CCAdj	% change	29.7	10.2	-6.3	2.3	4.4	16.0	6.1	2.5	2.1
Profit share of GNP	%	7.0	7.4	6.9	6.8	6.4	6.7	7.1	7.1	7.0
Federal surpl./def.	Bill. $	-151.8	-136.6	-122.3	-163.5	-203.4	-276.3	-220.2	-158.8	-151.5
State/local surpl./def.		40.1	38.4	44.8	25.1	7.3	7.2	.5	4.5	10.1
Ex. social ins. funds		-14.7	-18.4	-17.5	-35.6	-51.2	-52.2	-58.2	-53.5	-47.1
PRICES AND COSTS										
GDP implicit deflator	% change	3.4	4.2	4.3	4.5	3.4	2.8	2.5	2.3	2.0
GDP fixed-wt. price index		3.4	4.2	4.4	4.6	3.6	3.3	3.1	2.7	2.6
Gross domestic purchases fixed-wt. price index		3.9	4.1	4.4	5.2	3.1	3.3	2.8	2.7	2.6
CPI		4.5	4.3	4.6	6.2	3.0	3.1	2.8	3.1	2.8
Ex. food and energy		4.3	4.5	4.4	5.2	4.5	3.4	3.1	2.9	2.7
ECI, hourly compensation[2]		3.3	4.8	4.8	4.6	4.4	3.5	3.6	3.5	3.4
Nonfarm business sector										
Output per hour		1.9	.5	-1.4	.4	2.2	3.6	1.1	1.1	1.3
Compensation per hour		3.9	3.8	3.1	6.2	4.7	5.2	3.0	3.5	3.5
Unit labor cost		1.9	3.3	4.6	5.7	2.5	1.5	1.8	2.4	2.1

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)

November 10, 1993

Item	Unit	1991 Q1	1991 Q2	1991 Q3	1991 Q4	1992 Q1	1992 Q2	1992 Q3	1992 Q4	1993 Q1	1993 Q2
EXPENDITURES											
Nominal GDP	Bill. $	5631.7	5697.7	5758.6	5803.7	5908.7	5991.4	6059.5	6194.4	6261.6	6327.6
Real GDP	Bill. 87$	4837.8	4855.6	4872.6	4879.6	4922.0	4956.5	4998.2	5068.3	5078.2	5102.1
Real GDP	% change	-2.4	1.5	1.4	.6	3.5	2.8	3.4	5.7	.8	1.9
Gross domestic purchases		-3.6	.8	2.4	-.1	3.4	4.7	3.8	5.4	2.5	3.1
Final sales		-2.7	1.9	-.4	-.1	4.5	1.4	3.7	5.8	-.8	3.2
Private dom. final purch.		-5.4	1.1	1.2	.2	4.8	4.3	4.0	7.1	2.5	4.4
Personal cons. expend.		-2.8	1.8	1.3	.0	4.3	1.8	4.2	5.6	.8	3.4
Durables		-11.4	1.6	10.4	-1.0	14.7	.8	10.7	13.2	-1.3	10.8
Nondurables		-3.5	1.1	-.7	-2.0	3.1	1.1	3.0	7.3	-2.1	2.7
Services		-.2	2.2	.3	1.5	2.6	2.4	3.3	2.9	3.1	2.1
Business fixed invest.		-13.2	-2.7	-3.8	-5.1	3.5	15.1	3.8	7.6	14.4	16.6
Producers' dur. equip.		-15.3	.1	5.3	-2.2	2.8	22.0	10.2	11.5	19.9	19.8
Nonres. structures		-8.5	-8.7	-21.3	-11.3	4.9	.3	-10.3	-2.1	.5	8.1
Res. structures		-25.5	1.2	17.3	20.3	16.8	21.8	1.2	32.8	1.5	-9.5
Exports		-.8	19.4	3.0	13.3	4.9	-.6	6.5	8.8	-2.4	3.6
Imports		-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3
Government purchases		2.8	1.4	-2.0	-4.7	3.0	-1.0	4.1	-1.4	-6.4	4.3
Federal		7.8	-.2	-6.9	-14.2	.0	-3.1	8.7	-3.5	-16.2	2.0
Defense		9.1	-4.4	-12.3	-19.2	-5.5	-5.0	10.5	-4.6	-21.4	.7
State and local		-.5	2.6	1.7	2.2	5.0	.4	1.2	.0	.3	5.6
Change in bus. invent.	Bill. 87$	-17.4	-22.3	-.9	7.1	-5.0	12.6	9.6	8.7	29.3	13.0
Nonfarm		-18.7	-26.2	.0	10.3	-9.6	7.0	5.8	7.5	29.3	17.1
Net exports		-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2
Nominal GDP	% change	2.4	4.8	4.3	3.2	7.4	5.7	4.6	9.2	4.4	4.3
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	108.6	108.2	108.2	108.1	108.1	108.4	108.6	108.9	109.4	110.0
Unemployment rate[1]	%	6.5	6.7	6.7	7.0	7.3	7.5	7.5	7.3	7.0	7.0
Industrial prod. index	% change	-7.2	.3	5.5	.3	.8	4.7	.8	6.7	5.5	2.3
Capacity util. rate-mfg.[1]	%	77.5	77.4	78.2	78.1	78.1	78.8	78.7	79.6	80.5	80.8
Housing starts	Millions	.90	1.01	1.04	1.09	1.26	1.14	1.18	1.25	1.16	1.23
Auto sales in U.S.		8.39	8.35	8.55	8.25	8.40	8.45	8.24	8.45	8.35	8.95
North American produced		6.16	6.05	6.25	6.09	6.15	6.29	6.24	6.43	6.38	6.90
Other		2.24	2.30	2.31	2.16	2.25	2.16	2.00	2.02	1.97	2.06
INCOME AND SAVING											
Nominal GNP	Bill. $	5656.1	5710.6	5766.2	5815.5	5927.6	5996.3	6067.3	6191.9	6262.1	6327.1
Nominal GNP	% change	1.9	3.9	4.0	3.5	7.9	4.7	4.8	8.5	4.6	4.2
Nominal personal income		2.1	4.2	2.1	5.8	7.5	6.2	3.7	15.5	-5.4	9.3
Real disposable income		-.4	1.9	-.9	2.2	4.2	3.1	1.9	10.6	-7.8	5.8
Personal saving rate[1]	%	4.8	4.9	4.4	4.9	5.0	5.3	4.9	6.0	3.9	4.4
Corp. profits, IVA&CCAdj	% change	7.4	1.6	-12.1	24.0	37.1	1.8	-36.5	104.6	-6.6	26.3
Profit share of GNP[1]	%	6.5	6.5	6.2	6.5	6.9	6.9	6.1	7.1	6.9	7.2
Federal govt. surpl./def.	Bill. $	-145.2	-206.2	-217.7	-244.7	-270.2	-279.9	-290.7	-264.2	-263.5	-222.6
State/local surpl./def.		6.1	5.5	5.5	12.1	6.1	7.8	1.2	13.5	.8	1.1
Ex. social ins. funds		-52.5	-53.1	-52.9	-46.5	-52.8	-51.8	-58.3	-46.0	-58.2	-57.8
PRICES AND COSTS											
GDP implicit deflator	% change	5.0	3.2	2.9	2.6	3.8	2.8	1.2	3.3	3.6	2.3
GDP fixed-wt. price index		5.1	3.4	3.4	2.7	4.2	3.4	2.5	3.1	4.3	2.8
Gross domestic purchases fixed-wt. price index		3.6	2.5	3.1	3.0	3.9	3.3	3.0	2.8	3.5	2.9
CPI		3.6	2.1	2.7	3.3	3.5	2.9	2.9	3.2	3.7	2.8
Ex. food and energy		6.5	3.8	4.0	3.7	4.2	3.3	2.7	3.6	4.1	3.5
ECI, hourly compensation[2]		4.6	4.9	4.4	3.7	4.0	2.9	3.2	3.5	4.2	3.5
Nonfarm business sector											
Output per hour		1.9	2.7	.8	3.4	3.8	2.8	3.6	4.2	-1.8	-.4
Compensation per hour		4.4	4.9	4.6	4.9	5.6	4.7	5.9	4.6	2.9	1.9
Unit labor cost		2.5	2.2	3.7	1.5	1.7	1.8	2.2	.4	4.8	2.3

1. Not at an annual rate. 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)

November 10, 1993

Item	Units	Projected									
		1993		1994				1995			
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EXPENDITURES											
Nominal GDP	Bill. $	6396.3	6499.5	6584.5	6662.6	6737.7	6811.6	6893.2	6970.1	7046.3	7122.9
Real GDP	Bill. 87$	5138.0	5188.5	5223.2	5253.1	5284.2	5315.8	5348.7	5382.0	5415.4	5449.1
Real GDP	% change	2.8	4.0	2.7	2.3	2.4	2.4	2.5	2.5	2.5	2.5
Gross domestic purchases		3.2	4.4	3.5	2.9	2.8	2.8	2.5	2.7	2.6	2.5
Final sales		3.3	3.5	2.0	1.9	2.2	2.2	2.5	2.3	2.5	2.6
Private dom. final purch.		4.8	4.9	3.4	3.0	3.3	3.1	3.0	2.9	3.1	3.0
Personal cons. expend.		4.2	2.5	1.8	1.7	2.3	2.1	2.0	2.0	2.2	2.2
Durables		7.5	8.0	3.5	2.6	3.9	2.8	2.5	2.3	3.0	3.0
Nondurables		3.4	1.4	.8	.8	1.7	1.7	1.6	1.6	1.7	1.7
Services		3.7	1.7	1.9	2.0	2.2	2.2	2.1	2.1	2.2	2.2
Business fixed invest.		6.3	15.1	9.5	8.9	8.1	8.2	8.3	8.4	8.3	8.4
Producers' dur. equip.		9.0	18.8	11.1	10.2	9.2	9.1	9.0	9.0	8.9	8.9
Nonres. structures		-.8	4.7	4.6	4.8	4.9	5.3	6.0	6.3	6.5	6.8
Res. structures		10.1	19.1	13.7	7.6	5.1	4.0	3.2	2.0	1.3	.5
Exports		-1.1	10.0	5.3	5.3	5.5	6.5	7.1	7.7	8.5	9.1
Imports		1.9	12.4	11.1	9.2	8.1	8.7	6.4	8.0	8.1	8.1
Government purchases		-1.1	-1.0	-.2	-.4	-.3	-.1	.3	.5	.5	.6
Federal		-6.1	-4.2	-3.7	-4.1	-3.8	-3.7	-2.8	-2.6	-2.5	-2.3
Defense		-8.3	-6.5	-5.9	-6.2	-6.0	-6.0	-4.8	-4.5	-4.3	-4.0
State and local		2.1	1.0	2.0	1.8	1.8	2.0	2.2	2.2	2.2	2.3
Change in bus. invent.	Bill. 87$	7.3	13.7	22.7	28.6	30.6	33.9	33.9	36.3	36.1	35.0
Nonfarm		17.9	19.7	26.2	30.4	31.1	33.8	33.4	35.6	35.2	34.0
Net exports		-80.1	-85.6	-96.2	-104.1	-110.1	-115.7	-116.5	-119.2	-121.0	-121.8
Nominal GDP	% change	4.4	6.6	5.3	4.8	4.6	4.5	4.9	4.5	4.4	4.4
EMPLOYMENT AND PRODUCTION											
Nonfarm payroll employ.	Millions	110.4	110.8	111.3	111.8	112.2	112.6	113.0	113.5	113.9	114.3
Unemployment rate[1]	%	6.7	6.8	6.7	6.7	6.7	6.7	6.7	6.7	6.6	6.6
Industrial prod. index	% change	1.8	5.4	4.0	3.0	3.2	3.5	3.2	3.2	3.2	3.2
Capacity util. rate-mfg[1]	%	80.7	81.6	82.0	82.0	82.2	82.4	82.6	82.7	82.9	83.0
Housing starts	Millions	1.30	1.36	1.37	1.39	1.39	1.41	1.41	1.43	1.43	1.43
Auto sales in U.S.		8.60	8.82	8.80	8.84	8.93	8.97	9.01	9.03	9.07	9.10
North American produced		6.63	6.90	6.87	6.90	7.00	7.05	7.10	7.13	7.17	7.20
Other		1.97	1.92	1.93	1.94	1.93	1.92	1.91	1.90	1.90	1.90
INCOME AND SAVING											
Nominal GNP	Bill. $	6394.3	6491.1	6580.8	6654.4	6733.0	6804.2	6888.7	6961.2	7040.0	7111.3
Nominal GNP	% change	4.3	6.2	5.6	4.5	4.8	4.3	5.1	4.3	4.6	4.1
Nominal personal income		2.7	7.3	5.4	4.8	4.6	5.5	6.4	4.7	4.5	5.3
Real disposable income		1.1	4.0	1.4	.9	2.9	2.5	2.7	1.7	1.5	2.4
Personal saving rate[1]	%	3.7	4.1	4.0	3.8	4.0	4.1	4.2	4.1	4.0	4.0
Corp. profits, IVA&CCAdj	% change	3.8	3.5	9.5	.7	.3	-.4	5.9	1.5	.2	1.0
Profit share of GNP[1]	%	7.2	7.2	7.3	7.2	7.1	7.0	7.0	7.0	6.9	6.9
Federal govt. surpl./def.	Bill. $	-197.3	-197.4	-172.6	-150.3	-152.4	-159.8	-157.7	-152.0	-142.2	-154.2
State/local surpl./def.		-2.9	3.2	4.4	2.3	5.2	6.1	6.8	7.6	11.9	14.1
Ex. social ins. funds		-61.5	-55.3	-53.9	-55.8	-52.7	-51.6	-50.7	-49.7	-45.2	-42.8
PRICES AND COSTS											
GDP implicit deflator	% change	1.5	2.5	2.6	2.5	2.1	2.0	2.3	2.0	1.9	1.9
GDP fixed-wt. price index		2.1	3.1	3.1	2.8	2.6	2.5	2.9	2.5	2.4	2.5
Gross domestic purchases fixed-wt. price index		1.8	3.0	3.1	2.7	2.6	2.5	2.9	2.5	2.5	2.4
CPI		1.4	3.2	3.6	3.1	2.9	2.8	3.0	2.7	2.6	2.6
Ex. food and energy		1.9	2.8	3.2	2.8	2.8	2.8	3.1	2.7	2.6	2.6
ECI, hourly compensation[2]		3.4	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.4	3.4
Nonfarm business sector											
Output per hour		3.9	2.9	1.0	1.0	1.2	1.2	1.3	1.4	1.3	1.3
Compensation per hour		3.5	3.7	3.8	3.4	3.4	3.4	3.7	3.4	3.4	3.4
Unit labor cost		-.4	.7	2.7	2.4	2.2	2.2	2.4	2.0	2.1	2.1

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)

November 10, 1993

Item	1991				1992				1993					Projected
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992	1993
Real GDP	-29.4	17.8	17.0	7.0	42.4	34.5	41.7	70.1	9.9	23.9	10.5	12.4	188.7	120.2
Gross domestic purchases	-44.6	9.6	28.6	-1.6	41.1	57.4	46.2	66.4	31.0	39.3	-20.1	-8.0	211.1	167.0
Final sales	-32.8	22.8	-4.5	-1.0	54.4	16.9	44.8	71.0	-10.7	40.2	56.2	-15.5	187.1	115.2
Private dom. final purch.	-54.5	11.1	11.9	1.8	46.3	42.1	39.8	70.6	26.0	45.7	-4.2	-29.7	198.8	172.9
Personal cons. expend.	-23.2	14.2	10.2	.4	34.8	14.5	34.1	46.3	6.6	28.9	23.9	1.6	129.7	92.0
Durables	-12.9	1.7	10.6	-1.1	15.1	.9	11.5	14.4	-1.5	12.3	-3.6	-1.7	41.9	29.1
Nondurables	-9.3	2.9	-1.8	-5.3	8.0	3.0	7.9	18.9	-5.8	7.1	-1.4	-13.5	37.8	14.2
Services	-1.0	9.6	1.4	6.8	11.7	10.6	14.7	13.0	13.9	9.5	28.9	16.8	50.0	48.7
Business fixed invest.	-18.8	-3.6	-5.0	-6.7	4.4	18.3	5.0	9.9	18.6	22.0	3.5	-34.1	37.6	70.9
Producers' dur. equip.	-14.9	.1	4.6	-2.0	2.5	18.2	9.2	10.6	18.4	19.1	10.5	-12.2	40.5	66.3
Nonres. structures	-3.8	-3.8	-9.6	-4.6	1.8	.1	-4.1	-.8	.2	2.9	-7.0	-21.8	-3.0	4.5
Res. structures	-12.5	.5	6.7	8.1	7.1	9.4	.6	14.4	.8	-5.2	-31.7	2.8	31.5	10.0
Change in bus. invent.	3.5	-4.9	21.4	8.0	-12.1	17.6	-3.0	-.9	20.6	-16.3	-45.8	28.0	1.6	5.0
Nonfarm	.0	-7.5	26.2	10.3	-19.9	16.6	-1.2	1.7	21.8	-12.2	-49.9	29.0	-2.8	12.2
Farm	3.4	2.5	-4.7	-2.3	7.8	1.0	-1.8	-2.6	-1.2	-4.1	4.2	-1.1	4.4	-7.2
Net exports	15.2	8.3	-11.7	8.6	1.2	-22.8	-4.5	3.7	-21.1	-15.3	30.6	20.4	-22.4	-46.8
Exports	-1.0	23.5	4.0	17.3	6.8	-.8	9.1	12.3	-3.6	5.2	32.7	43.8	27.4	14.2
Imports	-16.2	15.2	15.7	8.8	5.5	22.0	13.6	8.5	17.6	20.5	2.2	23.5	49.6	61.1
Government purchases	6.5	3.4	-4.7	-11.4	6.9	-2.4	9.5	-3.3	-15.6	9.8	29.8	-6.2	10.7	-10.9
Federal	7.3	-.2	-7.0	-14.5	.0	-2.9	7.8	-3.3	-16.1	1.8	10.4	-14.4	1.6	-23.7
Defense	6.3	-3.3	-9.3	-14.5	-3.7	-3.3	6.5	-3.1	-15.3	.4	4.2	-20.8	-3.6	-24.2
Nondefense	1.0	3.1	2.3	.0	3.7	.4	1.2	-.1	-.9	1.5	6.1	6.4	5.2	.5
State and local	-.7	3.6	2.3	3.1	6.9	.5	1.7	.0	.5	7.9	19.3	8.3	9.1	12.8

1. Annual changes are from Q4 to Q4.

Strictly Confidential (FR)
Class II FOMC

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

November 10, 1993

		Projected												
	1993		1994				1995					Projected		
Item	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1992	1993	1994	1995
Real GDP	35.9	50.5	34.7	29.9	31.1	31.6	32.9	33.3	33.3	33.8	188.7	120.2	127.3	133.3
Gross domestic purchases	40.7	56.0	45.3	37.8	37.1	37.3	33.6	36.0	35.2	34.6	211.1	167.0	157.5	139.4
Final sales	41.7	44.0	25.7	24.0	29.1	28.2	32.9	30.9	33.6	34.9	187.1	115.2	107.1	132.3
Private dom. final purch.	49.3	51.9	36.7	32.8	35.7	34.1	32.9	32.5	34.2	34.1	198.8	172.9	139.3	133.8
Personal cons. expend.	35.2	21.3	15.4	15.1	20.2	18.8	17.6	17.5	19.4	19.4	129.7	92.0	69.5	73.9
Durables	8.8	9.5	4.3	3.2	4.9	3.6	3.2	3.0	3.9	4.0	41.9	29.1	16.1	14.1
Nondurables	9.2	3.7	2.2	2.2	4.6	4.7	4.4	4.4	4.7	4.7	37.8	14.2	13.7	18.3
Services	17.2	8.1	8.9	9.7	10.7	10.6	10.0	10.1	10.7	10.7	50.0	48.7	39.8	41.5
Business fixed invest.	9.0	21.3	14.1	13.5	12.6	13.0	13.4	13.8	14.1	14.4	37.6	70.9	53.2	55.7
Producers' dur. equip.	9.4	19.4	12.3	11.7	10.8	10.9	11.1	11.3	11.4	11.7	40.5	66.3	45.7	45.4
Nonres. structures	-.3	1.7	1.7	1.8	1.9	2.1	2.3	2.5	2.6	2.8	-3.0	4.5	7.5	10.2
Res. structures	5.0	9.4	7.2	4.2	2.9	2.3	1.9	1.2	.8	.3	31.5	10.0	16.6	4.2
Change in bus. invent.	-5.7	6.4	9.0	5.9	2.0	3.4	.0	2.4	-.2	-1.1	1.6	5.0	20.3	1.0
Nonfarm	.8	1.8	6.5	4.2	.7	2.8	-.4	2.2	-.4	-1.2	-2.8	12.2	14.2	.1
Farm	-6.5	4.6	2.5	1.7	1.3	.6	.4	.2	.2	.1	4.4	-7.2	6.1	.9
Net exports	-4.9	-5.5	-10.6	-7.9	-6.0	-5.7	-.8	-2.7	-1.8	-.8	-22.4	-46.8	-30.1	-6.1
Exports	-1.7	14.3	7.8	7.9	8.3	9.9	11.1	12.1	13.6	14.9	27.4	14.2	34.0	51.8
Imports	3.1	19.9	18.4	15.8	14.3	15.6	11.8	14.8	15.4	15.7	49.6	61.1	64.2	57.8
Government purchases	-2.7	-2.4	-.4	-.9	-.6	-.2	.8	1.1	1.2	1.5	10.7	-10.9	-2.1	4.6
Federal	-5.6	-3.8	-3.3	-3.6	-3.3	-3.2	-2.4	-2.2	-2.1	-1.9	1.6	-23.7	-13.4	-8.6
Defense	-5.3	-4.0	-3.6	-3.7	-3.5	-3.5	-2.7	-2.5	-2.4	-2.2	-3.6	-24.2	-14.3	-9.8
Nondefense	-.4	.3	.3	.1	.2	.3	.3	.3	.3	.3	5.2	.5	.9	1.2
State and local	3.0	1.4	2.9	2.7	2.7	3.0	3.2	3.3	3.3	3.4	9.1	12.8	11.3	13.2

1. Annual changes are from Q4 to Q4.

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

November 10, 1993

Item	Fiscal year				1993				1994				1995			
	1992[a]	1993[b]	1994	1995	Q1[a]	Q2[a]	Q3[b]	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
UNIFIED BUDGET					Not seasonally adjusted											
Receipts[1]	1090	1153	1238	1307	262	331	295	277	276	371	313	292	287	404	323	305
Outlays[1]	1381	1408	1480	1525	324	349	349	371	368	367	374	380	386	378	381	396
Surplus/deficit[1]	-290	-255	-242	-218	-62	-18	-54	-94	-92	4	-61	-88	-99	26	-57	-91
On-budget	-340	-301	-304	-286	-89	-49	-54	-107	-101	-33	-64	-102	-109	-13	-62	-107
Off-budget	50	46	61	68	27	31	0	13	9	37	3	14	10	39	4	15
Surplus excluding deposit insurance[2]	-287	-282	-238	-224	-68	-25	-61	-95	-91	9	-60	-88	-102	26	-60	-93
Means of financing																
Borrowing	311	249	240	239	60	61	46	88	78	28	46	84	93	11	51	83
Cash decrease	-17	6	13	-10	8	-39	8	16	13	-26	10	10	10	-30	0	20
Other[3]	-4	0	-10	-11	-6	-4	0	-10	1	-6	4	-6	-4	-7	6	-12
Cash operating balance, end of period	59	53	40	50	22	61	53	36	24	50	40	30	20	50	50	30
NIPA FEDERAL SECTOR					Seasonally adjusted, annual rate											
Receipts	1163	1248	1349	1420	1218	1268	1283	1308	1349	1371	1369	1384	1416	1432	1447	1463
Expenditures	1435	1485	1518	1573	1482	1491	1480	1506	1522	1522	1522	1544	1574	1584	1589	1617
Purchases	445	446	438	438	443	448	442	440	440	438	436	434	439	439	438	438
Defense	313	308	295	289	305	308	302	299	297	294	291	288	290	289	287	286
Nondefense	132	139	143	149	138	140	140	141	143	144	145	146	149	150	151	152
Other expenditures	990	1038	1079	1135	1039	1043	1038	1066	1081	1084	1086	1110	1135	1145	1151	1180
Surplus/deficit	-271	-237	-168	-153	-264	-223	-197	-197	-173	-150	-152	-160	-158	-152	-142	-154
FISCAL INDICATORS[4]																
High-employment (HEB) surplus/deficit	-212	-189	-127	-112	-215	-172	-150	-154	-131	-109	-112	-119	-116	-111	-101	-114
Change in HEB, percent of potential GDP	.9	-.4	-1	-.2	0	-.7	-.4	.1	-.3	-.3	0	.1	0	-.1	-.1	.2
Fiscal impetus (FI), percent, cal. year	-4.4	-4.8	-7.5	-4.9	-4.9	1.3	-1.4	-1	-4.3	-2.6	-.2	-1.2	-2.4	-.7	-.6	-.5

1. OMB's September deficit estimates are $285 billion in FY93, $259 billion in FY94, and $200 billion in FY95. CBO's September deficit estimates of the budget are $266 billion in FY93, $253 billion in FY94, and $196 billion in FY95. 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 September deficit estimates, excluding deposit insurance spending, are $311 billion in FY93, $250 billion in FY94, and $209 billion in FY95. CBO's September deficit estimates, excluding deposit insurance spending, are $292 billion in FY93, $240 billion in FY94, and $260 billion in FY95.

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 2.4 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.
b--Unified and N.I.P.A. data are actuals except for N.I.P.A. corporate profit taxes which is a staff projection.

Recent Developments

Longer-term interest rates touched new lows over the first half of the intermeeting period before more than reversing those declines when incoming economic data subsequently turned more consistently positive. Although market expectations of the near-term level of the federal funds rate apparently remained in the 3 percent area, Treasury bill rates also have moved up in response to current and expected heavy bill issuance. And some private short-term rates rose as their maturity dates crossed the year-end, which the market expects once again to be associated with a spike in overnight rates.

Despite the increase in market interest rates, the broader stock market averages have posted net price gains, reflecting in part the boost given to cyclical stocks by the evidence of firmer economic expansion. Risk premia on corporate securities have remained narrow; and although very few banks followed Morgan Guaranty's mid-October cut in the prime rate from 6 percent to 5-1/2 percent, survey data indicate that banks have reduced spreads over prime, particularly for larger loans. In addition, the November survey of bank lending officers suggests further easing of lending standards and terms.

Firms continue to shun bank loans, however, preferring to seek financing in the securities markets, where long-term mutual funds remain a major source of capital. Expansion of these bond and equity funds slowed in September, but apparently picked up again in October to a near-record pace. Growth of M2 and M3 rose a bit in September but slowed in October, with the deceleration exaggerated by NationsBank's spinoff of its trading operations to a section 20 subsidiary. Bank credit, too, was depressed by the dealer spinoff, showing no growth in October Bank lending benefited from strength in consumer loans and, to a lesser extent mortgage loans, but was held down by the weakness in business loans, which, along with commercial paper of nonfinancial firms, contracted on balance over September and October In some part the recent rapid expansion of consumer loans at banks has reflected the taking onto their balance sheets of receivables associated with maturing credit-card-backed securities.

Nonfinancial firms continued to issue sizable volumes of equity and debt in the public market during September and October. The strong pace of junk bond issuance was interrupted in September, as rates in this area backed up, but offerings subsequently rebounded with the restoration of narrower risk spreads. Overall debt issuance remained at a high level in early November, despite the weakening of bond prices generally after mid-October. The recent resurgence of merger and acquisition activity has had little effect on debt growth, as most of these deals have involved stock swaps.

Partly in recognition of the progress of corporate balance sheet strengthening, Moody's, for the first time in five years, reported more upgrades than downgrades for U.S. firms in the third quarter. Downgrades exceeded upgrades among nonfinancial firms, in part because of difficulties in the computer industry, but upgrades far outstripped downgrades at financial firms, including banks and thrifts.

Borrowing by the household sector has continued to strengthen. Consumer installment debt accelerated to a 10-1/2 annual percent rate in September and grew at a 9 percent rate over the third quarter. The increase was paced by revolving credit, and may have been boosted in part by increasing "convenience" use motivated by rebate features. Partial data suggest that home mortgage credit also strengthened last month. Although the volume of refinancing has dropped off from its record levels, it continues to account for more than half of mortgage originations. Third-quarter information on refinancing shows that for the first time in two years, the share of thirty-year mortgages refinanced with a new thirty-year mortgage exceeded one-half, up from around 40 percent in 1992; this shift has reversed the tendency for refinancings to be associated with an increase in monthly payments.

Gross issuance of municipal bonds slowed in October, but remained high by historical standards and brought total issuance for the year to a record. Refunding volume weakened slightly in October and fell off further in early November, in reaction to the back-up in long-term rates. The main purchasers of municipals continue to be mutual funds; net purchases of muni funds slackened in September, however, and likely rebounded only moderately in October. Reflecting the recent heavy pace of issuance, the ratio of tax-exempt to taxable yields remains high. The overall quality of municipal debt continued to rise as upgrades of local government bonds exceeded downgrades in the third quarter. Notable among the downgrades was the City of Los Angeles.

The federal deficit is expected to amount to $94 billion this quarter. Having dropped the seven-year note and with the next thirty-year issue slated for February, the Treasury will raise two-thirds of its cash needs with bills; to accomplish this, the size of the weekly bill auctions has been increased $4 billion and another $4 billion will be raised with cash management bills.

<u>Outlook</u>

In an environment of moderate economic growth and inflation remaining in the vicinity of 3 percent, longer-term interest rates are expected to drift down somewhat over the next few quarters before firming a bit in 1995 along with short-term rates. Banks should continue to ease their lending terms and standards over this period, in response to the ongoing economic expansion and their strengthened capital positions. The improved health of businesses and continued rapid growth of long-term mutual funds should keep risk spreads on private long-term debt instruments narrow.

As the cost and availability of credit eases a bit further, the pickup in private credit demands that is projected to accompany the expansion of economic activity should be easily accommodated, and nonfederal debt is expected to accelerate around 3/4 percentage point in 1994, to a little over 4 percent.

The step-up in nonfederal debt growth is expected to come from the household and business sectors. Consumer credit growth is expected to continue strong into next year and remain above income growth, reflecting both a greater inclination to use credit and the near-term importance of consumer durable expenditures. Mortgage growth is projected to pick up a bit in coming quarters, reflecting an increase in residential construction and the continued high rate of existing home transactions.

Business borrowing should pick up a bit over the forecast period, as spending on inventories and fixed capital rises relative to cash flow. Net equity issuance may slow somewhat as more firms reach desired leverage ratios. Credit demands are expected to continue to be directed mainly to the bond markets, though the decline in bank loans should end as loan paydowns by large firms slow and as banks further ease lending terms.

Growth of state and local sector debt should slow as opportunities for advance refundings decline and as debt that has already been advance refunded is retired. State and local funding needs should also be held down as the economic recovery generates new tax revenues but remaining fiscal imbalances inhibit commensurate increases in spending.

The growth of federal debt, while remaining well above that of nonfederal should slow, from 8-1/4 percent this year to 7 percent in 1994, reflecting the effects of budget restraint, a strengthening economy, and lower interest rates. Total nonfinancial debt growth is expected to rise next year, to around 5 percent, a bit faster than that of nominal GDP.

In 1995, overall debt growth is projected to remain at roughly 5 percent The growth of federal debt is expected to continue to slow, but this will be offset by greater business borrowing as the financing gap widens further

CHANGE IN DEBT OF THE DOMESTIC NONFINANCIAL SECTORS[1]
(Percent)

			Nonfederal						MEMO	
				Households						
	Total[2]	Federal govt.	Total	Total	Home mtg.	Cons. credit	Business	State and local govt.	Private financial assets	Nominal GDP
Year										
1981	9.7	11.6	9.3	7.5	7.0	4.8	11.9	5.2	10.3	9.3
1982	9.8	19.7	7.4	5.5	4.7	4.4	8.8	9.3	9.6	3.2
1983	11.9	18.9	10.1	11.1	10.8	12.6	9.3	9.7	12.4	11.0
1984	14.5	16.9	13.8	12.8	11.7	18.7	15.6	9.1	12.6	9.1
1985	15.5	16.5	15.2	15.3	13.2	15.8	12.1	31.3	12.1	7.0
1986	12.3	13.6	11.9	12.0	14.3	9.6	12.2	10.5	7.3	4.7
1987	9.5	8.0	9.9	12.4	14.9	5.0	7.1	13.4	8.4	8.0
1988	8.8	8.0	9.0	10.8	11.8	7.2	7.9	7.0	8.0	7.7
1989	7.8	7.0	8.0	9.0	10.2	6.7	7.0	8.4	5.0	6.0
1990	6.3	11.0	4.9	6.2	7.7	1.7	3.4	6.7	4.3	4.7
1991	4.4	11.1	2.4	4.7	6.7	-1.6	-0.9	7.2	-0.6	3.7
1992	5.2	10.9	3.3	5.7	6.6	1.2	0.1	6.4	0.7	6.7
1993	4.6	8.3	3.4	5.3	5.4	5.4	0.5	6.0	-1.2	4.9
1994	4.9	7.1	4.1	6.1	6.2	7.6	1.7	4.6	0.3	4.8
1995	5.0	6.7	4.4	6.1	6.5	6.3	2.4	4.4	0.8	4.6
Quarter (seasonally adjusted annual rates)										
1992:1	5.4	11.7	3.3	5.4	8.2	-1.2	0.4	6.7	3.5	7.4
2	5.2	12.3	2.7	4.6	4.0	-1.8	-0.3	7.1	0.1	5.7
3	5.3	10.2	3.7	5.6	7.5	1.7	0.6	7.6	-0.8	4.6
4	4.5	7.9	3.3	6.8	6.2	6.1	-0.4	3.6	0.2	9.2
1993:1	3.4	7.5	2.0	3.5	4.4	2.5	-1.1	7.1	-6.1	4.4
2	5.6	11.1	3.7	5.4	5.4	3.8	1.1	6.2	1.8	4.2
3	4.2	5.5	3.7	5.9	5.4	7.4	0.9	5.0	-0.9	4.5
4	5.0	8.0	3.9	6.1	5.9	7.4	1.2	5.0	0.4	6.6
1994:1	5.3	9.1	3.8	6.0	6.0	7.4	1.2	4.5	0.5	5.3
2	4.7	6.4	4.0	6.1	6.1	7.4	1.5	4.8	0.2	4.8
3	4.3	5.1	4.1	6.0	6.0	7.3	1.8	4.3	-0.3	4.6
4	5.0	7.0	4.2	5.9	6.1	7.3	2.2	4.5	0.7	4.5

1. Data after 1993:2 are staff projections. Year-to-year changes in nominal GDP are measured from the fourth quarter of the preceding year to the fourth quarter of the year indicated; other changes are measured from end of preceding period to end of period indicated.
2. On a quarterly average basis, total debt growth is projected to be 4.6 in 1993, 4.9 in 1994, and 5.1 in 1995.

2.6.3 FOF

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

		Calendar year				1993				1994			
		1992	1993	1994	1995	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
						Seasonally Adjusted Annual Rates							
	Net funds raised by domestic nonfinancial sectors												
1	Total	608.2	572.9	625.2	659.5	427.2	699.2	529.1	636.2	673.1	605.5	567.2	655.0
2	Net equity issuance	26.8	28.0	22.5	10.0	27.0	32.0	28.0	25.0	25.0	23.0	21.0	21.0
3	Net debt issuance	581.5	544.9	602.7	649.5	400.2	667.2	501.1	611.2	648.1	582.5	546.2	634.0
	Borrowing sectors												
	Nonfinancial business												
4	Financing gap[2]	-26.4	30.1	72.5	95.8	34.0	25.5	22.3	38.4	54.0	70.0	77.6	88.6
5	Net equity issuance	26.8	28.0	22.5	10.0	27.0	32.0	28.0	25.0	25.0	23.0	21.0	21.0
6	Credit market borrowing	2.2	19.1	62.7	91.3	-39.9	39.5	34.1	42.7	45.6	57.4	66.4	81.4
	Households												
7	Net borrowing, of which:	215.9	212.1	256.1	271.1	139.7	216.8	238.6	253.3	251.2	257.4	257.0	258.9
8	Home mortgages	170.9	147.7	179.0	200.2	120.7	149.8	151.1	169.3	173.4	178.5	178.9	185.2
9	Consumer credit	9.3	43.4	64.4	58.0	20.0	30.7	60.9	62.0	63.0	64.0	65.0	65.5
10	Debt/DPI (percent)[3]	86.0	86.8	87.2	88.1	87.2	86.6	87.3	87.1	87.4	87.9	87.9	88.1
	State and local governments												
11	Net borrowing	59.4	59.3	48.3	48.5	70.9	62.7	51.3	52.2	47.6	50.6	46.5	48.5
12	Current surplus[4]	-51.0	-51.5	-51.9	-51.0	-50.6	-50.7	-53.2	-51.7	-50.9	-53.9	-51.7	-51.3
	U.S.government												
13	Net borrowing	304.0	254.4	235.6	238.6	229.6	348.2	177.0	263.0	303.7	217.1	176.2	245.3
14	Net borrowing;quarterly, nsa	304.0	254.4	235.6	238.6	59.8	61.1	46.0	87.5	78.2	27.5	46.3	83.5
15	Unified deficit;quarterly, nsa	326.8	228.4	236.0	221.7	62.4	17.8	54.4	93.9	92.0	-4.3	60.8	87.6
	Funds supplied by												
16	depository institutions	34.9	110.0	157.2	172.0	59.3	162.9	109.8	108.2	158.2	143.9	156.9	169.9
	MEMO: (percent of GDP)												
17	Dom. nonfinancial debt[3]	189.6	188.6	187.9	188.6	189.1	189.8	189.7	189.0	189.1	189.0	189.0	189.2
18	Dom. nonfinancial borrowing	9.6	8.6	9.0	9.3	6.4	10.5	7.8	9.4	9.8	8.7	8.1	9.3
19	U.S. government[5]	5.0	4.0	3.5	3.4	3.7	5.5	2.8	4.0	4.6	3.3	2.6	3.6
20	Private	4.6	4.6	5.5	5.9	2.7	5.0	5.1	5.4	5.2	5.5	5.5	5.7

1. Data after 1993:2 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

The weighted-average foreign-exchange value of the dollar in terms of other G-10 currencies has appreciated about 2-1/2 percent on balance since the September 21 FOMC meeting. The appreciation reflected news of stronger economic activity in the United States, indications of continuing weakness in continental Europe and Japan, and an associated rise in U.S. long-term interest rates relative to foreign rates.

Over the intermeeting period, the dollar has risen 3-1/4 percent against the mark, slightly less against other major European currencies, and 3/4 percent against the yen. Most of the net appreciation against the mark came after the Bundesbank reduced its discount and Lombard rates 50 basis points on October 21. Interest rates in Germany (both three-month and long-term) have fallen 20 basis points since the September meeting. Japanese short-term interest rates have edged down only slightly since the September 21 announcement by the Bank of Japan of the 75 basis point reduction in its discount rate (much of which had been anticipated), to 1-3/4 percent. Reduced prospects for near-term economic recovery in Japan have depressed the stock market; major Japanese stock indexes have declined 7 to 11 percent.

The Canadian dollar has appreciated by 1 percent relative to the U.S. dollar since the September FOMC meeting. Political developments related to the October 25 election dominated movements in the Canadian currency. The market appears on balance to have been reassured that the new Liberal government will have a stable parliamentary majority and that the economic posts in the new cabinet are going to moderates. Much of the rise in the Canadian dollar took place after the new Minister of Finance, Paul Martin, reportedly pro-NAFTA, indicated that maintaining low inflation will be a continuing priority.

The Mexican peso came under strong downward pressure toward the end of the intermeeting period because of mounting concerns that NAFTA might not be approved by the U.S. Congress.

. Since late October, the peso has depreciated 4 percent against the dollar.

. U.S. authorities did not intervene.

Real economic activity in the major foreign industrial countries remained sluggish on average in the third quarter. In Japan, industrial production was about flat, after having declined during the second quarter, but retail sales receded further. Industrial output was flat in western Germany as well during the third quarter, although new orders for manufactured goods picked up a bit. Output growth appears to have turned slightly positive in France and to have remained at just over 2 percent in the United Kingdom. The growth of output in Canada appears to have slowed significantly from the strong pace in the first half of 1993: industrial production during July-August was slightly above its second-quarter average level.

Inflation has been low or declining in the foreign industrial countries. In Japan, twelve-month CPI inflation has returned to near 1 percent after a temporary increase due to special factors earlier this year. In Germany, the twelve-month rate has receded below 4 percent, as price pressures in the housing and service sectors have moderated.

U.S. merchandise exports fell $8 billion at an annual rate in July-August from their average rate in the second quarter. The sluggishness of activity in the major industrial countries has contributed to an underlying weakness in U.S. exports in recent quarters. However, the decline in July-August appears to have been the result of temporary reductions in shipments of large jet aircraft and intra-company automotive transactions with Canada. Exports other than aircraft and autos rose moderately in July-August. Imports fell by the about the same amount as exports, leaving net exports unchanged from their second-quarter rate. The decline in imports in July-August was more than accounted for by autos from Canada and oil. Imports of capital goods and consumer goods both rose 8 percent at an annual rate. The price of non-oil imports rose only 1-1/2 percent in the third quarter, as prices were restrained in part by the net appreciation of the dollar over that period.

Outlook Through 1994

We project that the growth rate of real GDP abroad will pick up from 2 percent in the fourth quarter of 1993 to 2-3/4 percent in 1994. U.S. exports should bounce back in the fourth quarter from their recent decline and then rise at a more moderate pace over the year ahead; nonetheless, imports will continue to grow faster than exports. The resulting rate of decline in real net exports of goods and services subtracts more than 1/2 percentage point from the annual rate of growth of real GDP during 1994, somewhat more than was projected in the September Greenbook.

The dollar. We project that the foreign exchange value of the dollar in terms of the other G-10 currencies will remain around current levels through the forecast period. These levels are slightly higher than in the September Greenbook and reflect the rise of the dollar since the previous forecast and the lower projected level of foreign interest rates. Against the currencies of key developing countries, we expect the CPI-adjusted value of the dollar to show a moderate depreciation on average.

Foreign industrial countries. We expect the growth of real GDP in the G-6 countries to be about 1-1/2 percent (annual rate, weighted by U.S. exports) during the current quarter and 2-1/2 percent during the four quarters of 1994. This outlook is about 1/4 percentage point lower than in the September Greenbook, reflecting downward revisions primarily for continental Europe and Japan.[1] Anticipated growth rates are in the neighborhood of 1-1/2 percent for continental Europe and Japan, 2-1/4 percent for the United Kingdom, and 3-1/4 percent for Canada. We continue to expect that the primary impetus to growth will be the recent and projected further monetary easing as well as some fiscal stimulus in Japan.

Foreign short-term interest rates, on average, are projected to decline roughly 100 basis points from current levels by the fourth quarter of 1994. We expect German rates to fall nearly 200 basis points over this period and French rates to fall somewhat more; Japanese rates should decline slightly. By the end of 1994, the forecasted level of interest rates is slightly lower than in the previous forecast. Long-term interest rates in the major industrial foreign countries should decline about 40 basis points on average over the forecast period.

1. On a GDP-weighted basis, which gives greater weight to Japan and Europe and less weight to Canada, the average projected rate of growth over the four quarters of 1994 is 1-3/4 percent, 1/2 percentage point less than in September.

CPI inflation in the major foreign industrial countries is projected to average about 2-1/4 percent during 1994, down from 2-1/2 percent in 1993. Increased economic slack should help reduce western Germany's inflation to 2-1/2 percent in 1994, while inflation in the United Kingdom is expected to rebound somewhat from a level this year that has been depressed by falling mortgage interest rates.

Developing countries. The growth of real GDP in developing countries that are major U.S. trading partners is projected to increase from about 4 percent in 1993 to 4-1/2 percent in 1994 (weighted by U.S. exports). In most cases, the pickup in growth is attributable to strengthening demand from industrial countries. The outlook for growth in developing countries is slightly weaker than in the previous projection, largely because of a downward revision in the forecast for growth in Mexico, where domestic demand has been weaker than expected.

GDP growth in Mexico now appears to have slowed to only 1 percent in 1993. Activity has been depressed by a combination of tighter monetary and fiscal policies to restrain inflation and the current account deficit, a loss of price competitiveness in recent years, and uncertainty over the prospects for NAFTA. Our working assumption continues to be that NAFTA will be approved and will contribute (along with a recently announced fiscal stimulus package) to a pickup in Mexico's growth to 2-1/2 percent during 1994. Should the NAFTA be rejected, the implications for the Mexican economy would depend on the response of Mexican authorities. At one extreme, if Mexican authorities tightened monetary conditions to defend the peso and adopted no other measures, GDP growth could fall substantially in 1994 as investment--both domestic and from abroad--is depressed.[2] These adverse effects could be mitigated through such measures as fiscal stimulus, unilateral removal of barriers to foreign direct investment, and devaluation of the peso.

U.S. real net exports. We project that real net exports of goods and services will decline almost $6 billion at an annual rate in the current quarter and another $30 billion during 1994. The projected decline during 1994 is about $10 billion more than that in the September Greenbook because of both stronger growth of imports and slightly weaker growth of exports.

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

	1992	1993			------ Projection	------	
						1994	1995
	Q4	Q1	Q2	Q3	Q4	Q4	Q4
Exports							
Total	6.5	-6.3	4.1	-0.8	12.8	6.4	9.2
Agricultural	8.7	-21.4	1.0	-20.8	24.2	-1.9	2.7
Computers	26.7	-3.5	8.1	40.9	26.2	29.3	34.8
Other nonag.	3.4	-4.7	3.7	-4.4	9.3	2.9	3.7
Imports							
Total	10.1	12.3	15.3	2.1	13.7	10.4	8.6
Oil	12.1	4.6	37.3	-11.9	-6.5	8.7	4.8
Computers	46.7	32.0	36.4	37.2	35.1	30.2	27.7
Other non-oil	5.5	10.1	9.4	-1.7	12.6	6.5	4.1

* GDP basis, 1987 dollars.

The quantity of merchandise exports is projected to rebound strongly in the fourth quarter from temporarily depressed levels in the third quarter. We anticipate that aircraft shipments will recover from the unusually low levels in July-August, and that automotive transactions with Canada will rebound with the the pickup in U.S. production. In the agricultural sector, we expect shipments

2. If, for example, Mexican growth fell to zero in 1994, U.S. exports probably would be reduced by no more than $1 billion over the year ahea

of corn to return to more normal levels after a pause in the third quarter, and shipments of wheat to increase.

In 1994, we expect merchandise exports to grow a little more than 6 percent, a substantially faster pace than over the four quarters of 1993. However, the outlook for export growth is somewhat less robust than in the previous projection because of the slightly weaker prospects for GDP growth abroad and the slightly stronger dollar.

Imports of non-oil commodities excluding computers should rebound in the fourth quarter from a third-quarter decline as activity in the auto sector picks up. Beyond the current quarter, we expect the expansion of these imports to exceed the growth of domestic expenditures by a significant margin, partly because of the appreciation of the dollar over the past year and heightened competition from firms abroad that are facing considerable slack in their own domestic markets. Imports of computers should at least keep pace with the very rapid growth of real domestic expenditures on computers.

We expect that the quantity of oil imports will decline in the current quarter as stocks are drawn down after being built for two quarters. Over the remainder of the forecast period, imports are projected to resume an upward trend as U.S. oil production continues to decline.

Oil prices. Since the beginning of October, the near-term futures contract for West Texas intermediate crude has fallen about $2.00 per barrel on market perceptions of weak demand. This decline has reversed the runup in prices that occurred in response to the agreement reached at the OPEC ministerial in late September. Currently, the near-term WTI contract is trading around $16.75 per barrel, about the same as at the time of the September FOMC.

We continue to expect that oil prices will firm a bit over the next couple months as OPEC abides by its production accord. Nevertheless, we have revised down the assumed path of oil prices $1.00 per barrel in line with a reduction in projected oil consumption. We now assume that the WTI spot price will reach $18.50 by year-end, consistent with an import unit value of $16.00 per barrel. Prices should remain around those levels through 1994 as output capacity will be more than sufficient to meet the expansion of demand associated with faster GDP growth abroad. Our judgment remains that Iraq will not reenter the world oil market during 1994.

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

	1992	1993			------ Projection	------	
						1994	1995
	Q4	Q1	Q2	Q3	Q4	Q4	Q4
PPI (Exp. wts.)*	1.6	1.8	2.4	-0.2	0.7	1.8	1.7
Nonag. exports*	1.4	0.8	3.4	-1.1	0.4	1.7	1.7
Non-oil imports*	2.3	-2.7	3.5	1.6	-0.1	2.1	2.4
Oil imports (level, $/bl)	17.89	16.44	17.07	15.27	15.40	16.00	16.00

* Excluding computers.

Prices of non-oil imports and exports. The somewhat higher path for the dollar in the near term has led us to revise down the projected rate of increase in non-oil import prices over the next several quarters. We expect these prices (excluding computers) to be little changed in the fourth quarter and to rise 2 percent during 1994. The increase in prices of U.S. nonagricultural exports should move over time in line with increases in U.S. producer prices.

Nominal trade and current account balances. The merchandise trade deficit is projected to remain in the vicinity of $135 billion through the current quarter and then to rise to nearly $170 billion by the end of 1994. We expect that net service receipts will continue to expand slowly, from an annual rate of $59 billion in the second quarter of 1993 to $65 billion by the end of 1994. Investment income payments are expected to exceed investment income receipts by a small but increasing margin over the forecast period. We expect these developments to increase the current account deficit nearly $15 billion over the second half of 1993 and another $25 billion during 1994, resulting in a deficit of nearly $150 billion at an annual rate by the end of 1994; this deficit is more than $5 billion larger than presented in the September Greenbook, primarily because of a lower projected value of merchandise exports. The forecast value of imports is little changed, as faster growth in real imports is about offset by the slower increase in import prices.

Outlook for 1995

In our initial extension of the projection beyond 1994, we expect GDP growth in the major industrial countries on average to continue to recover gradually and to approximate potential rates of growth by mid-1995; a significant gap between potential and actual levels of GDP would remain. With the dollar projected to remain unchanged, the effects of the recent appreciation should exert less drag on net exports. That effect, along with the somewhat faster growth of demand abroad, should result in a significant easing of the rate of decline in net exports, and only a moderately further widening of the current account deficit.

November 10, 1993

STRICTLY CONFIDENTIAL - FR
CLASS II FOMC

REAL GDP AND CONSUMER PRICES, SELECTED COUNTRIES, 1991-95
(Percent change from fourth quarter to fourth quarter)

			Projection		
Measure and country	1991	1992	1993	1994	1995
REAL GDP					
Canada	-0.1	0.8	2.8	3.2	3.5
France	1.3	0.6	-0.4	1.3	2.3
Western Germany	2.7	0.0	-1.5	1.1	2.0
Italy	1.7	-0.3	0.8	1.5	2.1
Japan	3.0	0.0	0.4	1.6	3.2
United Kingdom	-1.6	0.3	2.2	2.3	2.8
Average, weighted by 1987-89 GDP	1.6	0.2	0.5	1.7	2.7
Average, weighted by share of U.S. nonagricultural exports					
Total foreign	1.7	1.2	1.9	2.8	3.5
G-6	0.8	0.4	1.5	2.4	3.1
Developing countries	5.0	3.8	3.9	4.5	5.1
CONSUMER PRICES					
Canada	4.1	1.8	1.7	1.5	1.4
France	2.9	1.8	2.5	2.0	1.8
Western Germany	3.9	3.7	3.4	2.4	2.2
Italy	6.1	4.8	4.4	4.1	3.1
Japan	3.2	0.9	1.8	1.2	1.2
United Kingdom	4.2	3.1	2.0	3.8	4.0
Average, weighted by 1987-89 GDP	3.9	2.4	2.5	2.3	2.1
Average, weighted by share of U.S. non-oil imports	3.8	1.9	2.1	1.8	1.7

Strictly Confidential (FR) Class II-FOMC

U.S. CURRENT ACCOUNT AND REAL NET EXPORTS

(Billions of dollars, seasonally adjusted annual rates)

	1991				1992				1993		ANNUAL		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	1990	1991	1992
GDP Net Exports of Goods and Services (87$)	-21.6	-13.3	-25.0	-16.4	-15.2	-38.0	-42.5	-38.8	-59.9	-75.2	-54.7	-19.1	-33.6
Exports of G+S	519.4	542.9	546.9	564.2	571.0	570.2	579.3	591.6	588.0	593.2	510.5	543.4	578.0
Merchandise	381.6	396.1	398.2	410.7	414.4	415.9	423.0	437.3	430.2	434.5	368.9	396.7	422.7
Services	137.8	146.8	148.7	153.5	156.6	154.2	156.3	154.3	157.8	158.6	141.6	146.7	155.4
Imports of G+S	541.0	556.2	571.9	580.7	586.2	608.2	621.8	630.3	647.9	668.4	565.1	562.4	611.6
Merchandise	442.1	457.2	474.6	481.7	486.8	509.0	521.6	530.3	545.9	565.7	461.4	463.9	511.9
Oil	44.7	52.0	52.9	47.1	47.3	51.6	53.1	52.8	53.4	57.8	52.1	49.2	51.2
Non-oil	397.5	405.2	421.7	434.7	439.6	457.4	468.5	477.6	492.5	507.9	409.3	414.8	460.8
Services	98.9	99.1	97.3	98.9	99.3	99.2	100.1	100.0	102.0	102.7	103.7	98.5	99.6
Memo: (Percent change 1/)													
Exports of G+S	-0.8	19.4	3.0	13.3	4.9	-0.6	6.5	8.8	-2.4	3.6	6.8	8.7	4.9
of which: Goods	7.7	16.1	2.1	13.2	3.7	1.5	7.0	14.2	-6.3	4.1	5.8	9.8	6.6
Imports of G+S	-11.1	11.7	11.8	6.3	3.8	15.9	9.2	5.6	11.6	13.3	0.6	4.7	8.6
of which: Non-oil Goods	-11.3	8.0	17.3	12.9	4.6	17.2	10.1	8.0	13.1	13.1	0.8	6.7	10.0
Current Account Balance	37.6	7.1	-47.4	-30.6	-26.7	-73.0	-71.1	-94.7	-89.2	-107.7	-91.9	-8.3	-66.4
Merchandise Trade, net	-75.2	-65.3	-78.6	-76.2	-71.1	-99.2	-110.4	-103.8	-117.2	-137.5	-109.0	-73.8	-96.1
Exports	405.3	416.8	415.1	430.5	433.4	433.2	438.0	456.0	446.1	452.5	389.3	416.9	440.1
Agricultural	39.5	38.5	39.7	42.8	43.3	42.6	44.7	45.5	43.4	43.2	40.2	40.1	44.0
Nonagricultural	365.8	378.3	375.4	387.7	390.0	390.6	393.3	410.4	402.7	409.4	349.1	376.8	396.1
Imports	480.5	482.1	493.6	506.7	504.4	532.4	548.4	559.8	563.4	590.1	498.3	490.7	536.3
Oil	52.4	52.3	53.0	49.4	41.9	52.4	57.2	54.9	51.0	57.2	62.3	51.8	51.6
Non-oil	428.1	429.8	440.7	457.4	462.5	480.0	491.2	505.0	512.3	532.8	436.0	439.0	484.7
Other Current Account	89.7	60.7	24.6	34.8	26.6	22.6	32.5	12.3	28.2	30.9	-3.2	52.5	23.5
Invest. Income, net	23.1	11.6	6.5	10.9	17.7	3.6	6.8	-3.2	-0.2	-1.1	20.3	13.0	6.2
Direct, net	60.3	52.8	45.1	52.8	57.6	47.6	47.1	40.8	45.2	44.6	56.2	52.8	48.3
Portfolio, net	-37.2	-41.1	-38.6	-42.0	-39.9	-44.0	-40.3	-44.0	-45.3	-45.7	-35.9	-39.7	-42.0
Military, net	-10.1	-5.6	-4.7	-3.0	-2.3	-2.9	-2.5	-3.3	-0.6	0.1	-7.8	-5.9	-2.8
Other Services, net	43.4	50.8	55.6	57.2	58.5	57.5	63.6	57.1	59.1	59.1	38.5	51.7	59.2
Transfers, net	56.4	15.5	-26.3	-19.4	-29.6	-32.0	-28.6	-41.4	-30.3	-28.3	-33.8	6.6	-32.9

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)

	Projection										Projection		
	1993		1994				1995				ANNUAL		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	1993	1994	1995
GDP Net Exports of Goods and Services (87$)	-80.1	-85.7	-96.3	-104.2	-110.2	-115.8	-116.6	-119.3	-121.1	-121.9	-75.2	-106.6	-119.7
Exports of G+S	591.5	605.8	613.6	621.6	629.9	639.8	650.9	663.0	676.7	691.6	594.6	626.2	670.5
Merchandise	433.6	446.9	453.9	460.5	467.3	475.4	484.6	494.7	506.2	519.0	436.3	464.3	501.1
Services	157.9	158.9	159.8	161.0	162.6	164.4	166.3	168.4	170.4	172.6	158.3	162.0	169.4
Imports of G+S	671.5	691.4	709.8	725.6	740.0	755.6	767.4	782.2	797.7	813.4	669.8	732.7	790.2
Merchandise	568.6	587.2	604.7	619.8	633.5	648.5	659.8	674.1	688.9	704.0	566.8	626.6	681.7
Oil	56.0	55.1	55.8	56.2	57.6	59.9	58.7	60.2	61.7	62.7	55.6	57.4	60.8
Non-oil	512.6	532.1	548.9	563.6	576.0	588.6	601.2	613.9	627.2	641.3	511.3	569.3	620.9
Services	102.9	104.2	105.1	105.8	106.4	107.0	107.6	108.1	108.7	109.4	103.0	106.1	108.5
Memo:(Percent change 1/)													
Exports of G+S	-1.1	10.0	5.3	5.3	5.5	6.5	7.1	7.7	8.5	9.1	2.5	5.6	8.1
of which: Goods	-0.8	12.8	6.4	6.0	6.0	7.1	8.0	8.6	9.7	10.5	2.4	6.4	9.2
Imports of G+S	1.9	12.4	11.1	9.2	8.1	8.7	6.4	8.0	8.1	8.1	9.8	9.3	7.7
of which: Non-oil Goods	3.8	16.1	13.2	11.2	9.1	9.1	8.8	8.8	9.0	9.2	11.5	10.6	8.9
Current Account Balance	-109.6	-123.0	-122.4	-133.3	-135.3	-148.6	-142.2	-148.8	-147.5	-157.6	-107.4	-134.9	-149.0
Merchandise Trade, net	-136.4	-137.8	-147.3	-154.9	-162.1	-169.9	-172.7	-177.2	-180.8	-183.1	-132.3	-158.5	-178.4
Exports	447.7	456.0	459.7	464.9	469.5	475.3	481.7	488.7	496.5	505.0	450.6	467.4	493.0
Agricultural	42.1	44.5	44.9	44.9	44.0	44.3	44.8	45.4	45.9	46.5	43.3	44.5	45.6
Nonagricultural	405.7	411.5	414.8	420.0	425.5	431.0	436.9	443.3	450.6	458.5	407.3	422.8	447.3
Imports	584.2	593.8	607.0	619.8	631.6	645.2	654.4	665.8	677.3	688.1	582.8	625.9	671.4
Oil	48.5	48.1	50.7	51.1	52.4	54.5	53.4	54.8	56.2	57.2	51.2	52.2	55.4
Non-oil	535.6	545.7	556.2	568.7	579.3	590.7	601.0	611.1	621.1	631.0	531.6	573.7	616.0
Other Current Account	27.9	23.9	29.3	30.5	32.2	29.3	35.8	38.0	40.3	37.8	27.7	30.3	38.0
Invest. Income, net	-1.0	-9.1	-4.4	-8.9	-5.4	-8.1	-5.3	-9.7	-7.0	-12.3	-2.8	-6.7	-8.6
Direct, net	42.0	38.4	40.4	40.0	40.9	42.5	42.1	42.0	42.1	42.3	42.5	40.9	42.1
Portfolio, net	-43.0	-47.5	-44.8	-48.9	-46.3	-50.6	-47.4	-51.7	-49.1	-54.6	-45.4	-47.7	-50.7
Military, net	-1.0	-0.6	-0.4	-0.2	0.2	0.6	1.0	1.4	1.8	2.2	-0.5	0.0	1.6
Other Services, net	59.1	59.5	60.1	61.1	62.4	63.9	65.8	67.6	69.5	71.6	59.2	61.9	68.6
Transfers, net	-30.2	-35.0	-30.4	-30.4	-30.4	-35.2	-31.0	-31.0	-31.0	-36.0	-31.0	-31.6	-32.2

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